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SPOTLIGHTING IRS CUSTOMER SERVICE CHALLENGES

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SPOTLIGHTING IRS CUSTOMER SERVICE CHALLENGES

THURSDAY, FEBRUARY 17, 2022

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10 a.m., via Webex, in Room SD–215, Dirksen Senate Office Building, Hon. Ron Wyden (chairman of the committee) presiding.

Present: Senators Menendez, Carper, Cardin, Cantwell, Brown, Bennet, Casey, Hassan, Cortez Masto, Warren, Crapo, Grassley, Cornyn, Thune, Portman, Cassidy, Lankford, Daines, Young, and Barrasso.

Also present: Democratic staff: Adam Carasso, Senior Tax and Economic Advisor; Michael Evans, Deputy Staff Director and Chief Counsel; Eric LoPresti, Detailee; Joshua Sheinkman, Staff Director; and Tiffany Smith, Chief Tax Counsel. Republican staff: Michael Gould, Detailee; Mike Quickel, Policy Director; Gregg Richard, Staff Director; and Don Snyder, Tax Counsel.

OPENING STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The Finance Committee will come to order.

Once again, it is income tax filing season in America. Struggling after a decade of Republican budget cuts that have decimated staff, technology, and operations, the IRS is overwhelmed. Customer service has suffered. Enforcement against tax cheating by the wealthy has been hollowed out. There's a huge backlog of returns to work through.

I want to emphasize, this did not happen by osmosis. Democrats and Republicans used to agree on the importance of funding the IRS. President Ronald Reagan, for example—nobody's idea of a tax-and-spend liberal—shared exactly that view. There were more employees at the IRS at the end of Ronald Reagan's term than there were at the beginning.

The cuts that have hurt customer service and enforcement against cheats started more than a decade ago. Republicans had an opportunity with the big 2017 tax law to have changed course, corrected these issues, and unfortunately, that was not the case. They could have worked on processing to deal with the backlog, and the country would have been in better shape to deal with the stresses of the pandemic. That was not done. In fact, the budget cuts continued while the tax code got more complicated.

So, the result is what you see today. Typical working Americans are dealing with tax filing nightmares, and wealthy tax cheats get away with rip-offs while they live the dream.

I want to tick through several of the effects of these budget cuts—first, on customer service. According to the National Taxpayer Advocate, the IRS received a record 282 million customer service phone calls during the last fiscal year. It was able to answer 11 percent of them—only 11 percent.

Now there is a cottage industry popping up—companies charge taxpayers hundreds or even thousands of dollars for the ability to cut the line and get through to the IRS by phone. This is an insult added to injury for the typical American, and it is a direct result of Republican budget cuts that have badly broken a basic government service.

Second, on the IRS's aging technology. This committee has spent a long time discussing the decrepit IT used by the IRS. Incredibly, some of that information technology actually goes back decades to the Apollo program. A new report from the Inspector General out last week provided a clear example of how failing technology costs taxpayers money.

The IRS gets a lot of mail, and some of it includes physical checks sent by taxpayers. The problem is, the machines that scan and sort the mail are just way out of date and unable to properly handle the envelopes that contain checks. This cost the taxpayer more than $56 million dollars in 2021 alone because the IRS was unable to open the right envelopes and then process the payments in time.

So, in the long run, failing to invest in technology upgrades does not save taxpayer dollars, it costs them.

Third, on enforcement. Commissioner Rettig, appointed by Donald Trump, has given the committee a few key facts. One is that the amount of taxes owed that go unpaid each year could be as high as $1 trillion. My colleagues, both sides of the aisle, we sat here when Commissioner Rettig said that, in his opinion, we were looking at a tax gap that could be as high as a trillion dollars.

Another thing is that the IRS is especially overmatched when it comes to cracking down on partnership schemes. This is one of the go-to tax avoidance loopholes for the wealthiest. Partnership rules got a whole lot more complicated under Donald Trump. The IRS, meanwhile, is able to audit only a small sliver of the partnership returns that come in. This is in part because there are fewer auditors working today than at any point since World War II.

Now, when the tax rules get more complicated and the IRS's enforcement division shrinks, it is no surprise that high-flyers see a green light for cheating. I would just say, colleagues, we have got to work, and work aggressively to stop this.

Furthermore, at a time when a lot of members are concerned about prices going up for a lot of goods and services, closing the tax gap and making sure the rich pay what they owe is a promising way to cut the deficit and to fight inflation. I would rather go that route than cut financial support for working families who walk an economic tightrope every day.

A couple of points, and then I want to let Senator Crapo give his remarks. Commissioner Rettig made the right call here in the last few days, dropping the plan to require taxpayers to use facial recognition to access their Internal Revenue Service data. Use of this technology raises serious concerns dealing with privacy and civil liberties, as well as built-in biases that can have a harmful impact on women, Black and Latino Americans, and seniors. My view is, when you're talking about digital identity, this is IT infrastructure. It is sensitive, and the government should not be outsourcing it.

The Finance staff and I were in contact with the Internal Revenue Service as soon as it was clear this facial recognition contract was causing problems, and we pushed hard for them to reconsider. The IRS made the right decision. The reality is, protecting Americans' privacy and increasing security are not mutually exclusive. They are not. It is like what Senator Cornyn and I faced on the Intelligence Committee. The reality is, smart policies in both of these areas give you more liberty and more security. The same is true with respect to the economy. Not-so-smart policies give you less of both.

Going forward, this is not just an IRS issue, because the same shady contractor and its facial recognition technology are used by nine other agencies. Senator Crapo and I have talked often about this issue and the committee doing more on privacy. I think it is ripe for bipartisanship, and I hope colleagues will want to work together on this going forward.

I also want to welcome Erin Collins, the new Taxpayer Advocate. This is her first hearing with the committee. We always count on the Taxpayer Advocate—tough shoes to fill with Nina Olsen leaving, I am telling you that. She was incredible, and so we are glad the new Taxpayer Advocate is here, and the whole committee looks forward to working with her. We welcome all our guests.

[The prepared statement of Chairman Wyden appears in the appendix.]

The CHAIRMAN. Senator Crapo?

OPENING STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Senator CRAPO. Thank you, Mr. Chairman, and I thank all of our witnesses for joining us today.

For Ms. Collins, as my chairman has said, this represents her first official appearance before the Finance Committee in her role as the National Taxpayer Advocate, so we welcome you in that capacity as well.

Let me divert from my prepared remarks for just a moment to respond to some of the comments of the chairman about the responsibility for this crisis we are seeing in the IRS right now.

The entire attack from some on the other side of the aisle, saying that the cause of our crisis right now is the failure of Republicans to adequately fund the IRS over the years is, in my opinion, an attempt to try to justify why we see the crisis, and to try to justify their desire, which was built into the Build Back Better Act, of an $80-billion influx of revenue to the IRS, which, by the way, would have virtually doubled the budget of the IRS over a period of time, and would have been focused almost entirely—not entirely, but almost entirely—on basically funding an army of new auditors to go after the so-called "tax gap," claiming that that tax gap was among very, very wealthy individuals who are tax cheats.

When you look at the tax gap, which is from data I received from the IRS, this so-called tax gap—and there is a tax gap—that tax gap comes largely in the lower- and middle-income categories from people who are having difficulty figuring out how to deal with the complex IRS code. That is not the entirety of it, but that is where the focus really is. And that is why we were fighting so hard not to have such a heavy-handed response, to help those in our society who are having difficulty dealing with the IRS not to just face basically an increased enforcement pressure.

What we need is assistance from the IRS, and I think that we can find some common ground there if we can work in that context. I should also note, just for a couple of data points, you can make data look like you want it to as you pick your starting points and your ending points for analysis, but over the years I think that the IRS budget has pretty much kept up with inflation.

In the last 4 or 5 years, the IRS budget has been appropriated at 100 percent of their budget request. This was not a problem that came about because Congress was refusing to give the IRS its requested budgets. It is a problem which the IRS leadership has told us, as recently as a day or so ago, came about because of the pandemic, which shut down the IRS, just like it shut down much more of the economy. And the ensuing problems have come because of that, and because of the inability of the IRS to adequately update its IT and be able to actually communicate with taxpayers, which is what I hope we will be able to discuss significantly today.

So let me go on quickly. This committee relies on the Taxpayer Advocate Service for analysis, guidance, and vital assistance for our constituents, and for taxpayers across the country. That assistance is especially useful in the current environment.

By any measure, the 2022 tax filing season is shaping up to be the most challenging and frustrating in decades, on the heels of challenging 2020 and 2021 filing seasons. In 2021, just over 1 in 10 Americans was ever able to reach the IRS by telephone. More than 250 million calls to the IRS went unanswered in 2021. Those who did manage to get through spent more than 23 minutes on hold, to say nothing of the lengthy waits spent by those who could not get through at all.

Also in 2021, the IRS began the tax filing season with a backlog of more than 13 million unprocessed tax returns from the prior season, and it began this year's tax filing season with an even greater backlog of at least 18 million unprocessed tax returns and correspondence. This backlog has grown to over 23 million items today.

Currently, millions of Americans need to file their tax returns, despite not having their last year's tax returns even processed. These are by no means the only areas of deep concern. Many Americans await last year's tax refunds. Many Americans await any response to correspondence they sent to the IRS, in many instances many months ago. Many Americans have received incorrect or outdated information from the IRS, or have been subject to improper collections or other adverse actions simply because the IRS does not know they have filed a return or responded to a notice.

Many Americans cannot receive accurate answers to basic questions, like how long it will take to receive their tax refund or an answer to their correspondence. These problems show no sign of abating and appear to be magnifying. Even at this very early stage of the season, significant filing delays already abound—and new problems are arising.

For example, many taxpayers are struggling to reconcile the stimulus and Advance Child Tax Credit (ACTC) payments they received in 2021 with the applicable tax credits they are allowed, and countless others do not even realize that they are required to do this. Official communications meant to assist taxpayers with these tasks have, in many instances, only added to the confusion or were simply inaccurate.

I appreciate the willingness of the IRS to be open to providing relief to taxpayers affected by the straining circumstances of this tax filing season. But the IRS has the ability to do more, and the taxpayers deserve more.

This is the third consecutive filing season impacted by COVID, and it is time for the IRS to demonstrate that it has learned, and will grow, from the prior two.

Despite the many issues plaguing the IRS, I do support the agency's efforts to further its essential mission, and I salute the sacrifices its employees are currently making to "do more." I look forward to the hearing today and hearing the perspectives of our witnesses on these issues.

Thank you, Mr. Chairman.

[The prepared statement of Senator Crapo appears in the appendix.]

The CHAIRMAN. Thank you, Senator Crapo. And we could probably go back and forth all morning. I am just going to make a comment, and then we are going to put the rest of the figures in the record.

I was particularly struck by this argument with respect to service before the pandemic. In 2019, the Internal Revenue Service employees answered less than a third of the calls to the Internal Revenue Service.

So, Senator Crapo and I work together on a lot of issues. This is one where we have differences of opinion, but I sure hope we can go back to the old days that were led by Ronald Reagan with a lot of bipartisanship, because the country needs it.

All right, we are ready for our guests. Ms. Collins, the National Taxpayer Advocate—we very much appreciate her. And then we have Ms. Jessica Lucas-Judy, the Director of Strategic Issues at the Government Accountability Office. She has been doing good work on those issues for a number of years. And then we have Ms. Jan Lewis, the chair of the American Institute of CPAs' Tax Executive Committee.

We welcome all of you, and we will go forward with your comments, first, Ms. Collins.

STATEMENT OF ERIN M. COLLINS, NATIONAL TAXPAYER ADVOCATE, INTERNAL REVENUE SERVICE, WASHINGTON, DC

Ms. COLLINS. Chairman Wyden, Ranking Member Crapo, and distinguished members of the committee, thank you for inviting me today to testify at today's hearing, "Spotlighting IRS Customer Service Challenges."

As I wrote in my recent report to Congress, this past year was the most challenging year taxpayers and tax professionals have ever experienced. Millions of taxpayers are confused. They are frustrated, and they are still waiting for the refund from the last filing season.

Taxpayers who called the IRS toll-free line last year were only able to reach an IRS employee 11 percent of the time. Thousands of businesses are still waiting to receive the Employee Retention Credit and other benefits that Congress has provided. And although the IRS's Where's My Refund? tool received more than 632 million hits, it often was unable to answer the question.

A toxic combination of office closures early in the pandemic, inadequate staffing, antiquated IT systems, and the need to divert resources from core work to administer the three rounds of stimulus payments, the monthly Child Tax Credit payments, and several financial relief programs, has created an unprecedented imbalance between the IRS's workload and their resources.

During the past 18 months, the inventory backlog has continued to snowball. We need to put the processing backlogs behind us and get the IRS out of the hole it finds itself in, and get the IRS to a stable and healthy condition so it can perform its core mission.

When I released my annual report last month, I said paper is the IRS's kryptonite—and the agency is buried in it. I want to elaborate on that point, because paper remains at the heart of the IRS challenges in the processing of returns.

For context, IRS received almost 170 million individual income tax returns last year. About 90 percent were filed electronically. And if there were no problems, they were processed quickly and the refunds were paid in under 21 days. But paper is different.

The IRS still transcribes paper line by line, number by number. Last year the IRS received about 17 million original paper returns, and processing delays have been running up to 10 months. And still we have over 4 million amended returns that taxpayers are waiting to be processed. And when the IRS requires additional information or proposes a change to the taxpayer's liability, it sends the taxpayer written notice. Most likely the taxpayer is going to respond in writing, adding to the correspondence backlog.

All of these delays contribute to taxpayers' frustration and confusion. The main question I am sure you and millions of taxpayers are asking is, "What can the IRS do now to catch up on its paper backlog?"

As I see it, we have two plausible options. One is to leverage the IRS employees and to use outside vendors to assist with the clerical work. The other option is to automate some of this work.

For background, there are two IRS functions involved in processing the tax return: submission processing and accounts management. Submission processing is the first step in the process. Electronic returns are processed. The paper original returns are transcribed, and paper amended returns are either transcribed or scanned for submission processing.

By contrast, the accounts management group consists of what most people think of as the customer service representatives who answer the phone. But they also process original amended returns, and they process the taxpayer correspondence.

Recently, the IRS announced it has an inventory surge team. The Commissioner is going to assign about 1,200 employees to account management designed to help process amended returns and correspondence. That was an important first step.

The IRS is now establishing a second surge team to put additional resources on the processing challenges. The IRS recently announced a welcomed suspension of many of the automated notices while it gets caught up on the backlog.

These additional steps should reduce phone calls and eliminate the need for additional correspondence and, more importantly, reduce some of the taxpayers' frustration.

And third, the IRS is in the process of outsourcing for staffing to assist in this submission processing function, which again will provide much-needed relief.

The second viable option is to automate the paper processing through scanning technology, with a goal of automating the process so returns can be machine-read, avoiding the need for a manual key on every number.

In closing, taxpayer service must improve. And for that to happen, the IRS first needs to eliminate the backlog, pay the delayed refunds, get current on its work, and then return their focus to improving taxpayer service and protecting taxpayer rights. Americans deserve better. Our citizens deserve a responsive and respectful tax administration that serves all taxpayers fairly and timely.

So, thank you, and I look forward to your questions.

[The prepared statement of Ms. Collins appears in the appendix.]

The CHAIRMAN. Proceed, Ms. Lucas-Judy. Go ahead.

STATEMENT OF JESSICA LUCAS-JUDY, DIRECTOR, STRATEGIC ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE, WASHINGTON, DC

Ms. LUCAS-JUDY. Chairman Wyden, Ranking Member Crapo, members of the committee, I am pleased to be here today to discuss preliminary observations from GAO's ongoing work at IRS: first, challenges in processing tax returns in 2021 that resulted in delays and increased costs; and second, struggles taxpayers faced getting help.

Both of these have important implications for the current 2022 filing season that I will discuss as well. IRS faced an unprecedented workload in 2021 that included delivering COVID–19 relief. IRS also had to manage typical filing season operations during the pandemic.

By mid-February of last year, as the filing season began, IRS had a backlog of about 8 million unprocessed returns from 2020. IRS adjusted staffing at processing centers and relied on overtime to handle the returns. By mid-December, IRS had entered all the returns received in 2020 through its processing systems. However, we are again seeing that IRS has a return backlog this season.

As of the end of 2021, IRS had about 10.5 million returns from that year that had not been fully processed. IRS may need to again rely on overtime to process the backlog and manage incoming returns.

The high volume of returns with errors was another challenge. From January to November, our preliminary work indicates IRS suspended about 35 million returns due to errors. Now that is a big increase; about 86 percent more than in prior years. These errors required manual review and correction, which led to refund delays for millions of taxpayers. Delays cause hardships for taxpayers, and can also cost the government money.

In the last 7 years, IRS has paid almost $14 billion in interest on refunds. In our ongoing work, we are analyzing data on refund interest payments and exploring factors that contributed to that increase.

Turning now to customer service, IRS answered more calls during the 2021 filing season than the last four filing seasons. But an unprecedented increase in calls resulted in a low level of customer service overall. From January until the end of the filing season in May, calls increased about 400 percent from 2019. IRS said it did not have enough staff to meet the demand. It hired 3,800 customer service staff by the end of the filing season, but they needed training, and they were unable to answer calls during the busiest time.

In part to help manage the call volumes, IRS directed taxpayers to use its online application Where's My Refund? to get the most up-to-date information. But our ongoing review indicates Where's My Refund? provides limited information, and user satisfaction declined.

IRS recognizes Where's My Refund? has limitations, but does not have plans to modernize it. We know that IRS has significant long-term efforts underway to upgrade its IT infrastructure, and modernizing Where's My Refund? will take planning and resources. So we are continuing to explore these challenges in our ongoing work.

IRS's correspondence inventory also increased. Our preliminary analysis indicates that, as of the end of the 2021 filing season, it was nearly three times the average inventory from prior years. Further, almost half of that was over age.

IRS's different customer service options are interdependent, often sharing the same staff. IRS struggles to balance competing demands of the telephone and written correspondence because many staff are responsible for both duties. Further, when taxpayers cannot find the information that they need using online resources, they call, or they send mail.

To help address immediate needs, IRS converted seasonal workers to permanent hires, rehired former staff, and used a streamlined hiring approach. Our ongoing review, however, indicates IRS encountered challenges hiring enough new returns processing staff during fiscal year 2021. Attrition further affected staffing, with the attrition rate for returns processing staff more than twice the agency's overall rate.

We recognize overtime is a necessary tool to help manage unexpected surges in workloads, but it is not sustainable to rely primarily on overtime to offset complex human capital challenges such as reduced staffing levels and attrition. IRS's use of overtime may also indicate a larger need for a strategic workforce plan that addresses mission-critical skills gaps. In 2019, we recommended IRS establish such a plan. IRS agreed, but the effort to implement that has been delayed.

In conclusion, ongoing challenges precipitated by the pandemic, and new responsibilities to provide relief to Americans, adversely affected IRS's return processing and customer service. Amid these challenges, IRS issued Economic Impact Payments and answered more calls than in prior years. Nevertheless, new and persistent challenges that IRS faces pose risks for the 2022 filing season.

Chairman Wyden, Ranking Member Crapo, members of the committee, this concludes my prepared remarks, and I look forward to any questions you have.

[The prepared statement of Ms. Lucas-Judy appears in the appendix.]

The CHAIRMAN. Thank you very much, Ms. Lucas-Judy.

Ms. Lewis, welcome.

STATEMENT OF JAN F. LEWIS, CHAIR, TAX EXECUTIVE COMMITTEE, AMERICAN INSTITUTE OF CPAs, WASHINGTON, DC

Ms. LEWIS. Thank you. Good morning, Chairman Wyden, Ranking Member Crapo, and members of the committee. My name is Jan Lewis, and I am chair of the AICPA's Tax Executive Committee, and a CPA and a partner at Haddox Reid in Jackson, MS.

On behalf of the AICPA, I am pleased to have the opportunity to testify. However, I really should not be here today. It is tax season, and I should be at home in Mississippi helping my clients. But I am here today because there is still time to salvage this filing season, or at least make a difference.

Over the past several years, we have experienced a variety of service issues with the IRS, most of which relate to erroneous notices, slow processing of returns and written correspondence, and difficulty in reaching the IRS by telephone. These problems have been magnified in the past 2 years. And at times we, as CPAs, feel powerless to help our clients navigate these IRS service issues.

For example, my clients are getting notices to file forms and returns that they have already filed. Several clients received notices stating that the IRS needs more time to resolve an issue, but there is no record of an original notice ever being received.

We have had clients receive notices regarding payroll Form 941s stating that the IRS needs more time, but the client has no employees and does not even file payroll tax returns. Clients are still waiting for refunds from Forms 941 and 941–X filed to claim the Employee Retention Credit for 2020 and 2021.

I could go on for hours with examples, but let me just give you one more that is particularly frustrating. Several pass-through entities were not able to file their 2019 returns before the extended due date in 2020 because of various issues related to the pandemic. All were only 1 or 2 months late, but despite the IRS's indications that there would be penalty relief for late filings due to COVID, the telephone answerers had no knowledge of any special pandemic relief when we have called.

Taxpayers and practitioners understood that the IRS would offer leniency, but that simply did not happen, and penalties were assessed. This is not just about my own personal experiences. We are hearing every day from CPAs who are having the same types of problems.

When the pandemic hit in 2020, we know the IRS did have to shutter campuses and offices. They did have to learn a new and safer way to do business. Relief legislation did bring additional work for the IRS, and questions and confusions brought the unprecedented call volumes from taxpayers and their advisors.

But the past 2 years have been like none of us could have imagined. Frankly though, we expected a little more flexibility and a little more empathy from IRS leadership. As the work piled up beyond historic proportions, the AICPA continued to give suggestions to reduce some of that work.

Let me be clear. Our suggestions will not fundamentally fix the problems, although in my written testimony I do outline some strategic long-term recommendations that may help. But for almost 2 years, we have offered suggestions on how to slow down the work coming in, particularly the paper, so that the IRS can have a better chance to catch up.

We started on our own, and this year we found 12 other willing partners to form the Tax Practitioners United for Taxpayer Relief Coalition, which easily came together to help mitigate the burden on taxpayers and practitioners. So here are our suggestions. All of these are steps the IRS can implement now on its own.

Temporarily postpone all automated compliance actions. Adjust account hold time. Liberalize the reasonable cause penalty waiver process. And provide taxpayers with targeted relief from both the underpayment of estimated tax and late payment penalties.

We would like to acknowledge the recent steps taken by the IRS in reaction to this growing expression of concern, including the suspension of some notices and letters. However, we must urge the Service to move as quickly as possible to offer all available reasonable measures of relief. We are already in the throes of filing season. Time is of the essence.

Before I conclude, I would like to bring up one other item: IRS's insistence on the implementation of the reporting on Schedules K–2 and K–3 for this filing season, without the ability for those forms to even be e-filed before the due date of the returns.

Additional IRS changes to the instructions for these forms mid-filing season added even more confusion to the issue. So, although we do appreciate the recent IRS statement regarding transition relief, given the already unprecedented processing backlogs, the AICPA has deep concerns that implementing these new requirements will ultimately exacerbate the challenges everyone in the tax administration community already is facing. And they conflict with the intended goal of Schedules K–2 and K–3.

We therefore recommend the IRS delay the implementation of the Schedule K–2 and K–3.

Thank you again so much for the opportunity to be here today, and I look forward to answering any questions you may have.

[The prepared statement of Ms. Lewis appears in the appendix.]

The CHAIRMAN. Thanks to all three of you. And you can only imagine the typical taxpayer sitting out there gnashing their teeth listening to all of these tortured exercises through a kind of bureaucratic never-never land. And I want to see if I can ask a question that might provide a path for really going forward that we could both work on, Democrats and Republicans together.

So you all have made a very convincing case that the information technology at the IRS is from the Dark Ages. So we have Ms. Collins saying, for example, the IRS has at least 60 different computer systems that cannot talk to each other. That is kind of a showstopper.

Clearly that ripples through to customer service, which is why I mentioned all these people listening to all this who cannot get through. And I am going to give you an example.

Right now, if you call the IRS about your refund, the person who answers the phone may not have access to the information that the caller needs. So I checked the IRS's Where's My Refund? tool, and it cannot talk to other systems to find out what I need to do to get my refund. And I cannot send the IRS an email.

So I've got to write the IRS and make another call, adding to the backlog of things that the IRS has to process manually. So that is why I described this kind of intersection out there, in the bureaucratic never-never land, that the typical taxpayer faces of outdated technology and the service problems.

So, my question to all of you—and I noted the last comments by Ms. Lewis about actually getting the upgrades done and doing it quickly. It just seems to me that you have a fundamental challenge of how you get the IRS to make major upgrades to 60 different computer systems while they are running the filing season, and probably not even knowing how much money has to be spent on upgrades to really get at the problem.

I would just get each one of you involved. What is the challenge here to getting a permanent fix—a permanent fix? We will start with you, Ms. Collins. We will just go down the row. What is the path to getting a permanent fix so we can upgrade the technology for the long term, rather than just putting band-aids on, and in that way improve customer service?

Ms. Collins?

Ms. COLLINS. Yes, I think you hit the nail on the head by describing the stand-alone systems that the IRS has. They do not talk to each other, so it is very difficult for an IRS employee to assist either an IRS employee or the taxpayer without getting all of these systems integrated.

So in essence, the IRS needs to get out of the age of the dinosaur or the Dark Ages, as you indicated, and we need to modernize our systems. We need to—in essence, the entire infrastructure that it was built upon, which is at least 40, 50, 60 years old, we need to correct that. And then the systems can work in concert with each other.

But it is our underlying systems that have been around for a long period of time that need to be upgraded so we can modernize the entire system.

The CHAIRMAN. Does anybody have a plan to do this? Because I constantly hear about the status quo, which is why I described taxpayers listening to all this and gnashing their teeth, but you do not hear as much about a game plan or a strategy for getting beyond that band-aid placement program.

Ms. COLLINS. Yes, the challenge, in my discussions with the IRS, is it is really—they look at it as a funding issue. This is a heavy lift for the IRS. They need to have sustained, long-term funding in order to take on a project that size.

Congress, with respect to the monthly payments, provided resources, so they were able to come in and do that. And they did it in a very short period of time. But again, it is another stand-alone system. We need to start with the foundation and work our way up.

So if you were to ask the IRS, they do have a plan. But unfortunately, it involves long-term funds.

The CHAIRMAN. We are going to ask them about that at the next hearing, actually.

Okay, Ms. Lucas-Judy, your thoughts?

Ms. LUCAS-JUDY. I would just add that GAO is currently reviewing IRS's plans for modernizing its systems, including the Individual Master File and others. But overall, IT management and acquisition is a high-risk issue across the government. And it is important for IRS to have an inventory to know what it currently has, to prioritize how it is going to address the different systems, know what that is going to cost, have a schedule, and then have a plan in place to be able to monitor and report to Congress and others on its progress.

The CHAIRMAN. Ms. Lewis, your comments really were a big factor in my asking the question the way I did, because I do see this intersection between outdated technology and customer service problems. What are your thoughts about getting beyond just slapping band-aids on things?

Ms. LEWIS. Well, Senator Wyden, I appreciate your comments. And while, as a practitioner, it is not my role to budget for the IT at the IRS, we know that technology and staffing and budget are critical for the IRS. And we have steadfastly supported that, as long as there is a balance between enforcement efforts, IT efforts, and customer service.

The specific comment that I made about the Schedules K–2 and K–3 not being able to be—it is a particular issue with practitioners. This is a schedule that has come out for pass-through entities. In 2020, we knew it was going to come out. We knew it would be required. But it is still not able to be included in an e-filed return, and it will not be until at least late March for partnerships.

The CHAIRMAN. I am going to keep the record open for those of you who would like to put some thoughts on paper with respect to what I think is almost the existential question for reform: how do you do the big upgrade while still giving people better service? Put it down on paper for the Democrats and Republicans—like I mentioned as was done with Ronald Reagan—to get serious about fixing this.

Senator Crapo?

Senator CRAPO. Well, thank you, Mr. Chairman. And I want to follow up on Senator Wyden's questions. This shows that we can find an intersection where we can find some serious agreement on a bipartisan basis. And so I am going to follow up just to try to noodle out a little bit more information about this exact question.

And, Ms. Collins, I really found interesting your comment about paper being the kryptonite for the IRS. As Americans who listen to your testimony heard you say that and describe it, and then heard the rest of the testimony of our panelists, it must have been mind-blowing to them to believe that that is the way it is with the IRS in terms of their IT infrastructure and technology.

And it seems to me that this is something that we really do need to solve. I have asked the IRS, and will continue asking them, as Senator Wyden said. In our next hearing on this, I expect that we will have a chance to ask them here, what is their plan? And what is it going to cost? How do we need to fund it to get this issue solved?

Just a couple more data points. As you know, in fiscal year 2021, the IRS was given a special $1-billion allocation for IT modernization. This represents about three to four times its annual IT modernization appropriation request. But we do not know whether that was enough, or whether it was just a drop in the bucket, or how we need to deal with it.

Yet currently, the IRS has actually only spent, or committed about $160 million of that appropriation, around 16 percent. If you go on, from fiscal year 2018 through 2021, on average only 1.44 percent of the IRS's appropriated funding has been allocated to modernization, as compare to nearly 42 percent for enforcement, and 35 percent for operations support, which includes trying to stand up and maintain the existing outdated infrastructure.

As you know, the IRS gets around 10 percent of its operating budget from non-appropriated funds such as user fees, and it entirely controls how these fees are spent. Are these being allocated to modernization? Or are they being allocated to some other function?

So my question, which I would really like each of you to respond to briefly—we have about 2½ minutes for you to finish your responses here—is just, can you put a little more detail on this? Do we have any notion?

Ms. Lucas-Judy, you indicated that you are reviewing their plan, which means they must have a plan. Is there any notion as to whether the plan is sufficiently detailed that we could know how much it is going to cost? What do we need to do in terms of making that funding support available for the IRS to get this issue fixed? Could we, again, just go down the line?

Ms. Collins?

Ms. COLLINS. Yes, my understanding as well is that they do have a plan. I believe they have a price tag associated with the plan. I think their concern is that it is a very large number, that they cannot start it without multiyear funding. And so it is sort of, you start and stop a project this size, and so what they have been doing, unfortunately, is a large percentage of their operation, or their budget, goes to what I call putting the band-aids on the 60 legacy systems.

We need to decommission those systems and, again, start from the foundation and work our way up. Again, my understanding is they do not feel they have the funding sufficient for multiyear efforts to do the foundation. So again, we are working on the band-aids to keep the system running.

Senator CRAPO. Do you have any idea what that funding amount is? Can you give us a ballpark idea?

Ms. COLLINS. I do not. We can always supplement it and get that information for you.

Senator CRAPO. All right. I would appreciate that.

Ms. Lucas-Judy?

Ms. LUCAS-JUDY. Likewise, as I said, we are looking at the plan. It was delayed somewhat, in part from the pandemic, and from the same supply chain issues that others have been dealing with, but really the multiyear funding, I think, was one piece of it.

Also, it is important that the plan is sufficiently coordinated with all the different parts of IRS and the different stakeholders to make sure that priorities are set among the different systems.

Senator CRAPO. Thank you.

And Ms. Lewis?

Ms. LEWIS. I will defer to the GAO and the Taxpayer Advocate and look forward to working with them.

Senator CRAPO. All right.

One quick question that any of you could answer, if you know the answer. It would seem to me that if we can get going on this plan and we can get down the road on coordinating, getting rid of the kryptonite, that we would save tremendous amounts of money in the IRS budget that is now being used to deal with kryptonite. Am I seeing that wrong?

Ms. COLLINS. No. I think—not only do I agree, but if you ask the IRS, I think they would wholeheartedly agree with that as well.

Senator CRAPO. All right; thank you.

The CHAIRMAN. Thank you, Senator Crapo.

Senator Cantwell?

Senator CANTWELL. Mr. Chairman, thank you, and thank you to the ranking member. I join my Northwest colleagues in "technology update, technology update, technology update." We say this because we saw what happened last year with our constituents trying to get answers.

And so, what was it?—one in nine actually were able to get through to the IRS as far as calls. So we believe that that focus—and if you talk to your accountant this tax season, you can see the complexity in the letters they are sending out, if you have an accountant. And if you do not have an accountant, the complexity is amazing.

So there is lots to discuss, and people need answers. So one issue is, the IRS is piloting its use of online chat features, but right now it is limiting it to resolving collection notices. It has not been expanded to allow taxpayers to chat with customer service representatives about tax questions.

In 2019, a GAO study compared the IRS online communication capabilities with other nations and found that taxpayers in the UK, Australia, and New Zealand were able to securely chat online with tax agencies to get answers to their questions. So, we need—I think California and Alabama also have revenue agencies that offer similar chat functionality.

So, as we look at increasing the funding for the IRS to invest in the agency's technology workforce, what, Ms. Lucas-Judy, is part of that GAO study? Are you guys resisting this? What is the review of this process? What can we do to get this online communication support system in place for our constituents?

Ms. LUCAS-JUDY. One of the challenges there was in security, trying to make sure that the function is sufficiently secure to be able to protect sensitive taxpayer information. We know that, as you mentioned, there are other places that have been able to put such a function in place. That is something that the IRS has been looking at and testing. And we are continuing to follow up with them.

One of our recommendations to them from that report was that they better integrate taxpayer needs, making sure they are putting functions out there and systems out there, and prioritizing things that taxpayers actually want and will use and not just things that are sort of, you know, easy to do.

Senator CANTWELL. But you are saying that you use it for online chat for collections. The IRS uses it. Is that—do I have that right?

Ms. LUCAS-JUDY. Right.

Senator CANTWELL. Okay, so you are using it to talk to taxpayers about sensitive tax information like, please, pay your bill, okay? But you do not want to use it to allow them to communicate to you about, listen, how do I do this and this and this?

Ms. LUCAS-JUDY. That is something that GAO has heard that IRS is working on expanding. And as part of its taxpayer experience strategy, that is one of the functions that they are trying to expand.

Senator CANTWELL. Are you supportive of that?

Ms. LUCAS-JUDY. We are supportive of anything that can protect taxpayer information but provide better customer service.

Senator CANTWELL. Okay, I am just confused. Do you think that there is not taxpayer information being discussed when you call them in an online chat for collection?

Ms. LUCAS-JUDY. I have not reviewed that, so I am not sure. I mean, I would assume that there is.

Senator CANTWELL. I just think that we have to think about where our constituents are. And so, if you are using one technology to basically call them and use that as a communication tool, but then they have questions and they want to talk to you, you are saying we do not know whether it is secure.

So, I think the issue is that countries around the globe are using it, because it is secure. Maybe, Mr. Chairman and Ranking Member, we need to look at how to upgrade the security technology——

The CHAIRMAN. It sounds too logical.

Senator CANTWELL [continuing]. Of the IRS. And I am not saying that there are not real security issues, for sure, but at the same time I think this one in nine calls being answered during tax season is just not acceptable, and we have to figure out—we talked, obviously, with our IRS Commissioner about the surge capacity the IRS uses, but that is not enough. We have to get into the 21st century here with this level of communication.

Thank you, Mr. Chairman.

The CHAIRMAN. When Senator Cantwell talks technology, everybody listens.

Senator Cornyn?

Senator CORNYN. Thank you, Mr. Chairman.

The witnesses today have painted a pretty dire picture of the IRS, and we appreciate you reporting to us some of your suggested solutions. I for one am skeptical that technology and money, which seem to be the answer to a lot of our problems these days, is going to be the panacea that is going to solve the problem. Maybe that is part of the answer.

But actually, as bad as the IRS's record is, I would like to tell you that this is only part of the story. It is actually worse. For example, in fiscal year 2020 the Office of Management and Budget determined that the Earned Income Tax Credit, the additional Child Tax Credit, are susceptible to improper payments. As a matter of fact, according to the most recent reports, the IRS paid out in just one fiscal year $22.8 billion in improper payments. That is money, taxpayer dollars, that went to a person who was not legally entitled to that money. And I believe the Taxpayer Advocate has listed this as one of their top concerns.

So not only is the IRS not responding to customer inquiries and processing IRS returns for people—for their customers—they are actually writing checks to people who are not entitled to them.

I noticed that the administration's budget request for 2022 was $13.2 billion. And so the amount of improper payments that went out in 2020 was more than double the entire budget for the IRS. And I would note that, if the administration thought that more money was the solution—they made a budgetary request for a 10.4-percent increase over the previous year. But unfortunately, as you know, we have been operating on continuing resolutions and have not even passed an appropriation bill, a single appropriation bill, this year, which is a serious problem.

I would like to ask Ms. Lucas-Judy: on top of the ordinary problems that the IRS has dealing with the tax code, in 2021 Congress passed a number of additional tax legislative changes, including enacting a new temporary Advance Child Tax Credit, further stimulus payments, and a retroactive change in certain tax benefits of unemployment benefits. I am worried that we are not making the IRS's job any easier; we are just making it more and more difficult by passing that sort of legislation without actually considering what impact it would have on the IRS's ability to administer these changes.

Can you help us better understand how each of these changes has repercussions for the filing season? And give us a sense of what this says about the tax legislative changes that Congress makes.

Ms. LUCAS-JUDY. Certainly. Any changes that are made to the tax code or to IRS's responsibilities during an existing filing season, or right before the filing season begins, do cause challenges for IRS because then it has to redirect resources into putting systems and processes in place to be able to make payments, such as the Advance Child Tax Credit payments.

It also causes confusion for taxpayers, because then, if rules are changing, they have to wait for IRS to get guidance out. Some people had already filed their taxes in 2021 when changes were made retroactively to taxation of unemployment benefits. And IRS scrambled to figure out a way to be able to process those returns and get people refunds if they needed them, without folks having to file an amended return and add to the backlog that IRS already was facing.

So anything that can be done as far as making changes perhaps farther in advance of the filing season, would be helpful to taxpayers.

Senator CORNYN. So it sounds to me like Congress, instead of making the IRS's job easier, is actually making it more complicated and making it worse. I think there are three questions that need to be answered to determine if the IRS is meeting its stated mission. One, do taxpayers find that filing their tax return was easier than the previous year? Secondly, were taxpayers' questions and problems handled as smoothly as account inquiries from their bank, their credit card company, or a utility? And, did the IRS treat taxpayers respectfully and professionally?

I know my time is running out, but let me just ask all of you, if I can, if you had one priority, one recommendation that you could make, and only one, what would it be to fix this mess?

Ms. COLLINS. Having a robust online account for not only individuals but for practitioners to access taxpayer records would make a huge difference. And I think, during the whole pandemic, we realized that telephones are a real challenge. And as you alluded to, this is not the same service you can get from your bank. We need to expand. We need to include chatting with an IRS agent, uploading documents, downloading documents.

So, my vision from the day I joined is, we really need to get this and get it moving. And I would put that as a number one priority for improving taxpayer experience.

Ms. LUCAS-JUDY. I am going to cheat a little bit and add to that and just say that the more things that we can do to encourage electronic filing, provide electronic processing of forms—this makes the system faster and cuts down on mistakes, both on the taxpayers' side and on IRS's side—would help significantly.

Ms. LEWIS. I will echo Ms. Collins's comments about having a tax practitioner's special third-party office with the IRS. I do think practitioners would welcome that. We have actually asked for that in the past.

I do want to just circle back around—I apologize for being a broken record—but we are talking about customer service challenges right now, and we have heard about the backlog. So, if I had an immediate solution—we have some concrete solutions, but we have to stop the notice process, the automated notices, from continuing to come out. This is what is impacting taxpayers right now. And it is right now that we are worried about.

The CHAIRMAN. I thank my colleague. I just want to take a quick minute, because my colleague raised a number of important issues. And we are going to do everything we can—and Senator Crapo and I have been talking about this—to see if we can engineer a bipartisan effort here.

This is so important, talking about these systems that are still apparently using Apollo technology and the like. I just want to make one point.

My colleague from Texas said a big problem is Earned Income Tax Credit and Child Tax Credit fraud. Now I am against fraud everywhere, but the evidence is, that is not where the big money is. That is not where the heart of the problem is, with those people who are walking an economic tightrope. They spend the money they get on basic services: food, shoes, and the like.

But the fact is, today wealthy tax cheats in a big partnership are more likely to get hit by a meteor than they are to be audited. And so, we really have to find a way to bring basic fairness into this. And it certainly starts at the top. So we will continue this discussion, and I am going to do everything I can to find common ground with colleagues.

Senator Cardin?

Senator CARDIN. Mr. Chairman, thank you very much. I have been listening to the exchange, and I really do think this committee has an extremely important role to play here.

I am proud of our chair and ranking member working together, and I understand the exchanges that took place a little bit earlier, but I think it is critically important that this committee protect the integrity of the IRS and give it the resources it needs in order to carry out its important mission.

We know there will be members on both sides of the aisle who will beat up on the IRS. That is just what happens. We have to make sure that it gets the support it needs to carry out its mission. And I appreciate all three of our witnesses being here.

Ms. Lewis, I know it is tax season. I heard your comments. Thank you for being here, because we appreciate that very much. The IT issues are incredibly challenging. And yes, we need to have a plan from the IRS. We need to review that plan. We have to recognize the investments that are going to be necessary to do that.

But then Congress needs to act to give them the long-term commitment of resources in order to implement the IT modernization. And we have been talking about this now for about 30 years, so this is not a new subject for our committee. But we have to make that commitment to upgrade the IRS's technology, because the paper explosion just—we have a responsibility to deal with that.

In regards to the personnel, look, the numbers speak for themselves, as the chairman pointed out. The number of IRS employees today is what it was 20 or 30 years ago, and the volume has increased by such a dramatic amount. They need the numbers. They need the training support.

I want to go on—and first of all, I want to compliment the very talented people, the line workers at the IRS who are doing an incredible service under extremely challenging circumstances, and I thank them for their willingness to stick by their posts and help us deal with this issue.

I want to deal in my time, if I might, with two issues. So let me start first with my responsibilities as chair of the Small Business Committee. I think we have not paid enough attention to small business owners. Small business owners are burdened by the individual tax issues. They are not using the C rate. So I would welcome, Ms. Collins, if you have some thoughts as to how we can be more user-friendly to small businesses, particularly to really small ones, the ma and pa's, how we can help them in perhaps policy changes, or changes within the IRS to be more friendly towards those small business owners who do not have the capacity to have the accounting services either in-house or by contract in order to deal with the tax challenges.

Ms. COLLINS. Yes, I think small businesses, as you pointed out—and COVID has hit them really hard these last 2 years. So I think, as we all acknowledge, the tax code is anything but simple. And trying to comply and do the right thing is a very difficult process.

A lot of small businesses, as you pointed out, do not have the funds to hire a CPA or accountant. They do try and do it the best they can. So I think the IRS is trying to reach out, doing a lot of outreach for small business. We really need to help educate them, bring them into the fold, and explain to them what needs to be done.

So I think we really need to look at some of the under-resourced communities and help those businesses out.

Senator CARDIN. Thank you.

I do not know, Ms. Lucas-Judy, if you have a comment on that. I would welcome your thoughts.

Ms. LUCAS-JUDY. Likewise, we are looking at outreach, and how IRS has been reaching out to small businesses with regard to COVID relief, the provisions that are there for them, and to see the extent to which small businesses are able to take advantage of those provisions—so, anything the IRS can do to improve customer service there.

Senator CARDIN. And, Ms. Lewis, what I would appreciate from you is—the 2017 tax bill did very little to help small companies. Pass-through issues have certainly not been helpful to a lot of my constituents.

Can you just share with us your thoughts as to how we could do a more effective job in the tax code as far as policy to help small companies that use the individual tax rates?

Ms. LEWIS. Thank you. And, Senator, this is really an issue that I am passionate about in what my clients do. They are small businesses. I grew up as the daughter of an independent pharmacist who had his own store, and I watched him every day come home after working till 6 o'clock to do the sales tax returns, and the payroll tax returns, and all of the compliance activities. And that is what I do for my clients right now.

It is burdensome. It is complex. But we are here to help in any way that we can. And I would appreciate any technology updates as well. But again, I am going to go back to my point. What is burdening my small businesses right now is the unending notices, and not being able to reach the IRS.

Senator CARDIN. I appreciate that.

Mr. Chairman, just one additional comment, and that is on the paid preparers. As we know, the IRS lost that authority. We have not been able to come together to correct that. I know the chairman has been very interested in it.

Ms. Collins, could you just give us your thoughts as to the need for the IRS to have the authority to deal with the paid preparers?

Ms. COLLINS. Yes; my office has been a very big advocate. And I think, unfortunately, what we see is, we have a lot of taxpayers come in who have been the victim of individuals who are not qualified to prepare returns. And that is something that I think, across the country, we need to stop.

Some folks may be well-intentioned when they get it wrong, but I think there are other folks who actually are taking advantage of taxpayers. And we think by regulating it and providing some standards, hopefully that would weed out some of those bad actors.

Senator CARDIN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague, and his expertise on the small business issue is going to be absolutely crucial when we wend our way to some really permanent reforms.

I think Senator Cassidy, my colleague from Louisiana, is online and ready to ask some questions. Senator Cassidy?

Senator CASSIDY. Thank you, Mr. Chairman. Thank you all for being here.

Ms. Lewis, I am going to start with you, and I am going to give a little bit of context on this. And I am channeling my CPAs back home, and you would understand why this is so important to them.

Ida, Hurricane Ida, hit Louisiana, and many found themselves without power. In fact, I went down to one place—total devastation—and the wife of the fellow doing the emergency management was most concerned about getting her tax forms in timely.

And so, even people who are punctilious nonetheless are having a problem. And so I am told that in response to the disaster, the IRS extended filing deadlines for businesses and individuals in Louisiana, Mississippi, Pennsylvania, New Jersey, New York, and Connecticut, until February 15th. And I appreciate that. But I am also told, according to my accountants, that after November the 15th returns had to be filed as paper returns because software vendors in the government shut off the system to prepare for the upcoming filing season.

So my concern is that all these folks filing by paper are going to have their returns stuck with millions of others that were delayed and, with only 11 percent of the phone calls being answered, that they will not be able to get through.

So, Ms. Lewis, just from your experience, how does the delay at the IRS impact those business individuals taking advantage of a disaster tax relief, and what can the IRS do to provide relief in the situations such as I described?

Ms. LEWIS. Thank you, Senator Cassidy. I know this firsthand, not only because I am from Mississippi next to your State, and we do deal with disaster relief, but we specifically dealt with Hurricane Ida concerns. In my case, I actually had to stop my preparation for this hearing so that I could finish those last returns that were due February 15th.

I think the issue was, the original extension date was January the 3rd, which made sense according to some 90-day timeline after the hurricane, but in that January time frame I had clients that were ready to file. And we had these conversations about should I go ahead and file a paper file? How long will it take to get my refund? Or should I wait until IRS filing season opens up on January 24th and then e-file my return? It will be late, but at least it will be e-filed.

It was a real struggle for us in talking to taxpayers about that. Fortunately, they did come back and give us until February 15th, and I think in large part because that way we could e-file these returns. That was a tremendous help. But we continue to have issues with disasters, and we have supported the disaster retirement savings act and other disaster relief, and AICPA stands ready to help in any way on disaster relief, because we do need that permanent relief.

Senator CASSIDY. Well, kind of related to that—and I will follow up with you, and perhaps also a question for Ms. Collins—I am told that there is a system, an internal system known as an O freeze. The IRS is supposed to flag the ZIP codes affected by disasters so those eligible to receive relief do, but there is some measure of errors associated with this.

Now again, these are my accountants, and accountants are paid to be anxious for their clients' welfare. Because I asked, how often is "sometimes," but I did not really get an answer on that. But I can imagine that failure to flag these ZIP codes correctly is going to cause potentially lots of complications for the taxpayers, penalty notices, et cetera. Has this been your experience?

And then I would like to ask Ms. Collins, what can the IRS do to reduce errors like failure to put in the O freeze information correctly?

Ms. LEWIS. I will let Ms. Collins speak. I was just going to say that, as a practitioner, we have in the past had difficulties with hurricanes, or any kind of disaster relief that should be allowed to our taxpayers in our ZIP codes, but it somehow was not indicated by the IRS.

Senator CASSIDY. Can I ask how big a problem that was, Ms. Lewis? Was that a major problem, or just an occasional inconvenience?

Ms. LEWIS. I will tell you, we have not experienced that for Hurricane Ida yet, because we have just filed those returns. I am very nervous, because the current system, with the backlog and the correspondence, is much worse now than we had it with Katrina, or with some of the other hurricanes at that time. It was not a huge issue, but we were able to reach the IRS then.

Senator CASSIDY. So the fact that the phone calls are only 11 percent being returned now compounds it.

Ms. Collins, any thoughts on that?

Ms. COLLINS. Yes, our office monitors those. And what we did find was, if you had overlapping disasters, that is where the challenge was with the IRS having the incorrect coding. They have gone back and changed that programming, so hopefully on a go-forward basis that is not an issue.

We also were very strong in pushing the IRS to move that January date because, again, we do not want paper returns if it is at all possible. So one of the recommendations we made in our annual report is, going forward for the IRS, instead of just having a 90-day window, look to see the filing dates. Do we have the ability to electronically file? And that should be the extended due date.

Do not move the extended due date to a situation where they have to file a paper return.

Senator CASSIDY. Got it.

Thank you, Mr. Chair. I yield.

The CHAIRMAN. I thank my colleague.

Senator Menendez?

Senator MENENDEZ. Thank you, Mr. Chairman.

Let me first, before I make other remarks I am about to, acknowledge the hardworking employees of the IRS, many of whom have been working tirelessly since the pandemic began almost 2 years ago next month. And we certainly want to thank them for their dedication to America's taxpayers.

But throughout 2021 and during the 2022 tax filing season, tens of millions of taxpayers have been forced to wait extraordinarily long periods of time for the IRS to perform the most basic of functions: processing their returns, issuing their refunds, and addressing their correspondence. That is why my office has continued to receive calls about these issues, each and every day. We have had thousands of calls since the pandemic began.

The IRS touches more Americans than any other entity, public or private. We have to have an IRS that works. That is why I have led or co-led six letters in the last 5 months, including the most recent one—210 bipartisan, bi-cameral members of Congress—encouraging the IRS to work down its unprecedented backlog and improve it customer service.

Now, Ms. Lewis, I worked with the AICPA to send two letters to the IRS last month asking for the IRS to halt automatic collections, delay the collection process for filers, streamline the penalty relief process for taxpayers who had been impacted by COVID–19, provide penalty relief for taxpayers who have paid at least 70 percent of their taxes that were due for the 2020–2021 tax years, expedite the processing of amended returns, provide the National Taxpayer Advocate staff and congressional caseworkers with timely responses, pursue maximum overtime options for IRS staff while working on processing the backlog of returns, allow additional employees to volunteer to join surge teams to work on the backlog, and to extend overtime options for additional surge team employees.

So my question to you: is the IRS listening to any of these requests? What changes has the IRS made in response to these requests?

Ms. LEWIS. Thank you, Senator Menendez. I also want to echo your comments about IRS employees. We do appreciate that they have worked tirelessly throughout this process. We need a modern functioning IRS. The AICPA works best, taxpayers work best when we have an IRS that works.

I also want to especially thank you for keeping these issues in the forefront. This hearing today is important, and the letters that are going out are important.

The IRS has responded, probably in large part because of the heat that has been raised the last few weeks. So, thank you for that. What they have responded is a partial response. One notice turned into several notices. There are still several other notices that we would like to see halted that are not on the list.

They have done the notice part. They have not extended the hold times. They have not helped us with the penalty relief that we desperately need, and the taxpayers desperately need.

So yes, there are more things to do. They are responding. We just wish they had responded sooner.

Senator MENENDEZ. Yes. What you just mentioned, are those some of the notices yet to be issued that you believe should not be issued?

Ms. LEWIS. Yes. Well, notices that have already been issued—if the automated compliance action stopped, then hopefully the taxpayers will not get continued follow-up issues while those are being worked.

The concern is, there are a few notices like levying Social Security benefits. That is an IRS notice that goes out if there is a collection issue, and that is not on the list. So if they are still working on the backlog and there is a balance out there, someone's Social Security benefits could be levied. So there are a few like that, and some matching notices that we would like to see added to that list.

Again, anything that could help them work through the backlog.

Senator MENENDEZ. Well, let me turn to Ms. Collins. There was a *Washington Post* article published yesterday, "Eight scary IRS notices that are being suspended for now"—for now—where you alerted the public to a very important issue. Specifically, you stated that, quote, "If taxpayers believe they owe some or all of the tax, they should determine what they can pay and make that payment, stop the running of the interest, and continue to work with the IRS to resolve this issue."

How would you suggest that taxpayers best work with the IRS to make those payments or resolve those issues? What is the most painless way for taxpayers to do this?

Ms. COLLINS. Yes, as you pointed out, I think that is one thing I want to make sure the taxpayers do not misunderstand. The suspension of the notice does not mean that interest is suspended. So until the payment is made, the interest continues to accrue.

So taxpayers can work with the IRS—and we all are noticing and talking about the IRS's poor level of service on the phones, but on collection issues, you actually can do multiple things. You can go online and do an installment agreement. If it is under $50,000, it is a very quick process to do. You can also do it through—they have chatbots. You can do it through a bot as well on the phone.

You can reach out to the IRS and do what we call an offer in compromise. If you can show that you have financial challenges, you may be able to reduce the liability and settle it with finality to put the tax behind you so you can move forward.

And they also have something that is called "currently not collectible," which if you can establish your financial concerns, they will in essence back off collections for a period of time, giving the taxpayer an opportunity to get into a better financially healthy state.

So the IRS is willing to work with you. But again my concern is—I was a big proponent to shutting down the notices and suspending them, but if you do owe the tax, I want to make sure those folks understand that the interest continues to accrue.

Senator MENENDEZ. Well, thank you for that. And thank you to you and the Taxpayer Advocate Service for the incredible work you have been doing during this challenging time.

The CHAIRMAN. And, Senator Menendez, before you go, I just want to make sure people understand, you have been leading some of these very important letters with respect to reforms that we need in the Internal Revenue Service. We thank you for it.

Okay; I think Senator Grassley is next.

Senator GRASSLEY. Senator Menendez asked one of the questions I was going to ask, so maybe I will not have to take my full 5 minutes.

Ms. Collins, I will first lead into the question that is fairly long, but I want you to kind of hear what I told the Taxpayer Advocate in my State about some of the problems we are dealing with. The taxpayers' correspondence backlog and other customer service challenges facing the IRS have reached a crisis level.

As you mentioned in your testimony, the current filing season challenges require an all-hands-on-deck strategy. In my view, this not only applies to the IRS's internal operations, but Treasury broadly, the Taxpayer Advocate Service, and Congress as well. For IRS to dig itself out of its current hole, we must all work together.

Caseworkers in my State offices in Iowa have been inundated with requests for assistance with the IRS. As someone who takes constituent service very seriously, I instruct my caseworkers to go the extra mile to provide assistance. Unfortunately, my dedicated caseworkers have been frustrated in their work by roadblocks put up by the IRS, and in some cases by the Taxpayer Advocate Service.

For instance, there was a period where the Taxpayer Advocate Service stopped accepting status inquiries regarding original and amended tax returns. I understand this was done because there is little TAS can do to speed up processing of returns. However, State caseworkers often cannot determine if there are any issues with taxpayer accounts beyond processing delays without being able to verify the reason for the delays with the IRS or TAS.

I appreciate that TAS has recently updated its policies to provide a status update and case monitoring when it has been over 5 months since the taxpayer filed their returns. This is very helpful and reasonable given the length of the backlog.

Going forward—and now I am getting to my question—going forward, do you have any suggestions on how congressional caseworkers and TAS can work together to more efficiently and effectively get taxpayers the assistance that they deserve?

Ms. COLLINS. Thank you for the question. We have been working with the IRS, because this is a real challenge. As we alluded to earlier with the lack of technology, when we go into the IRS systems we cannot see the return on the system. We cannot see the reason for the delays.

So we are working with the IRS, trying to get a work-around so we can work with your constituents. We are going to ask a little bit more from your staff to help us sort of be the intermediary with the taxpayer, help us get some of the information more quickly so we can get it in the system and continue to work with the IRS.

So we will be reaching out to all the members to say, again, it is all-hands-on-deck. We all need to help taxpayers get through this.

Senator GRASSLEY. Ms. Collins, Ms. Lucas-Judy, each of you has discussed the difficulty IRS is having hiring employees to fill customer service, the mail processing openings. Ms. Collins, you have noted in your annual report that, on average, it takes IRS about 3 months to hire external candidates for a position in the current labor market. I suspect many applicants would have already found a different job during that time.

Could either of you help me understand what barriers, legal or otherwise, lead to such a long drawn-out hiring process, or period?

Ms. COLLINS. Government bureaucracy. I think part of the challenge is the rules that we have in place. What we are asking for is direct authority for the IRS to be able to just hire people, especially right now in return processing and some of the areas in service, including actually TAS, so we can get the people onboarded quickly.

It is a long process. By the time you advertise the position, they apply, you go through the challenges—they also have security checks. So by the time a person could get onboard, it could be 60 days, 90 days, 120 days before they even get training.

So we need these people onboard now to get through this filing season.

Senator GRASSLEY. Are there any legislative changes Congress should be considering so IRS can have the flexibility to hire employees they need now to get out of this hole that they are in?

Ms. COLLINS. Yes, again I think the direct-hiring authority would be the key to moving quickly, so that if I sat down with you, interviewed you, and I thought you were the right person for the job, I could hire you on the spot, versus having to go through the entire process.

So that would be a big help for the IRS with some of the challenges that they are facing.

The CHAIRMAN. I thank my colleague.

Senator Portman is next.

Senator PORTMAN. Thanks, Mr. Chairman, and thanks for having this hearing and the testimony we have had already today regarding the crisis we face, which is overwhelming: 23.5 million pieces of mail, including 8.5 million paper returns, a total of nearly 17.6 million returns. The backlog is having a huge impact on people in my home State, and around the country.

IRS is overwhelmed, clearly. And we have heard a lot about those challenges today. We should be doing stuff to make it easier, not harder, for the IRS to do its work.

I want to ask you about a proposal that is being advocated by some of my colleagues that I think would make it more complicated for the IRS, and more difficult to administer the tax code. It is a proposal called the book tax, also called the corporate alternative minimum tax by some, but it is different because it does not actually tax income. It was put into the Build Back Better framework. Whether that goes forward or not, I do not know, but the idea has been advocated on its own.

It adjusts the financial statement of corporations, and again does not look at the income for tax purposes, but rather the adjusted financial statement, basically creating a parallel tax.

And among the concerns, it would override bonus depreciation, alter the foreign tax credit system, provide adverse treatment to invest in some State and local bonds, and so on. The Joint Tax Committee has said that manufacturers would be hit the hardest because of their capital investment and their use of the code to deal with their physical capital investments.

Ms. Lewis, you might be the best one to answer this question. How do you feel about this book tax proposal? And what would it do to the IRS's ability to administer the tax code that it is already struggling with?

Ms. LEWIS. Thank you, Senator Portman. This is an important issue to the AICPA. We have commented on it several times. We had issued a comment letter back in October, late October, and again in early December. I believe the main issue here is that having a corporate minimum tax, or a book tax—obviously on C corporations, being based on their financial statement income as opposed to their taxable income—takes the definition of taxable income away from Congress and puts it in an industry, maybe even a foreign country, or what industry looks at in financial statements.

Financial statements are not prepared the same way a tax return is. There are totally different rules with Generally Accepted Accounting Principles. And you know, financial statements are made for bankers, for creditors, for shareholders, to determine what the book income is.

Taxable income is determined based on the tax code. And there are specific things, such as depreciation, which you mentioned, that are different for tax purposes than for financial statement purposes.

So the AICPA has grave concerns about the corporate minimum tax. We are happy to look at specific provisions. Our recommendation would be, look at specific provisions that are allowed deductions, or credits that are allowed under the tax code that are not for other reasons, and build a proposal based on that.

But as it stands right now, we are not in favor of this corporate minimum tax. Even though it does only—it would not affect my clients. It does affect only large corporate clients that would have more than——

Senator PORTMAN. How about the IRS? What it would do to the IRS now with all the burdens they are facing?

Ms. LEWIS. Yes, I think it adds one more level of complexity to the IRS. And again, we are mostly focused on what could happen right now.

Senator PORTMAN. Let me ask another question of Ms. Collins. We have, obviously, this huge backlog, and it is affecting everybody, including in my home State where a lot of our constituents are calling in. One was a low-income taxpayer who had identity theft. And that is unfortunately happening more and more. And he went to a Low-Income Taxpayer Clinic in Columbus, OH, filed his identity theft form, actually in April of 2021, and he had to use a paper form, Form 14309. There is no electronic option.

And of course he did not hear back. Why? Because there is this huge backlog, so people are not looking at paper forms. So he missed his refund. He was totally frustrated. We tried to help. The low-income clinic tried to help. But they had to submit a paper form also to be able to help.

Shouldn't we have more of this done electronically, at a minimum, to be able to help some of these taxpayers who are just struggling to get through the system and get the refund and move ahead?

Ms. COLLINS. Yes. In our annual report, we focused on some of the barriers for e-filing, and I wholeheartedly agree. The IRS needs to get its IT systems to a point that we can process, in essence, any piece of paper that the taxpayer submits, especially if it is an IRS form.

If it is an IRS form, we should be able to file that electronically. But there are a number of forms that, unfortunately, are not compatible with our system today.

Senator PORTMAN. Well, thank you. I appreciate that. And you know, this is an idea that came out of the mid-1990s reforms, to do more electronic filings. It has gone well in terms of the tax reform efforts in the returns themselves, but it should be expanded, clearly.

Thanks, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Portman.

Senator Carper, I believe, is ready online.

[No response.]

The CHAIRMAN. Senator Carper? Is that an urban legend?

Apparently, Senator Carper is not ready to go, which would mean that Senator Lankford is next.

Senator LANKFORD. Mr. Chairman, thank you for that. Thanks to the witnesses for all your testimony on this.

Ms. Lucas-Judy, I want to be able to respond to something you had written in your testimony. You wrote in your testimony that the IRS has answered more calls than ever this past time, but only 11 percent of the calls that actually were inbound were actually answered by an IRS customer service rep. And you had some pretty astounding numbers to go with that. Fifty-three percent of the calls were disconnected due to a lack of customer service representatives. So 53 percent of the calls just disconnected. Twenty-seven percent of the calls the taxpayer abandoned after hours of waiting there. Another 2 percent of the calls just got a busy signal and did not get through at all.

So, while we answered more calls than ever, really only 11 percent of the calls were actually answered coming in. That is not a great number to be able to have, that 89 percent of your calls did not get through to actually get an answer on that.

Am I correct on those numbers?

Ms. LUCAS-JUDY. You are correct. And a lot of it has to do with the volume of the incoming calls. There was a lot of confusion on the part of taxpayers that prompted calls to IRS. The backlog also was a big contributor to that. People were wondering about the status of their returns, and they were not getting enough information from IRS's Where's My Refund? application. They were not getting enough information to know—they had waited beyond the time frame that IRS typically takes to process the return, to pay a refund, had heard nothing, and so they were starting to call with questions.

Senator LANKFORD. Were the individuals answering calls also the same individuals who were processing returns?

Ms. LUCAS-JUDY. Not processing returns, but processing correspondence. And so it does——

Senator LANKFORD. Does that also increase the backlog, then, as well?

Ms. LUCAS-JUDY. Right.

Senator LANKFORD. Do we need to have individuals who are answering calls, and different individuals actually doing correspondence, rather than them having to go back and forth? Or is that okay to have the same individuals doing both?

Ms. LUCAS-JUDY. Typically, it has been a challenge for the IRS. You know, that is one of the reasons that they get a backlog—usually during the filing season—a backlog of correspondence. It has not been as much of a problem in prior years as it was in 2020 and 2021, but as we can see right now, it is a significant challenge.

Senator LANKFORD. Yes. So, in your testimony as well, you note that 17-percent attrition rate for those individuals who are processing returns, that those folks are not staying. The overall attrition rate for the entire agency is 7.6 percent. It is obviously significantly higher for those who are processing returns.

What do you recommend to be able to get a lower attrition rate for those individuals who are processing returns? Or is that just a burn-out job?

Ms. LUCAS-JUDY. We have recommended that IRS do a skills-gap assessment; that they look across their workforce and figure out places where they have specific needs and put a plan in place, put a strategy out there to try to address those needs; to be thinking beyond just the current filing season to what is the workforce of the future going to look like?

That plan, unfortunately—they did create a plan and start to implement it, but the implementation has been delayed. From what we understand from IRS, they expect full implementation of their Strategic Workforce Plan hopefully by August 2022.

Senator LANKFORD. Okay.

Ms. Collins, I want to go into the conversation you were having with Senator Grassley earlier on hiring authorities.

This is something we have talked specifically to the Commissioner about. We have had multiple requests to be able to come in. As I am picking up from your testimony, there are 5,000 open positions in the IRS; 179 of those jobs have actually been filled. That is a real problem, when you stated there are 120 days to be able to go through the process.

So let me ask you this: on the direct-hire—and we have no issue, by the way, giving the IRS direct-hiring authority for those key positions that need to be done. We have done that in DoD. We have done that in other areas as well. When we have seen a critical need, we have given them direct-hiring authority to be able to pick that up.

There is no reason it should take 120 days to be able to go through the process, and then start training individuals, which will take months to be able to catch up as well.

So my question to you is, with that direct-hiring authority, you are not talking about taking away background checks and security verifications for their hiring. What would be the issue with why people would not get direct-hiring authority? Or what seems to be the fear with not getting that direct-hiring authority to the IRS?

Ms. COLLINS. I personally do not see a downside to it. I do see an upside to the IRS, especially if we are trying to get this backlog behind us. We need to move quickly.

I think in the long term, again it gives the IRS an opportunity for those key positions—I am not saying across the board—to be able to be more competitive. If you have a senior person looking at a job with the IRS versus let's say an outside firm, being able to commit quickly will make the difference of whether or not we can retain someone versus losing them.

Senator LANKFORD. Okay. I hope we can get that done, because, obviously, everyone with the IRS is asking for that as well.

Ms. Lewis, quickly, you noted in your testimony that on February the 9th, the IRS announced suspension of more than a dozen letters, including automated collection notices normally issued when the taxpayer owes additional tax or has no record of filing a return. That is helpful.

Are there other correspondence backlogs and other things that need to be addressed that you think need to be suspended to be able to help protect taxpayers?

Ms. LEWIS. Thank you, Senator. One thing I want to highlight on the backlog and the correspondence is, oftentimes our calls and our written correspondence are not about balances due or an assessment that is made correctly, they are about erroneous notices, notices that come out that we need to change.

And because of that—for example there is a CP–2000 notice, a matching notice, where the IRS sends a notice out to the taxpayer suggesting changes based on what they see. And oftentimes it is not correct and requires correspondence. So we would like that notice to be held. And also I had mentioned there are notices about levying Social Security benefits on elderly taxpayers while, again, they are working through the backlog.

So there are a few other notices that we would like to have stopped.

Senator LANKFORD. Great. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

I believe Senator Carper and Senator Casey are available online. We are getting close, colleagues, to the end. So if there are other members who want to come besides the very patient Senator Young and Senator Hassan, the word should go forward.

Okay, Senator Carper?

Senator CARPER. Yes, thanks.

Let me say to our witnesses, thanks very, very much for joining us today. I think this is—I have been on this committee for over 1,000 years. I have cared about this issue for a long time before this, including when I was Governor. So I am glad to have you here and to tell us that we have to do a better job. There was a comic strip a long time ago, Pogo, and in Pogo there was a famous caption: "We have met the enemy, and the enemy is us."

And we in the Congress are just dilatory in terms of meeting our responsibility to provide the tools that the IRS needs, to provide the funding the IRS needs for technology, for people, and we need to do something about it.

We keep having these conversations. This is not the first time we have been at this well, and I am tired of talking about it and am just anxious to get stuff done.

A question for Ms. Collins. How do the workforce challenges at the IRS currently impact our customer service? And what steps can Congress and the IRS take to support hiring and retention at the agency? I am sure you have been asked this already. I am asking it again. Go right ahead.

Ms. COLLINS. Right now I think the focus is on getting current and getting at the backlog. So that is probably the number one challenge, getting people in who could help process those returns as well as address the correspondence, the notices that we keep talking about, and getting that behind us.

So that is key right now to getting that resolved.

Senator CARPER. Another question for you, if I could, Ms. Collins. Not only have I been a strong advocate of providing tools, technology, and so forth for the IRS, I have also been a long-time supporter of existing resources to help vulnerable taxpayers, including the Free File program, including the Volunteer Income Tax Assistance program, including the Tax Counseling for the Elderly program.

I believe to my core that these tools can help taxpayers avoid making mistakes on the tax returns, and in turn avoid some of the hurdles with processing and receiving their refunds.

And my question, again for you, Ms. Collins, is how can the IRS make it easier for taxpayers to access these programs? And what should we in the Congress consider to strengthen these critical tools?

Ms. COLLINS. Yes, I would agree with you that these tools are very valuable, especially for the low-income folks. The VITA program, the TCE program—and again I would like to do a shout-out for all those, the volunteers, because it truly is a lot of dedicated accountants and enrolled agents who offer their time up. But we can always do a better job, especially in the under-served communities, getting the word out as to what resources are available, either reaching out to again, as you said, VITA or TCE, and letting them understand what they can do through the IRS's Free File program so that they could file the returns both electronically and at no cost.

Senator CARPER. A third question I would ask. You know that the IRS backlogs have created very significant delays, and frankly a lot of confusion for taxpayers, who call our office every day and our offices in Delaware. We have three of them.

Many of my constituents have reached out to casework staff up and down the State because those constituents have received confusing and outdated automated tax collection notices.

I am pleased that the IRS recently responded to these concerns by announcing the suspension of these notices as the agency works its way through this backlog of returns.

What—and this would be for all three witnesses. What other steps should the IRS consider taking during the current filing season to help minimize taxpayer confusion and provide more efficient taxpayer service? This will be for all three of you.

Ms. COLLINS. I will go ahead and start. I think one of the issues that we have been looking at and recommending within the IRS is really penalties. How do we relieve taxpayers of penalties? And more importantly, it is the touch point with the IRS. We want to stop the phone calls. We want to stop the letters. You know, what can we do fairly, applied across the board? One of our recommendations has been—the IRS has what they call an administrative waiver, first-time abate. And what we would like to recommend is that the IRS apply it across the board systemically so that we do not have to have phone calls, we do not have to send letters, taxpayers do not have to respond.

Things like that, I think—at the IRS, we should start thinking outside the box as to how the IRS can help taxpayers during this backlog and during this challenging time.

Senator CARPER. Thank you.

Same question, Ms. Lewis, Ms. Lucas-Judy. Split these, if you will.

Ms. LUCAS-JUDY. I would agree, we need to get more information out there to taxpayers. We have made a number of recommendations and worked with the IRS on getting more information on its website, getting information into Where's My Refund? And also we have a recommendation open to IRS to just put a plan out there, a strategy for managing the backlog that it still has from 2020.

Ms. LEWIS. And, Senator, we have asked for four specific recommendations. One is to temporarily postpone those automated compliance actions.

Two is to adjust the hold times when you call the IRS. They will put a hold on for perhaps 8 or 9 weeks, but as we know, it is going to take 4 months or more for that inquiry to get answered. So that could cut down on phone calls, having to call again.

Liberalize the reasonable calls penalty waiver, and also estimated tax payment relief for those who have already paid in at least 70 percent of their tax.

I agree that first-time abatement is a great tool and an opportunity to be used. We do have to be concerned about that, because you can only use that one time in every few years, and that could be an issue for those who have probably already used it during the 2019 or 2020 filing season, or those who did not want an automatic first-time abate but actually had a reasonable call.

So we would want to make sure that we look at that, but absolutely, penalty abatement needs to be part of the solution.

Senator CARPER. Thank you all so much.

Thanks, Mr. Chairman.

The CHAIRMAN. Senator Casey is also online.

Senator CASEY. Mr. Chairman, thanks very much. I want to start with a commendation. I will commend you for having this hearing and spotlighting these issues, and also for the advocacy that you have been bringing to bear on getting the resources necessary to give the IRS what it needs. And I can extend that commendation, of course, to the IRS employees for the great work that they have done under adverse circumstances.

Ms. Collins, I have really focused my question, starting with an observation, but let me start with you on your testimony discussing the importance in this tax season for filers who are eligible for refundable tax credits. In particular you said, and I am quoting, "Millions of taxpayers rely on the benefits from these programs to pay their basic living expenses," unquote. I could not agree more, and I think most Americans would agree with that.

A report came out just this Monday that said that child-care costs have been growing faster than inflation since 2019. And care costs now are about $11,800 per infant, for example, just in Pennsylvania.

So not many people know this information. We have to do a better job of telling people what families are up against every day. But one thing we do know—and again this is not widely known, but we are going to make sure that people do know about it—is that when Democrats passed the Rescue Plan, as part of that we passed a $4,000 credit for child-care expenses. This is separate and apart from the Child Tax Credit. That is not what we are talking about here; we are talking about the Child and Dependent Care Tax Credit. I am saying it slowly because we have to keep this in front of people.

And if you want to shorthand it, it is really about the Child Care Credit, not the Child Tax Credit. We also made this Child and Dependent Care Tax Credit fully refundable in the Rescue Plan, so that, for the first time, lower-income families could benefit.

So the first question I have, Ms. Collins: do public outreach and information campaigns affect how many people can claim tax credits like the one I just outlined?

Ms. COLLINS. Yes, I think outreach is key to getting the message out to communities, and to taxpayers. So I would agree that any way we can get the message out—whether it is through a newspaper, or TV, your offices, your website, IRS website, our website—I think we all have to get the message out there that these benefits are available to taxpayers, and explain what they need to do to apply for and receive them.

Senator CASEY. Thank you. And here is the problem, and it pains me to report this, but here is a fact: number one, there are no fact sheets available from the IRS that can explain how families can benefit from this newly eligible credit.

Number two, a Google search result for this Child and Dependent Care Tax Credit on the IRS website is out of date. It is from information from 2017.

And thirdly, the IRS even has a page entitled "coronavirus tax relief for families," but the page does not even mention the Child and Dependent Care Tax Credit, which can provide thousands to families. When I say "thousands," here is what I mean. Single parent, one child, who has a $50,000 income, with child-care expenses of $8,000—and this is real life for people. So income of $50,000, child-care expenses of $8,000, that single parent can save, under the new version of this credit, $3,400—$3,400.

Here is another example. Married couple, two children, making $75,000, with $12,000 in child-care expenses—again, this is real life for people. That family making $75,000 with $12,000 in child-care expenses can save $4,800 because of this tax credit in the American Rescue Plan.

So we have to do something about it. We are going to do our part, and we need the administration to do it—the IRS, the Treasury Department—and members of Congress, both parties, both Houses, to get the message out.

I know I am out of time.

Thank you, Mr. Chairman.

The CHAIRMAN. And, Senator Casey, thank you for all the leadership you have provided on this crucial child-care credit. It is absolutely essential for so many families in this country. We have families spending a lot more, for example, on child care than rent, and so many people in bureaucratic lines and the like, again just trying to get what is essential to be able to be a part of the workforce.

I think Senator Young is next, and then the exceptionally patient Senator Hassan.

Senator YOUNG. Thank you, Mr. Chairman.

The COVID–19 pandemic has shaken every aspect of our economy, and the IRS was not immune to the disruptions caused by widespread telework, worker shortages, and increased responsibilities as our country fought to maintain Americans' health and economic stability.

As has been mentioned repeatedly this morning, the IRS is experiencing considerable backlogs and delays. During the pandemic, my office has worked tirelessly to assist Hoosiers who struggle with issues in getting their tax refunds, EIP payments, and amending their tax returns. Over the course of the pandemic, my office has helped over 1,000 Hoosier taxpayers, and yet we still have over 150 constituent cases outstanding with the IRS. And that number, unfortunately, grows daily.

One of these cases is over 2 years old and still waiting on a resolution from the IRS. Roughly half of our current cases involve original 2020 unprocessed tax returns. We are already in the midst of the 2021 tax filing season, and the IRS has still not processed 2020 tax returns. My constituents are understandably quite frustrated. My staff are frustrated. I am frustrated.

I want to thank the witnesses for testifying here today. We need improved customer service for Hoosiers who are simply doing what the law requires of them: filing their taxes. I look forward to hearing your perspective on how the IRS can deliver that essential service to my constituents.

Ms. Collins, first I want to thank you and the hardworking men and women of the Taxpayer Advocate Service for your assistance in many of the constituent casework matters I just described. As I am sure you know, TIGTA's 2020 IRS audit included a report that, at the height of the pandemic, the IRS was unable to function properly because of printer issues that persisted for months. In many cases, printers were down simply because the ink cartridges were out, and no one bothered to replace them.

Now, I understand that a number of these printer issues occurred at the IRS's Kansas City processing center, where most of my constituents' IRS submissions end up. You recently visited the Kansas City processing center. Can you please share a few brief observations from that visit?

Ms. COLLINS. Yes, I would be happy to. I think—you know, we talk about paper all the time, and I commented paper is not the IRS's friend; paper is the IRS's kryptonite. But when you are physically in the room and you see the mounds and the piles of those returns sitting there—when I was looking at it, I was looking at individuals, small businesses, companies. These are returns crying out, saying, "Please, process me." And it was very much—looking at the IRS, we should be a very high-tech tax administration. But we are pretty much—I was appalled as to how much we manually do.

We have a manual process from arrival at the docks all the way to processing. They separate checks from the envelopes, they remove staples, they hand-stamp. They move the return all the way through by humans. We should have that automated. It should not be in the condition that it is in.

Senator YOUNG. I am not personalizing this, but it sounds like a scene from a Soviet bureau, really—I mean, you know, a centrally planned economy, and so forth.

So I know there are a number of individuals who are working hard to try and remedy this, and this is why it is important we hold these oversight hearings as well. The IRS frequently says it is nearly current on opening mail. And yet many of my constituents wait for months, sometimes close to a year, for any indication from the IRS that it has received a mailed return or other tax document.

Now, I understand there is a difference between opening the mail and actually processing the mail, but it seems hard to believe that that activity should take upwards of a year. So, Ms. Collins, where are the bottlenecks in the processing system? And during your Kansas City visit, where did you see opportunities for improvement?

Ms. COLLINS. Part of the challenge is resources. We just do not have enough employees to move it through quickly. So that is a challenge that the IRS is dealing with.

They are looking at—and I believe they are going to be going out, if they have not done it already—requesting bids for companies to come in and do some of the manual labor, because it does not have to have a highly specialized skill set. But there are positions where they do the review, and other things within the IRS, that have to have more of that skill set and training. So that is where they need to move their employees around and get rid of that bottleneck.

But paper really is the challenge, because we do not have an automated process to move that through the system quickly. So we need to solve the paper problem.

Senator YOUNG. Okay. Well, I will look forward to following up with you and doing whatever I can to help to improve the system. I know everyone here agrees our constituents deserve better.

Thank you.

The CHAIRMAN. I thank my colleague. We are going to work very closely with the members.

At this point, we are going to lock in the order. Let's see. Senator Thune is next, then Senator Hassan, and then Senator Daines. And I know other Senators are contemplating getting here. We will work them in. But folks have been very patient.

So, Senator Thune is next, followed by Senator Hassan, and then Senator Daines.

Senator THUNE. Thank you, Mr. Chairman. And thanks to our panelists for your testimony.

My offices in South Dakota get a lot of phone calls and emails about the IRS, and South Dakotans generally call about getting help with their refund. They simply cannot get in touch with the IRS, and the National Taxpayer Advocate report seems to back that up.

According to the report, at the end of last year at least 10 million returns remained unprocessed. And IRS only answered about 11 percent of taxpayers' calls. The report also found the processing time for some taxpayer correspondence now runs 6 months or longer.

Ms. Collins, how have the new responsibilities placed upon the IRS, including new transfer payment programs and the 6-month Advance CTC programs, impacted basic customer service such as picking up phones and taxpayer correspondence?

Ms. COLLINS. It basically impacted in a number of ways. Telephone calls have been a real challenge because, although a lot of the legislation has been very helpful to taxpayers, it creates a lot of confusion. And that confusion causes folks to reach for the phone, logically. And so we have had a very high volume, in fact an abnormally high volume of calls this past year, which has caused a lot of challenges in the customer service area.

So that was one area that has been a real problem.

Senator THUNE. And why? Tell me, is it accurate that the IRS is only answering 11 percent of taxpayer calls?

Ms. COLLINS. Unfortunately, that is the case, yes.

Senator THUNE. Let me ask you about this recent IRS notification that millions of Americans may owe additional taxes this year. And the reason, of course, was that many families received Advance Child Tax Credit payments that may have been too high. The monthly program, which was passed last March and implemented in July, led to increased overpayments, and as a result, many taxpayers are going to face surprise tax bills this year, which will be a tough cash flow problem for lots of Americans who are already experiencing 40-year-high inflation.

Ms. Collins, what type of problems do we see these Advance CDC payments having on taxpayers this year? And how is the IRS going to handle that?

Ms. COLLINS. Yes, I think for taxpayers, as you said, some of them may have a safe harbor and will not have to pay the money back. Others may have to pay the money back. And for them, I think it will be a surprise that they are in that situation.

I believe the IRS wants to work with those folks and make arrangements in the system and the collections, but I think the real challenge is going to be, as you pointed out, the surprise that they did not know they would have to pay the money back.

But again, the legislation does provide a safe harbor. So facts and circumstances, depending on the individual, will determine whether or not it will impact them.

Senator THUNE. But I assume it is going to be another deluge of work for the IRS, which is already having a hard time keeping up, clearly, with the current demand.

Ms. COLLINS. Yes; if the taxpayer has any inconsistencies or discrepancies on their return with the IRS records, yes, that will require manual processing. So that return would be pulled out of the system and processed. So that is a potential challenge and a concern we have as to how the amount of discrepancies on these returns is going to cause additional caseload and add more to the inventory of the backlog.

So we need to get rid of the old backlog, but we do not need to create new backlogs.

Senator THUNE. The IRS provided an $86-million contract to ID.me that will require taxpayers to verify their identity through facial recognition technology, which was extremely concerning to my constituents, both for privacy and safety reasons. It is also my understanding that ID.me would hold onto that data for up to 7 years.

Ms. Collins, can you confirm that the IRS has stopped its use of facial recognition technology with ID.me?

Ms. COLLINS. That is my understanding, yes.

Senator THUNE. Do you know how many taxpayers were led to use the facial recognition technology in order to opt out of the Advance CTC?

Ms. COLLINS. I do not have the exact number. I can get that for you, but I know it was north of maybe single-digit millions of taxpayers who went through the ID.me program.

Senator THUNE. Based on the work that you have done, is the IRS capable, or does it have the appropriate structure in place, to properly protect this type of data?

Ms. COLLINS. Yes. I mean, I am not an IT person, so I will start with that. But I do think giving taxpayers access to their records is vital. And so the advantage of ID.me for what it allowed is the authentication process. Rather than having 30 to 40 percent being able to access their records, it increased to north of 70. To me, that is a huge benefit for taxpayers, but at the same time I do recognize the concern of the security and privacy.

So what I would like all of us to work together on with the IRS is, how do we get a secure environment that provides protections for the taxpayers, but also at the same time, how do we get as many people access to their own records as possible? And so, that is my only concern of quickly switching away from ID.me. I want to make sure that we do not harm taxpayers who are seeking to get access to their own records.

Senator THUNE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Thune.

And, colleagues, here is the state of play with respect to ID.me. This committee led the effort. Senator Crapo and I have been talking about this, because we felt that people should not be required to submit to selfies in order to get essential government services. So I was very pleased that the Commissioner responded and responded quickly. They are now transitioning away from this. In fact, yesterday Senator Brown, and also Senator Warren and I, started the effort to extend this to other agencies.

The bottom line here is, smart technology policies, for example, address your privacy and your security. Not-so-smart technology policies give you less of both. So that is what we are going to work on. We are going to do it in a bipartisan way. I look forward to working with Senator Crapo.

Senator Hassan has been so patient. Senator Hassan?

Senator HASSAN. Well, thank you very much, Mr. Chairman. I want to thank you and Senator Crapo for holding this hearing, and thank you to the witnesses for testifying today.

I am going to start with a question to you, Ms. Collins. As you have heard from so many of my colleagues, Granite Staters have been reaching out to my office in record numbers for help because they have been unable to reach a real person at the IRS.

And according to your annual report to Congress—and as Senator Lankford has mentioned, Senator Thune just mentioned—taxpayers who tried to call the IRS last year were only able to speak to a customer service representative 11 percent of the time, often after sitting on hold.

To address this, you have recommended that the IRS implement an automated callback system, among other technologies. How can the IRS upgrade its technology to improve phone service for taxpayers?

Ms. COLLINS. Yes, I think the callback feature would be key to offer across all of their lines. They have multiple phone lines. And right now it is only on a portion of the phone lines.

[Phone ringing.]

Ms. COLLINS. I'm sorry about this——

Senator HASSAN. Speaking of phones——

Ms. COLLINS. Speaking of phones, right on que. So we do think that it would be helpful for the challenges. Callback only works for the amount of individuals who are answering the phones. If they have 15,000, let's say, customer service representatives, you can only have callbacks for the equivalent of 15,000 individuals. So if you have 200, and, I believe, it was 82 million phone calls, they do not have the resources to have callbacks on every one of those calls.

Senator HASSAN. Okay, so technology is a piece of this, but having the numbers and the capacity match is another piece of this too. Okay.

To Ms. Lewis, I wrote a letter to the IRS in January highlighting the problems that the unprecedented tax return backlog has created for Granite Staters. And we have heard concerns from a number of Senators about this, but just an example: my office has heard from constituents who paid their taxes and saw that the IRS cashed their checks, but then my constituents received nonpayment and penalty notices from the IRS because the agency had not officially processed the tax returns.

Although the IRS recently suspended some of those automatic notices, this has created confusion and real concern, obviously, among taxpayers.

So, Ms. Lewis, how are tax preparers helping families navigate these issues during the backlog? And how could IRS further address concerns of taxpayers who receive these notices?

Ms. LEWIS. Thank you, Senator. And I feel for your constituents, because that is who we deal with every single day. And I wish I had a lot of hope for you, because the answer is trying to get the backlog relieved so that we can reach out to the IRS on those issues.

Right now, it is probably dialing into the phone line 20 and 22 and 24 times before you can actually get someone possibly to answer, then be on hold for an hour, and then hope to not get cut off.

Senator HASSAN. Right.

Ms. LEWIS. So I think the answer, the only answer, is to get rid of the backlog. And the only answer to getting rid of the backlog is to stop the notices so that taxpayers do not get another two or three or four or five notices before it is resolved.

Senator HASSAN. Right.

Ms. LEWIS. That is the solution right now.

Senator HASSAN. Thank you.

I want to turn to the overall issue of IT modernization and start with you, Ms. Lucas-Judy. And this follows up on another group of questions you have already had from other Senators, but I have been working to modernize outdated IT systems at Federal agencies all across the board.

They cost more to maintain than newer systems, and they deliver worse service to taxpayers; the worst of both worlds. Many of the IRS's IT systems are severely outdated, such as the tax processing mainframe, which is 62 years old. These outdated IT systems have worsened the current tax return backlog and led to extensive taxpayer service problems for people in New Hampshire who have contacted my office.

So how can IRS expedite plans to modernize its obsolete tax processing mainframe to cut operations costs and improve services?

Ms. LUCAS-JUDY. IRS does have an IT modernization plan, and GAO is currently reviewing that. We hope to have a report out on that later this year. But what I can say overall is that it is very important for the service to be able to have an inventory of what technology it currently has, to understand what it needs for the future, what it is going to cost to get there, have a schedule in place with clear time frames and deliverables along the way, and then to be able to monitor its implementation of that plan and communicate to Congress and to the public its progress along the way.

Senator HASSAN. Well, thank you for that. And I look forward to continuing to work with you and the GAO on this issue.

I have another question I will submit for the record to Ms. Collins.

Thank you, Mr. Chair.

[The question appears in the appendix.]

The CHAIRMAN. All right. And colleagues are all appearing now, and we are trying to be fair to both sides.

Next will be Senator Daines, followed by Senator Warren.

Senator DAINES. Mr. Chairman, thank you.

We all know that taxpayers are in for a very tough tax filing season, which comes on the heels of a difficult filing season of last year, a year in which taxpayers had more trouble reaching the IRS by telephone than any year in history. That is unacceptable, and it also imposes huge burdens on taxpayers.

One solution we should consider that might help solve this problem for our first responders is a bipartisan bill that I have, called the Putting First Responders First Act.

Since 1985, service-connected disability compensation has been tax-exempt, following Revenue Ruling 85–105. But oftentimes IRS auditors are not aware of Revenue Ruling 85–105 and demand that injured first responders in Montana and across the country pay taxes on their injury-related compensation.

It is also not uncommon for first responders, who are often facing significant life changes, to be unaware of the revenue ruling and unnecessarily pay sizeable tax bills. So passing this bill, Senate bill 1618, would codify the principle of this revenue ruling, and it would clarify that this injury-related compensation is in fact tax-exempt, just as Revenue Ruling 85–105 states.

Further complicating this situation is that injury-related compensation does become taxable once a first responder reaches the retirement age of 65, although his or her injuries remain and the individual's retirement compensation level is limited due to prematurely leaving the workforce.

So the Putting First Responders First Act would provide clarity to both IRS employees and first responders, and it keeps injury-related compensation tax-exempt after the retirement age. I think that is the least we can do for them after their heroic efforts throughout the pandemic and through today.

Turning to my question, Ms. Collins, do you think that the Putting First Responders First Act would serve a dual purpose of relieving our disabled first responders of the burden imposed by erroneous audits, while also removing any doubt from the minds of IRS auditors that service-connected disability compensation is tax-exempt?

Ms. COLLINS. Yes, IRS agents should be following the revenue ruling, but as you stated, codifying it takes it to a higher level of authority, and I think that would be something that the IRS would be very—agents should follow the law.

Senator DAINES. Just to drill down a bit further on that—this could be for Ms. Collins or Ms. Lewis—let's say a disabled first responder receives a notice from the IRS that they are being audited. What type of luck might they have if they pick up the phone to call the IRS to explain the situation?

Ms. COLLINS. I guess the good news is that, if you are under IRS audit, you do not have to call the toll-free line. You get to talk to the revenue agent. So you do not have the same challenges of calling that 800 toll-free line.

Senator DAINES. If we basically have about a 1 in 10 shot right now on the regular line, what are the odds if you are audited to call this other line?

Ms. COLLINS. I do not know if we have any statistics, but it would be better. Anything would be better than——

Senator DAINES. We can't fall out of the basement, I think.

Ms. COLLINS. Right. But I think the real challenge is, you know, educating—unfortunately, not every IRS agent is familiar with every code section. If we were to put the codes in front of us—the Internal Revenue Code is, I don't know how many inches thick, but it is a very complex document.

So I think we have to make sure we educate IRS agents. But if it is codified, it should be easier for them to find and follow the law.

Senator DAINES. Ms. Lewis?

Ms. LEWIS. Senator, I agree with Ms. Collins's comment that if it was a full-blown audit, you actually have an auditor assigned to you, and maybe that would help. But in reality, what happens is, it is not an audit. It is a notice. It is a notice that comes that says that the income does not match, and call this 800 number, and that is where the problem lies, just along with all of these other notices we are talking about, these matching notices or whatever.

It is not a full-blown audit. And I wish I could offer——

Senator DAINES. In fairness, though, any time you get a letter from the IRS, you may know it is not a full-blown audit, but I can tell you, it gets the pulse rate going and the blood pressure up, a note from the IRS saying something is wrong.

Ms. LEWIS. Yes, and that is my point. Our clients are getting these, and worrying about these. They do not—it is a big long official notice, and it looks very scary. And I hate that. We deal with it every day. And so that notice needs to be responded to—again adding to the backlog of the phones and the notices—when you know that that tax return is correct.

Senator DAINES. All right; I am out of time. I just went to the *irs.gov* site. Before I came to Congress, I wanted to help the customer experience. I have a recommendation here. When you go to *irs.gov,* there is a search tab up there. If you hit "search" and then put in "disability compensation," you actually find some pretty good information. But then it says, "how can we help you?" If you go down here and go down to your "get answers to your tax questions," and then you put in "disability compensation," nothing pops up. It is a really simple, easy fix, and I just would encourage you all to think about customer service from the out working in, not from the in working out.

Thank you.

The CHAIRMAN. I thank my colleague.

Senator Warren?

Senator WARREN. Thank you, Mr. Chairman.

So even before the pandemic hit, the IRS was in trouble. Corporate lobbyists and anti-tax extremists have slashed the IRS budget by 20 percent over the last decade, leaving the agency with 22 percent fewer staff and decades-old IT systems, forcing it to outsource key capabilities to profiteering private companies.

Now this means that the IRS cannot chase down wealthy tax cheats or adequately assist the majority of Americans trying to honestly fill out their taxes and claim refunds. As of this filing season with ongoing pandemic-related challenges, let's face it, it is worse than ever.

This has to end. We need to invest in the IRS. And today, I would like to highlight a key investment that we can make—simplified filing—and how it would help address precisely the kinds of rampant delays that taxpayers are facing this year.

Right now, the IRS is advising taxpayers to file electronically and accurately in order to avoid delay. So, Ms. Collins, as National Taxpayer Advocate, you know that taxpayers have a lot to keep track of when they are filing their taxes, from W–2 income to Advance Child Tax Credit payments to the pandemic stimulus checks.

What happens if a family makes an error on their return and doesn't get the number exactly right?

Ms. COLLINS. Yes, that is a challenge that the IRS dealt with last year that caused part of the backlog. Numbers that a lot of individuals, over 11 million, put on their stimulus did not match the IRS's records——

Senator WARREN. Right. So what happens when there is a mismatch?

Ms. COLLINS. So they pull it out of the processing, and the IRS sends the taxpayer notice. The taxpayer gets to respond, and it does slow the process down. So it is a real challenge, and some of those are still sitting out there 10 months later.

Senator WARREN. Yes, 10 months later people could still be sitting out there. So here is the thing that gets me about this, though. The IRS actually has all this data from the employers who tell the IRS how much the employees made each year, or from the IRS's own data on how much it sent to families in those CTC payments or stimulus checks.

But even though it already has the information, the IRS quizzes the tax filer to make sure that the tax filer can accurately enter that information. And if the numbers do not match exactly, then it is lose-lose. The taxpayer faces huge delays, as you point out. The IRS wastes resources taking a second look at the return and falls further behind in helping everyone else.

So, Ms. Collins, if the IRS already has this information on taxpayer income, why doesn't it just give it to the taxpayers? Wouldn't it make the returns more accurate and processing much faster?

Ms. COLLINS. Yes, this past year what the IRS is doing is sending out two letters, one on the Advance Child Tax Credit——

Senator WARREN. Yes, I get the letters, but why don't they just push out the information?

Ms. COLLINS. I am a big proponent of an online account, and I very much would like the IRS to have that data available so the taxpayers could access it and possibly set it up to download it directly into a taxpayer's return, or to provide it for their CPA or their accountant.

Senator WARREN. Okay, so now we are speaking each other's language on this. This is precisely why I have proposed in my Tax Filing Simplification Act that the IRS invest in its IT systems so that taxpayers could download their IRS data directly into tax prep software.

Right now, Americans waste an average of 11 hours and $200 preparing their tax returns. And they still risk getting it wrong and waiting months and months for their return. With simplified filing, they could plug in IRS data, take a look, maybe make a tweak if they think there is something that is not right there, and then send it in in minutes instead of hours.

So, Ms. Collins, do you think that the IRS should commit to creating this kind of simplified filing tool, allowing taxpayers to download their data from the IRS right into tax filing software?

Ms. COLLINS. It is definitely something I would recommend they look into, because they do have the W–2 information, the 1099 information, and the credits that the IRS has paid out, and it would simplify it for taxpayers. And I am a big proponent of simplifying everything.

Senator WARREN. Good. Me too. And I agree with you on this. But we have to remember that there is somebody who does not agree. There are giant corporations like Intuit that hate this idea, because they rake in billions of dollars each year by tricking taxpayers into buying unnecessary tax preparation products. There are also right-wing extremists who want an IRS that cannot serve folks at the bottom, and cannot reach tax cheats at the top.

So my view on this is, it is time to put hardworking Americans at the center of our tax policy, simplify it, make it easier, let them be able to pay their taxes and move on with their lives. We cannot put Americans through another bad tax filing season.

So, thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank my colleague.

And, Ms. Collins, you certainly struck a chord when you said, "I'm for simplifying everything." And I think that certainly resonates.

I very much favor this idea of giving people the option of being able to do what Senator Warren is talking about. And obviously, it goes best if it is in tandem with the technology upgrade. In other words, that is really the promised land: to simplify things and get the technology upgrades, and I am going to work closely with Senator Warren.

Okay, next will be—I believe it is Senator Brown, and then Senator Barrasso.

Senator Brown, are you there?

Senator BROWN. I am. Thank you.

The CHAIRMAN. And then Senator Barrasso, who has been very patient.

Senator BROWN. Thank you, Mr. Chairman.

Ms. Collins, thank you for your work. I am not surprised my colleagues want to ask about the American Rescue Plan and Child Tax Credit. You have heard these numbers: 92 percent of the kids in my State come from families with children under 18. I think it is the same number in Senator Cortez Masto's and Senator Warner's States who benefit from this expansion of $3,000—in almost every case, $3,000 at least in tax cuts.

Parents, I hear over and over, are less stressed about affording their groceries or new school clothes because of that. My question is, Ms. Collins—and then I will just defer to my colleagues because I kind of was up the queue a little bit here—what steps should the IRS take to make it easier for families to get the full Child Tax Credit to which they are entitled?

Ms. COLLINS. Yes, I think the challenge for the IRS is really reaching those underserved communities and educating the taxpayers as to what benefits are out there. For more financially comfortable individuals and larger corporations, they have access to accountants, CPAs, other professionals. But it is usually the lower-income folks who do not.

So programs such as VITA and TCE are very important. And the outreach the IRS does with all of its partners that it works with is hugely important to getting that message out there.

Senator BROWN. Thank you.

And thank you, Mr. Chairman, for the work—I will just close there. Thank you for the work you are doing on the Child Tax Credit. It has been such a good committee effort to change people's lives in about the most dramatic way we have ever done on this committee. So, thank you for that.

I yield back my time.

The CHAIRMAN. Thank you, Senator Brown. And you may not have heard, earlier there was discussion about, well, there might have been cheating in the Earned Income Tax Credit or the child tax program. And I said those people are constantly, every day, just trying to pay the bills and trying to pay for rent, and groceries, and shoes. And of course fraud is fraud, and anywhere in government where we see it, it ought to be rooted out.

I just think you have to start at the top. And wealthy tax cheaters are basically living the dream as a result of all these broken systems. So when we are talking about going after fraud, start at the top.

Senator Barrasso?

Senator BARRASSO. Thanks very much, Mr. Chairman, and thank you, Senator Crapo, for holding this really important hearing. I also want to thank all the members here on the panel for all the time and discussion on these really critical issues.

Ms. Collins, I know my constituents in Wyoming certainly appreciate all the work that you and the Taxpayer Advocates do in Wyoming—very grateful. Given this massive backlog of unprocessed returns from last year, you issued the Taxpayer Advocate Directive to the IRS. It required the IRS to either complete processing of all the backlog and amended tax returns by the end of last year, or provide a plan for processing.

The IRS clearly did not meet the deadline, but it did provide a plan. Among other steps, the IRS employees have been reassigned to help process this backlog mail, and the IRS has halted some automated notices that we have been talking about.

In your view, how successful has their plan been?

Ms. COLLINS. Well, they are just beginning it, so we will have to determine how successful it is months down the road.

My concern is, based on the numbers that I have been seeing and we have been monitoring, this is not going to be a quick fix. My goal for IRS is to be out of this by December. It is not going to happen tomorrow. They could move all these employees over and it is still going to be a very time-consuming challenge for the IRS.

Senator BARRASSO. And, Ms. Lucas-Judy, thank you also for being—it has always been helpful to have the data and the analysis from the GAO during these conversations. You know, one of our goals, of course, is to ensure that government is accountable to the taxpayers.

In your testimony, you mentioned the IRS suspended a much larger number of returns in 2021 because of error resolution than in previous years. The IRS staff then had to review these suspended returns, which resulted in additional processing delays and substantial delays of refunds to these taxpayers. You mentioned refund delays of several months.

So that is a long time for a lot of people who are living paycheck to paycheck, who might be depending on their refund, as most people are. So, given the IRS will most likely see another large number of filings suspended for error resolution this year, are there some steps that the IRS can take to speed up or better automate this process and ensure that the constituents are not waiting again months for a refund?

Ms. LUCAS-JUDY. As part of our ongoing review, IRS just told us the other day that it has put some tools in place to try to do some of that, to automate some of these suspended returns where the errors are due to problems with the refundable credits. And so, we are going to be continuing to follow up with them to see how successful that is.

But you know, primarily they still have a backlog from 2020 in terms of returns that are caught up in error resolution, and they are trying to work through processing that. And so, we thought it was important for them to put a timeline in place to get information out there to the public on when they are going to be able to resolve those errors and pay those refunds, as well as be able to put something in place for dealing with 2021, and now 2022.

Senator BARRASSO. Can I follow up, because in your testimony you also discuss the taxpayers' dissatisfaction with the IRS's, quote, Where's My Refund? tool? You would think that having a convenient online tool could actually decrease the number of calls to the IRS, but it does not seem to be the case here.

So, based on your analysis, what features or functions would be most successful additions to this Where's My Refund? tool?

Ms. LUCAS-JUDY. This is another place where I am pleased to say that, partly as a result of our ongoing work, IRS has put some additional information into Where's My Refund? The problem was that taxpayers did not really get an interim status update there. They would see their return was being processed, and processed, and processed, and it would go on, but there was not anything else until the refund was actually approved and they had a date. And so they were calling. They were writing. They were filing another return. And that was creating the backlog, or contributing to the backlog.

And so, we think it is important for IRS to take these interim steps to get more information into the application, but also to ultimately modernize it and upgrade it and make it part of this online account so that there is more information available to taxpayers.

Senator BARRASSO. Ms. Lewis, you are nodding you head. Is there anything you would like to add to that? I mean, you obviously were agreeing with that.

Ms. LEWIS. We are up for anything that will reduce the backlog so we can stop the calls, and the notices, and the touch points. If we can just minimize the touch points that we are having to have as taxpayers and practitioners with the IRS——

Senator BARRASSO. Ms. Collins, is there anything you would like add?

Ms. COLLINS. No; I am in agreement. The Where's My Refund?, the challenge was, again, the front and then the back end, but it does not tell you anything in the middle of what you would have to do, or what the time frame is.

Senator BARRASSO. Great. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Barrasso.

Senator Cortez Masto is next.

Senator CORTEZ MASTO. Thank you. I thank you all for the hearing today. I know it has been a long morning.

I am curious for the panel members to really answer this question, if you can: is the IRS adequately funded to address the concerns you have heard today, the backlogs and touch points? This is something we need to be aware of on the Federal level.

So, Ms. Collins, let me ask you that. We will start with you.

Ms. COLLINS. Yes; I think that the challenges—if you look at the backlog, the short-term resolution is, we need to just move our employees around. The IRS needs to take their employees and put them on the backlog, because the process will take too long if we have to go out and hire additional resources.

In the long term, absolutely the IRS needs additional resources. And they need them across all lanes. That has been a challenge for the IRS, and unfortunately, taxpayers are paying the price of that.

Senator CORTEZ MASTO. And have they been traditionally underfunded in meeting the pandemic?

Ms. COLLINS. Yes. If you look at the funding, the funding has gone down over the last 10 years. Unfortunately, the workload has increased, and we have also lost more employees in the last 10 years.

So it is kind of a lose-lose situation that the IRS is dealing with.

Senator CORTEZ MASTO. Thank you.

In the interest of time, I will only ask one final question.

Ms. Lewis, 80 million tax filers in 2018 had trusted return preparers to ensure they accurately prepared and filed their taxes. There is no shortage of businesses claiming to offer tax preparation services in my home State of Nevada.

Beyond the minimum competency requirements already in place, what else can the IRS do to improve the quality and the reliability of return preparation—and to also ensure the transparency and fairness to taxpayers who rely on these services to meet their obligations during tax season?

Ms. LEWIS. Thank you, Senator, and we do want to thank this committee and Senators Brown, Cardin, and Wyden, and several other Senators, who have worked towards preparer regulation.

And let me just be clear, the AICPA has steadfastly supported preparer regulation. We do believe that having those minimum standards will help the tax system, the voluntary compliance system.

We do agree that preparer regulation is important. We have supported legislation in that realm, and I think that would help with some of the unscrupulous tax preparers. We do support the concept broadly and look forward to working with you guys on supporting the preparer regulation legislation.

Senator CORTEZ MASTO. Thank you.

And finally, let me just commend the men and women who work for the IRS. They have done an incredible job with increased burden upon them to really focus on the needs of our taxpayers. So thank you, everyone.

I yield the remainder of my time.

The CHAIRMAN. Thank you, Senator Cortez Masto. And as we wind towards an end, I am glad that you and several of our colleagues are sending out the word for the terrific work that is being done by many people at the IRS under incredibly hard circumstances.

Okay, Senator Warner will close.

Senator WARNER. Well, thank you, Mr. Chairman. And you and Senator Cortez Masto just grabbed my opening comments. I want to join both of you in commending the IRS workers. A lot of them live in the Commonwealth of Virginia, both at headquarters and at regional offices, and we asked them to do a lot more last year with the stimulus payments and Child Tax Credit payments. And I absolutely believe—and I know you share this belief, Mr. Chairman—that we have to make real investments in the IRS.

I know it is not going to deal with the current backlog, but we have to make real, substantive investments in people, personnel, IT. It is crazy that the systems are so old.

I guess one of the things—and I know there has been some discussion on this already—but we have the backlog, about 6 million, and I hear about it every day. I know there is some debate on this issue, but I would ask the panel—pretty briefly, if you could—should we go ahead, recognizing the backlog that is out there and what is going to be already still a difficult filing system, and still remnants of COVID both in terms of the workforce and otherwise, and look at some level of a delay in the deadlines this year?

Ms. COLLINS. Well, I will start and jump in here.

I do not think the IRS needs additional time. In fact, I think it will cause more challenges for the IRS, because they have to go in and reprogram everything. It also impacts States. It also impacts preparers.

So I personally do not see it as a benefit right now for taxpayers. They have the ability to file an extension. And they have the additional time until October 15th if it is an individual. So again, my personal view is, I think it would actually be harder for tax administration and not necessarily beneficial for taxpayers.

Senator WARNER. Others on the panel?

Ms. LEWIS. The AICPA at this point does not advocate moving the tax due date. We obviously will be monitoring this as things happen. Our point is, most of our members would like to keep the April 18, 2022 date, and the ones that do not have various dates.

So we are not taking a position on that at this point, but we do have one very clear position. If the due date is moved, we want it to be announced as soon as possible—sooner rather than later, not just right before the deadline. And then also, it should include not just the filing, but the payments, and also the first quarter estimated tax payment that would be due.

Senator WARNER. I am—you know, I relate to some of those comments. As a former Governor, I know how it does throw a bit of a monkey wrench into State filings, although I would also say not only IRS, but we have to take into consideration taxpayers themselves. But I clearly feel—and I know that those folks who have still got payment delays from the 2020 tax season will have to be filing extensions.

In my last moment, I just wanted to ask both of you as well, are we setting expectations right? Can the IRS—and this maybe goes back to what Ms. Lewis just mentioned—are we setting appropriate expectations? Can the IRS do a better job of forewarning? And is there a systemic way to do that? Ms. Lewis, and then Ms. Collins.

Ms. LEWIS. Thank you, Senator. I believe we highlighted this when we discussed the IRS funding issue. We do believe that expectations have to be set for the funding, for any requests that the IRS makes. What do they need? What resources do they need? What help do they need? But we really want it to be balanced between enforcement and also customer service. There needs to be an expectation of customer service, and that is not being met right now.

Ms. COLLINS. Yes, and I would agree that we need to get the word out to the taxpayers. You know, again, part of my job as National Taxpayer Advocate is, I focus on the problems. But when you look at what the IRS has actually accomplished over the last 2 years in the filing season, the overwhelming amount of those returns, especially if they are late filings, they went through without a hitch.

It is those that had a discrepancy with IRS records, or those that were filed on paper; those are the ones that are being challenged right now. So we need to educate people to make every effort to file electronically. Triple check for errors. And if you can, put on direct deposit information. That will speed up the information or the refunds for the particular taxpayer, but it is also going to benefit all taxpayers by having fewer issues for tax administration.

Senator WARNER. Ms. Collins, I think you are right. And I know my time is up. Just every time I can get in front of a camera, I say we have to file electronically. It is those paper filers who make up the vast majority of this.

So thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Warner.

Senator Crapo and I are both going to have some closing remarks that will probably last like a couple of minutes, but I want to let Senator Crapo go first.

Senator CRAPO. Well, thank you, Mr. Chairman. Again, thank you for holding this hearing.

I just wanted to take a minute to thank each of our witnesses for bringing your expertise here to us to help us find out how we can be most effective at helping the IRS to do its job for the American people. So, thank you for what you have done here today to help us understand our task better.

The CHAIRMAN. And let me be clear. I agree exactly with what Senator Crapo has said. And I am just going to add two sentences.

It seems to me—and you all have been very helpful with your expertise and years of experience—we have a choice. What this committee can do is to create a system that works for everybody, or a system that works mostly for wealthy tax cheats and criminal syndicates.

And I think we have an opportunity to choose the former. And it is my view—and Senator Crapo and I both touched on this in our questions to you—it is at the intersection of outdated technology and unacceptable service. And stopping these collisions is going to take a modern plan, a modern plan that looks to the long term rather than these band-aids. And I just want you to know we are going to be calling on you, as Senator Crapo and I have been saying throughout this hearing, and we have an opportunity to build on some of the outstanding ideas you have given us. We are committed to doing it.

And with that, the Finance Committee is adjourned.

[Whereupon, at 12:38 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Prepared Statement of Erin M. Collins, National Taxpayer Advocate, Internal Revenue Service

Chairman Wyden, Ranking Member Crapo, and distinguished members of this committee, thank you for inviting me to testify at today's hearing on IRS customer service challenges.[1] As I wrote in the National Taxpayer Advocate's Annual Report to Congress, last year was the most challenging year taxpayers and tax professionals have ever experienced.

In this statement, I will highlight the main challenges taxpayers faced last year, suggest steps the IRS can take now to reduce its processing backlog and otherwise meet taxpayers' needs, make recommendations for medium-term and longer-term solutions, and address challenges my own organization, the Taxpayer Advocate Service (TAS), has been facing in assisting taxpayers.

Before I discuss taxpayer problems, I want to take a moment to credit the IRS for doing a lot right under difficult circumstances. Although taxpayer service challenges existed prior to 2020, the unprecedented return processing and correspondence backlogs we have seen over the past 2 years did not exist before the pandemic. The pandemic forced the IRS to temporarily shut down its processing facilities for the health and safety of employees. That, in turn, caused the IRS to fall behind on its inventories, and it is still struggling to catch up. Also due to the pandemic, Congress directed the IRS to administer several financial relief programs that required the IRS to divert resources from its core tax administration work.

Among other things, the IRS has issued 478 million stimulus payments (referred to as Economic Impact Payments or "EIPs") totaling $812 billion and has sent Advance Child Tax Credit (AdvCTC) payments to over 36 million families totaling over $93 billion. It also implemented a retroactive change in law enacted during last year's filing season that excluded up to $10,200 in 2020 unemployment compensation benefits from gross income—in most cases without requiring affected taxpayers who had already filed returns to file amended returns. The IRS's leadership and workforce deserve credit for their accomplishments—and I am particularly grateful to TAS employees for all they have done to assist taxpayers under these difficult circumstances.

I. MAIN TAXPAYER CHALLENGES

The biggest problems taxpayers encountered last year—and likely will encounter this year—were return processing delays, correspondence processing delays, difficulty reaching the IRS by telephone, and inability to obtain information from the IRS's Where's My Refund? and Where's My Amended Return? tools.

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[1] The views expressed herein are solely those of the National Taxpayer Advocate. The National Taxpayer Advocate is appointed by the Secretary of the Treasury and reports to the Commissioner of Internal Revenue. However, the National Taxpayer Advocate presents an independent taxpayer perspective that does not necessarily reflect the position of the IRS, the Treasury Department, or the Office of Management and Budget. Congressional testimony requested from the National Taxpayer Advocate is not submitted to the IRS, the Treasury Department, or the Office of Management and Budget for prior approval. However, we have provided courtesy copies of this statement to both the IRS and the Treasury Department in advance of this hearing.

A. Taxpayers Have Been Experiencing Significant Delays in Receiving Their Tax Refunds Because of Unprecedented IRS Backlogs in the Processing of Original and Amended Tax Returns

During 2021, the IRS received approximately 169 million individual income tax returns.[2] About 90 percent were e-filed, and most of them were processed without delay. Nevertheless, tens of millions of taxpayers were subject to delays in the processing of their returns, and many of the delays have been substantial and ongoing.

At the close of the filing season (which was May 17, 2021, due to the postponed deadline), the IRS was holding 35.3 million tax returns for manual review. This backlog consisted of roughly half unprocessed paper returns and half tax returns suspended during processing, leading to refund delays for many of these taxpayers. For original returns that were e-filed, the IRS has mostly worked through the backlog. But the story is very different for paper returns.

In releasing my Annual Report to Congress, I said that paper is the IRS's Kryptonite and that the IRS is still buried in it. There is no doubt that paper processing remains the agency's biggest challenge, and that will continue throughout 2022. As of late December 2021, the IRS still had backlogs of 6 million unprocessed original individual returns (Form 1040 series) and 2.3 million unprocessed amended individual returns (Forms 1040–X)—with some return submissions dating back at least to April and many taxpayers still waiting for their refunds 10 months later. In addition, more than 2 million employer's quarterly tax returns (Forms 941 and 941–X) remained unprocessed.

As of early February 2022, the IRS had in its inventory about 17.6 million tax returns and about 5.9 million pieces of taxpayer correspondence/Accounts Management cases (excluding amended tax returns) that require manual processing, as shown in the following chart.

Status of Inventory Requiring Manual Processing

(as of February 5, 2022)

	Individual	Business	Not Specified	Total
Paper Returns Awaiting Processing				
Received in Calendar Year 2021	3,500,000	1,900,000	–	5,400,000
Received in Calendar Year 2022	700,000	1,700,000	700,000	3,100,000
Total Paper Returns Awaiting Processing	**4,200,000**	**3,600,000**	**700,000**	**8,500,000**
Paper and Electronic Returns—Processing Suspended	**3,900,000**	**1,200,000**	–	**5,100,000**
Amended Returns Inventory	**2,700,000**	**1,300,000**	–	**4,000,000**
Total Unprocessed Returns	**10,800,000**	**6,100,000**	**700,000**	**17,600,000**
Correspondence/Accounts Management Cases (excluding amended returns)	**2,700,000**	**1,100,000**	**2,100,000**	**5,900,000**
Total Inventory Requiring Manual Processing	**13,500,000**	**7,200,000**	**2,800,000**	**23,500,000**

As of February 14, 2022, the IRS website reports that "all paper and electronic individual refund returns received prior to April 2021 have been processed if the re-

[2] IRS, Filing Season Statistics for Week Ending December 3, 2021, *https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-december-3-2021.*

turn had no errors and did not require further review."[3] By implication, that means returns filed as far back as April of last year are still awaiting processing. That is now 10 months ago and counting, and if IRS systems detect any discrepancies and issue a math error notice with respect to a return, the taxpayer likely will end up waiting more than a year to receive any refund due.

Of all individual returns processed last year, 77 percent resulted in refunds. Therefore, processing delays translated directly into refund delays. Refund delays can create financial hardships for many taxpayers, particularly those who are low-income. Earned Income Tax Credit benefits are worth up to $6,660; Child Tax Credit benefits were worth up to $2,000 per qualifying child under tax year 2020 rules; and Recovery Rebate Credits (RRCs) are potentially worth several thousand dollars for families who did not receive some or all of their EIPs. Millions of taxpayers rely on the benefits from these programs to pay their basic living expenses, and when refunds are substantially delayed, the financial impact can range from mild inconvenience to severe financial hardship.

While taxpayers who e-filed their returns generally fared better than taxpayers who filed on paper, millions of e-filed returns were suspended during processing due to discrepancies between amounts claimed on the returns and amounts reflected in the IRS's records. The most common discrepancy involved RRC claims filed by taxpayers who did not receive some or all of their EIPs the prior year. These returns had to be manually reviewed, and the IRS issued more than 11 million math error notices to taxpayers due to RRC discrepancies with the IRS's records. When a taxpayer disagreed with a math error notice and submitted a response, the correspondence added to the IRS's mounting paper submission pile that awaited processing and generated more delayed responses.

I am concerned that the number of returns suspended and requiring manual processing will be high again in 2022 and that the numbers in the chart shown above will continue to grow. As part of the American Rescue Plan Act enacted last March, Congress authorized two advance tax credit payments that may result in additional discrepancies between amounts claimed on tax returns and in IRS records. The first was a third round of EIPs that may be claimed as RRCs by taxpayers who did not receive them or did not receive the full amounts for which they are eligible. The second was monthly payments of the AdvCTC for the second half of 2021. Both credits will have to be claimed and/or reconciled on 2021 individual tax returns. The IRS has attempted to minimize discrepancies by including the information in online taxpayer accounts and sending notices to taxpayers who received EIPs and AdvCTC payments showing how much they received, but a small number of the notices were inaccurate and millions of discrepancies—and consequent math error notices—remain likely.

B. Taxpayers Have Been Experiencing Additional Delays in Receiving Their Tax Refunds Because of IRS Delays in Processing Taxpayer Correspondence

The IRS sent tens of millions of notices to taxpayers during 2021. These included nearly 14 million math error notices overall, Automated Underreporter notices (where an amount reported on a tax return did not match the corresponding amount reported to the IRS on a Form 1099 or other third-party information return), notices requesting a taxpayer authenticate his or her identity (where IRS security filters flagged a return as potentially filed by an identity thief), correspondence examination notices, and collection notices. In many cases, taxpayer responses were required, and if the IRS did not process a response, its automated processes could take adverse action or not release the refund claimed on the tax return. The IRS received 6.2 million taxpayer responses to proposed adjustments and took an average of 199 days to process them—up from 74 days in fiscal year (FY) 2019, the most recent pre-pandemic year.

C. Taxpayers Had More Difficulty Reaching the IRS by Telephone in 2021 Than in Any Prior Year

The combination of processing delays and questions about new legislation and programs like the AdvCTC caused call volumes to almost triple from the prior year to a record 282 million telephone calls. Customer service representatives (CSRs) only answered about 32 million, or 11 percent, of those calls. As a result, most callers could not obtain answers to their tax law questions, get help with account problems, or speak with a CSR about a compliance notice. Among the one in nine callers

[3] IRS Operations During COVID–19: Mission-critical functions continue, *https://www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue* (showing data updated on February 7, 2022).

who was able to reach a CSR, the IRS reported that hold times averaged 23 minutes. However, the IRS data on hold times excludes taxpayers who waited on hold for extended periods and hung up before a CSR answered their calls. Tax professionals and taxpayers have reported that hold times were often much longer than 23 minutes, and frustration and dissatisfaction were high throughout 2021 with the low level of telephone service.

D. Taxpayers Found That the IRS's Where's My Refund? and Where's My Amended Return? Tools Often Could Not Answer Those Questions

Taxpayers attempted to check the status of their refunds on *IRS.gov* more than 632 million times last year, but Where's My Refund? does not provide information on unprocessed returns, and it does not explain any status delays, the reasons for delays, where returns stand in the processing pipeline, or what actions taxpayers need to take, if any. Where's My Amended Return? received more than 13 million hits but suffered from similar limitations. For taxpayers who experienced significant refund delays, these tools often did not answer the questions they were designed to address and added to overall frustration.

II. SHORT-TERM RECOMMENDATIONS

The IRS's leadership recognizes that processing delays are the most serious problem facing taxpayers, and it is developing plans to work through its backlog as quickly as possible. There are immediate steps the IRS can take to process returns more quickly, protect taxpayer rights, treat taxpayers more fairly, and provide transparency. Among them are the following:

- **Prioritize the processing of original and amended paper tax returns through an "all-hands-on-deck" surge strategy.** The IRS has begun temporarily reassigning employees from other areas to its Accounts Management function and is providing them with training to process tax returns. This reallocation of employees is intended to continue until the agency fully works through its backlog, as it continues to struggle with its antiquated information technology (IT) systems for return processing and the overwhelming volume of paper returns and correspondence. The IRS must also increase staffing in its Submission Processing function, as a significant volume of the unprocessed returns work resides there, including all paper Forms 1040. Additionally, paper Forms 1040–X are sent through Submission Processing for initial screening and many are worked, through manual adjustments, by Submission Processing employees.
- **Explore options to increase compensation for processing employees, minimize hiring lags, and utilize outside consultants to assist if necessary.** Submission processing employees are generally hired at or around the GS–3 level. The current base pay for GS–3 employees is $24,749. In this economy, it is not surprising that the IRS is having difficulty finding enough suitable job applicants. Recently, the IRS announced 5,000 positions in its campuses but only 179 positions have been filled so far. The IRS should utilize all available pay flexibilities, including incentive and retention bonuses, hazard pay, and other options, to retain key processing employees and attract qualified job applicants who can quickly be onboarded and trained.
- **Provide penalty relief for 2020 and 2021 tax returns.** The penalties for failure to file (FTF), failure to pay (FTP), and failure to deposit (FTD) must be abated if a taxpayer can show that the failure to comply was "due to reasonable cause and not due to willful neglect."[4] Where the taxpayer does not make this showing, the IRS can abate these penalties under its "first-time abatement" (FTA) procedures, which require that the taxpayer is otherwise compliant and has not utilized an FTA penalty waiver within the preceding 3 years.[5] To reduce administrative burdens on taxpayers and the IRS, free up resources, and provide equitable treatment of similarly situated taxpayers, we recommend the IRS provide FTA penalty relief systemically for all eligible taxpayers. In addition, we recommend the IRS send correspondence informing taxpayers that they have automatically received the FTA penalty waiver but can request the IRS consider a request for "reasonable cause" relief so they can preserve the availability of an FTA waiver for future tax years.

[4] *See* IRC §§ 6651(a)(1) (FTF), 6651(a)(2) and (a)(3) (FTP), and 6656 (FTD).
[5] *See* Internal Revenue Manual 20.1.1.3.3.2.1, *First Time Abate (FTA)* (October 19, 2020).

- **Suspend all automated collection notices until the IRS gets current in processing original and amended tax returns and taxpayer correspondence.** Premature lien and levy notices have been issued to taxpayers in circumstances where tax returns or correspondence that show the taxpayers do not have liabilities have not yet been processed. That should not happen. On February 9, the IRS announced it would suspend the issuance of several collection notices to reduce confusion and frustration for taxpayers still waiting for their returns or correspondence to be processed. I commend the IRS for taking this step, and I encourage the IRS to reassign employees who ordinarily process responses to these notices to assist with return processing and the related correspondence.
- **Add a dedicated team to accelerate the processing of claims for tentative refunds and employer's quarterly Federal tax returns.** Taxpayers have experienced long processing delays resulting in delayed payment of refunds. Individuals, estates, and trusts may file Form 1045, Application for Tentative Refund, and corporations may file Form 1139, Corporation Application for Tentative Refund, to carry back net operating losses and certain other tax benefits to prior years, as authorized by the Coronavirus Aid, Relief, and Economic Security Act. Some taxpayers need these refunds to meet payroll or otherwise maintain operations. In addition, the IRS should accelerate the processing of Forms 941, Employer's Quarterly Federal Tax Return, and Forms 941–X, Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund. Many Forms 941–X have been filed to claim the Employee Retention Credit, and a Form 941–X cannot be processed until the original Form 941 has been processed.
- **Create and update a weekly "dashboard" on *IRS.gov* to provide the public with current and specific information about delays.** The IRS has created a webpage, IRS Operations During COVID–19: Mission-critical functions continue, that provides certain high-level information. However, it does not provide detailed information on processing backlogs. For amended returns, for example, it says only that "[t]he current time frame can be more than 20 weeks." For correspondence backlogs, it says only that processing mail "is taking longer than usual," and "[t]he exact time frame varies depending on the type of issue." It does not provide information on recent telephone delays, even though doing so would give taxpayers a better sense of whether they should devote the time to calling.

  I have recommended that the IRS post a filing season dashboard, updated at least weekly, that lists each category of work and the date through which the IRS has completed processing (*e.g.,* the IRS has processed all original tax returns through Date X and all amended tax returns through Date Y). The dashboard should include this information for original paper tax returns, amended paper tax returns, and math error and other categories of taxpayer correspondence. To apprise taxpayers of their chances of reaching an IRS employee by telephone, the IRS should also post data for each key telephone line showing the percentage of calls that reached an IRS employee the previous week.

None of these steps, standing alone, will immediately solve the processing backlog. But taken together, they should accelerate processing, reduce current filing season challenges, ensure taxpayers are treated fairly, and inform taxpayers and tax professionals of the status of work at the IRS.

III. MEDIUM-TERM AND LONGER-TERM ADMINISTRATIVE RECOMMENDATIONS

A. Improve Online Taxpayer Accounts and Allow Taxpayers to Communicate With the IRS Routinely by Secure Email

Online taxpayer accounts are plagued by limited functionality. For example, taxpayers generally cannot use their online accounts to view images of their past tax returns, most IRS notices, or proposed assessments; file documents; or update their addresses. Taxpayers should have the ability to make corrections or adjustments to their returns through their online accounts. Similarly, the IRS generally does not communicate with taxpayers by email. Limitations on communicating with the IRS electronically frustrate taxpayers who have been conducting comparable transactions with financial institutions for more than 2 decades. This increases the number of telephone calls and pieces of correspondence the IRS sends and receives, and leads to more paper processing delays. I recommend that the IRS prioritize the development of online accounts along the lines of what financial institutions offer.

B. Utilize Scanning Technology

The IRS could reduce its backlog of paper tax returns by using scanning technology to machine read paper returns. There are two leading types of scanning technology: (i) 2–D barcoding and (ii) optical character recognition (OCR). When a customer buys a product at a grocery store or a pharmacy, the product is typically marked with a 2–D barcode that can be scanned at the checkout line. Similarly, when a taxpayer prepares a tax return using tax software, the software companies generally can place a 2–D barcode on the return that encodes the return data in a machine-readable form. The IRS could then scan the barcode—like the supermarket or pharmacy does—and thereby eliminate the need for an employee to manually transcribe each digit on the return. Software companies have been placing 2–D barcodes on returns for some State tax agencies for more than a decade. The advantage of 2–D barcoding is that it should be 100-percent accurate. The disadvantage is that it does not help with paper tax returns prepared by hand or otherwise prepared without tax software.

OCR, an alternative type of scanning technology, has the opposite advantage and disadvantage. The advantage is that it can be used to machine read all returns, including returns prepared by hand. The disadvantage is that it is not 100-percent accurate; for example, a "1" and a "7" may look similar, so OCR may read the digit incorrectly. However, OCR technology should still be more accurate than manual data transcription because an employee not only may have the same difficulty distinguishing between the "1" and the "7" but also may hit the wrong key by mistake from time to time. Last year, IRS employees made transcription errors on 22 percent of paper returns.[6]

Some states use both 2–D barcoding for software-prepared returns and OCR for other returns. The IRS recently conducted a pilot and is exploring broader use of scanning technology. In my view, this should be a top technology priority.

C. Reduce Barriers to E-Filing

The IRS deserves considerable credit for raising the e-file rate for individual returns to about 90 percent. But that still leaves about 17 million individual income tax returns coming in on paper. Scanning technology, as discussed above, would provide a solution. However, it is worth noting that some taxpayers who want to e-file their returns are not able to do so for any of several reasons: some lower-volume tax forms are not "supported" by the IRS's e-file system; the IRS rejected millions of e-filed returns last year because they broke one or more "business rules"; and some taxpayers cannot e-file when they need to include an attachment or when they override a field pre-populated by software. The IRS should take a hard look at the barriers that prevent taxpayers who wish to e-file from doing so. If it can find ways to eliminate those barriers, it will reduce its paper return inventory.

D. Automate the Creation and Review of Amended Tax Returns

All Forms 1040–X, Amended U.S. Individual Income Tax Return, are reviewed by IRS employees and treated as if submitted on paper even if they are e-filed. That is highly inefficient. The IRS should prioritize an IT upgrade to allow taxpayers to log into their online accounts, select to file an amended return, and have all return data from the taxpayer's originally filed return pre-populate. The taxpayer could then enter the changes—often just one or two—and the amended return could be e-filed and processed electronically. The IRS should be able to pass the return through its business rules via automation. Those returns that pass would be approved quickly without employee review. Others would be routed for further review. If the IRS could implement an upgrade along these lines, it would substantially accelerate the processing of amended tax returns. Over the longer term, the IRS should expand the online account features to allow taxpayers to make adjustments to their tax returns in lieu of filing amended returns.

E. Deploy "Customer Callback" Technology on All Telephone Lines, so Taxpayers and Tax Professionals Don't Have to Wait on Hold and Can Receive a Return Call When the Next CSR Is Available

The IRS has begun to deploy customer callback technology on some of its telephone lines. It should continue to expand this technology to all lines. I need to caution, however, that customer callback may not be a cure-all for IRS telephone operations. If the IRS workforce only has the capacity to answer 32 million telephone calls, as it did last year, customer callback still will not enable the IRS to handle all of the 250 million calls that went unanswered. However, many taxpayers and

[6] IRS response to TAS information request (September 16, 2021) (data through August 2021).

tax professionals call the IRS multiple times before they get through, and if effectively used, customer callback technology could substantially reduce the need for repeat calls, thereby reducing call volumes and assisting taxpayers more effectively. I recommend that Congress provide funding specifically allocated to expand the use of customer callback technology.

IV. LEGISLATIVE RECOMMENDATIONS

The recommendations I have proposed above are ones the IRS can implement on its own. To improve the taxpayer experience, I will highlight three legislative changes that I encourage the Congress to consider.

A. Provide the IRS With Additional Sustained, Multi-Year Funding at Sufficient Levels to Meet Taxpayers' Needs

The pandemic and the resulting processing and refund delays have shined a spotlight on the IRS's taxpayer service challenges, but they existed before the pandemic. Since FY 2010, the IRS's workforce has shrunk by 17 percent, while its workload—as measured by the number of individual return filings—has increased by 19 percent. The increasing imbalance between more work and reduced resources has had predictable effects. In FY 2019—the most recent year before the pandemic—IRS employees answered only 29 percent of taxpayer telephone calls, and they were not able to process 58 percent of taxpayer responses to proposed tax adjustments within the agency's own standard processing times. IT systems are antiquated and are largely held together by belts and suspenders, currently unable to offer taxpayers seemingly basic features like effective online accounts.

The IRS receives its annual appropriation in four accounts: (i) Taxpayer Services; (ii) Enforcement; (iii) Operations Support; and (iv) Business Systems Modernization. With limited exceptions, the IRS cannot move funds among its accounts.

To meet basic taxpayer service needs, the IRS requires additional funding in its Taxpayer Services account to improve return processing, correspondence processing, and telephone service. My own organization, TAS, is provided with a minimum funding level in the Taxpayer Services account and requires additional funding to address the increase in our cases, including the spike in congressionally referred cases that we have been receiving, as discussed below. Relatedly, funds from the Operations Support account, which includes IT funding, are allocated partly to support Taxpayer Services operations and partly to support Enforcement operations. To ensure that Taxpayer Services programs receive the funding they need, I encourage Congress to require that a specified amount of Operations Support funding be dedicated to Taxpayer Services initiatives. This would include, for example, additional funding to improve telephone service.

B. Refrain From Making Changes to the Internal Revenue Code Just Before, and Particularly During, the Filing Season

Last-minute tax law changes create administrability challenges for the IRS and tax software companies, and confusion for taxpayers and tax return preparers. When a law is changed, the IRS must re-program its processing systems to accommodate the change, sometimes leading to delays in the start of the filing season, and tax software companies must update their software so taxpayers and tax return preparers get the right results. In 2007, the National Taxpayer Advocate's Annual Report to Congress designated the impact of late-year tax law changes as the #1 most serious problem facing taxpayers.

This problem is compounded when the law is changed *during* the filing season. The American Rescue Plan Act, enacted in March 2021, provided that taxpayers could exclude up to $10,200 in 2020 unemployment compensation (UC) benefits from gross income. By that time, almost half of all taxpayers had filed their 2020 tax returns, including millions who included the full amount of their UC benefits in gross income. To its credit, the IRS figured out a way to retroactively give most taxpayers the benefit of the exclusion without requiring them to file amended returns. But there were several adverse consequences: (i) the IRS was forced to divert its limited IT resources to develop and implement this fix; (ii) confused taxpayers made millions of calls to the IRS and some filed amended returns before the fix was announced; and (iii) the fix could not be applied in all cases, generating further confusion for taxpayers and tax return preparers regarding which taxpayers had to file amended returns.

I recognize that Congress must balance competing priorities, and there are occasions where providing retroactive taxpayer relief may trump considerations of administrability. But changes in law enacted after the IRS has programmed its systems for the filing season create significant challenges for the IRS, software companies, taxpayers, and tax return preparers. I urge Congress to keep these administrability concerns in mind and refrain from making retroactive tax law changes except in extraordinary circumstances.

C. Vastly Simplify the Internal Revenue Code

I list this recommendation last only because it is the least likely to be implemented quickly. Over the long run, simplifying the tax law is the most important step Congress can take to reduce taxpayer compliance burdens. In prior reports, we have discussed the benefits of tax law simplification at length, and we have designated the complexity of the tax code as the most serious problem facing taxpayers.[7] In our 2016 Annual Report to Congress, we said the current tax code:

- Makes compliance difficult, requiring taxpayers to devote excessive time to preparing and filing their returns;
- Requires the significant majority of taxpayers to bear monetary costs to comply, as most taxpayers utilize tax return preparers and many other taxpayers purchase tax return preparation software;
- Rewards taxpayers who can afford expensive tax advice and discriminates against taxpayers who cannot;
- Undermines trust and confidence in the tax system, as many taxpayers do not understand how their taxes are computed or even what rate of tax they pay;
- Leads to lower levels of tax compliance, as taxpayers make high rates of both inadvertent and deliberate errors, and the complexity of tax returns limits the IRS's ability to detect noncompliance through audits or other means; and
- Requires a large Federal agency to administer the tax system, as the IRS each year must, among other things, publish forms and publications, create computer code for thousands of tax provisions, enforce the law, and respond to more than 100 million telephone calls, 10 million letters, and several million visits from taxpayers (although in-person visits were lower over the last 2 years due to the pandemic).

We continue to believe that simplifying the law would enhance public confidence in the fairness of the tax system and reduce taxpayer compliance burdens and that tax-law simplification should therefore be prioritized.

V. TAS CASE PROCESSING

Congress created TAS to serve as a "safety net" for taxpayers, but over the past few years, the combination of more cases, fewer experienced case advocates, and an inability to close cases due to limited IRS resources has caused the TAS safety net to fray. That has increased case cycle times, made it harder for taxpayers to reach TAS, and reduced service levels for taxpayers and congressional offices that refer cases to us. From FY 2017 to FY 2021, TAS's case receipts rose from 167,000 to 264,000—a 58-percent increase—while our appropriated funding on an inflation-adjusted basis declined by about 6 percent. When taxpayers cannot get their problems resolved directly with the IRS, they often contact their congressional offices for assistance. The number of cases TAS received from congressional offices demonstrates the magnitude of the challenges taxpayers experienced in 2021. In the 3 years preceding the pandemic, TAS received between 10,000 and 11,000 congressional referrals annually. Last year, we received more than 66,000 congressional referrals—more than *six times* as many cases as in pre-pandemic years.

Although our employees are resilient and want to help every taxpayer in need of assistance, we had to make some difficult decisions during the past year to address our workload challenges. In November, we reinstated our prior policy against accepting cases where the sole issue was a delay in the processing of an original or amended tax return. Since then, numerous members of Congress have contacted us to express concern about this policy. We recognize the hardship and frustration taxpayers are facing, and we recently communicated to your local offices that we will again accept processing cases in certain circumstances. TAS has been working with the IRS to obtain dedicated resources to enable us to do this. Going forward, TAS

[7] *See* National Taxpayer Advocate 2016 Annual Report to Congress 305–324 (Legislative Recommendation: *Tax Reform: Simplify the Internal Revenue Code Now*); National Taxpayer Advocate 2012 Annual Report to Congress 3–23 (Most Serious Problem: *The Complexity of the Tax Code*); National Taxpayer Advocate 2010 Annual Report to Congress 3–14 (Most Serious Problem: *The Time for Tax Reform Is Now*); National Taxpayer Advocate 2010 Annual Report to Congress 365–372 (Legislative Recommendation: *Enact Tax Reform Now*); National Taxpayer Advocate 2005 Annual Report to Congress 375–380 (Key Legislative Recommendation: *A Taxpayer-Centric Approach to Tax Reform*).

will be utilizing the IRS's surge team, once it stands up, to assist in processing TAS cases.

Nevertheless, I think it would be helpful to explain TAS's role in assisting taxpayers and the tradeoffs that accepting these processing cases involves. Congress created TAS as part of the IRS Restructuring and Reform Act of 1998 to serve as an "advocate" for taxpayers in resolving problems with the IRS. By law, "taxpayer advocate offices operate independently of any other Internal Revenue Service office"[8] and the National Taxpayer Advocate and her delegates are authorized to issue "Taxpayer Assistance Orders" to assist taxpayers by requiring the IRS to take certain actions or refrain from taking certain actions, unless an order is modified or rescinded by the Commissioner or the Deputy Commissioner.[9]

As advocates operating independently of the IRS, TAS is not authorized to resolve taxpayer problems on its own. We "advocate." We do not implement. We do not have the authority to accept or process tax returns, to resolve audits, or to make final determinations regarding whether collection actions are warranted. Rather, our function is to serve as an ombuds when a taxpayer is experiencing a hardship or when a taxpayer's case has fallen through the bureaucratic cracks. Our case advocates generally resolve cases by sending an "Operations Assistance Request" (OAR) to the IRS operating division with control over the issue to request that it take specified actions, and we include documentation to support the request. In pre-pandemic years, TAS had sufficient staff to accept substantially all cases that met our case-acceptance criteria, and the IRS had sufficient staff to process our OARs in a relatively timely manner.

The pandemic has presented unique challenges for TAS that are derivative of the challenges facing the IRS. For example, processing delays of ten months mean that millions of taxpayers are experiencing economic or systemic hardships and ordinarily may qualify for TAS's services. But TAS does not have the staffing to accept more cases, and the IRS is so buried in backlogged returns that it cannot give priority to the returns of taxpayers who come to TAS without slowing down the processing of all other returns.

That is the tradeoff we face when asked to expedite the processing of original or amended tax returns. In general, the IRS is processing returns on a first-in, first-out basis. When tax returns come in, they are "batched" by the date of receipt. If TAS accepts a case involving an amended tax return and asks the processing center to locate it or expedite its processing, the processing center manager generally must instruct employees to stop transcribing returns to look through all the returns in the "batch" where the target return is thought to be located. There may be thousands of returns in the batch. This is akin to asking an IRS employee to find a needle in a haystack. As a result, a request to expedite the processing of one return will delay the processing of many other returns, as IRS employees must stop transcribing returns by date of receipt to locate the return at issue.

This is obviously not an ideal situation, but it typifies the current challenges. While TAS may be able to help in limited circumstances, our ability to assist taxpayers is limited by our staffing and the IRS's speed in responding to us. Although TAS has expanded our case acceptance criteria, there is no getting around the reality that millions of taxpayers will continue to experience refund delays, and some will experience economic hardships, until the IRS works through its processing backlog.

VI. CONCLUSION

The 2021 filing season presented unprecedented challenges for taxpayers and the IRS alike. Most of those challenges remain. Some arguably have grown worse. There are millions of tax returns and pieces of correspondence that the IRS received last year but could not process. It therefore started the 2022 filing season in a deep hole. While there is no magic bullet, there are short-term steps the IRS can take to accelerate the processing of returns and treat taxpayers fairly, and with Congress's support, there are steps the agency can and should take over the medium and longer term to improve its operations overall.

The longer-term solution should involve strengthening both human and IT resources. And once the IRS digs out of its current backlog hole, it will require an investment in its infrastructure, touching everything from basic taxpayer service

[8] IRC § 7803(c)(4)(A)(iii).
[9] IRC § 7811.

and filing season processing to tax law enforcement that is effective but fair to taxpayers who are experiencing economic hardships. The IRS needs to rebuild and modernize its foundation to enable it to make good on its stated mission to "[p]rovide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all."[10] In this statement, I have outlined my priority recommendations to help the IRS do a better job of accomplishing its mission by improving the taxpayer experience and ensuring the protection of taxpayer rights.

QUESTIONS SUBMITTED FOR THE RECORD TO ERIN M. COLLINS

QUESTIONS SUBMITTED BY HON. MICHAEL F. BENNET

Question. The IRS faces deep challenges this filing season—the result of years of underfunding, outdated technology, a global pandemic, and more. At the same time, the agency and its staff have done a remarkable job meeting the urgent tasks Congress has set for them, from sending stimulus checks to hundreds of millions of Americans to delivering advance Child Tax Credit payments to 61 million children—payments that cut the child poverty rate nearly in half.

Can you highlight one or two newly developed capabilities or positive steps forward that IRS will be able to build upon in years to come?

Answer. In my view, the most significant capability the IRS has developed as a result of the pandemic and can build upon in the future is the expanded use of digital technologies to communicate with taxpayers and practitioners. The IRS has substantially lagged behind private financial institutions in offering customers a way to sign documents and communicate without utilizing paper and snail mail. Because most IRS employees began to telework after the pandemic began and could not easily receive or transmit snail mail, the IRS issued temporary guidance allowing for the use of e-signatures and the secure emailing of documents.[1] Beginning in March 2020, the guidance permitted:

- The use of electronic or digital signatures to sign certain paper forms submitted for processing;
- The acceptance of images of signatures and digital signatures on documents relating to the determination of tax liability or the collection of tax; and
- The use of email to receive or transmit encrypted documents to prove tax compliance.

This guidance has been extended through October 31, 2023.[2] It is my hope and expectation that the IRS will enhance and expand digital communication options in the future.

A second technological innovation the IRS can build upon is the creation of portals that have allowed taxpayers to provide and update information for stimulus payments and Advance Child Tax Credits. The IRS can apply this technology to expand the functionality of online taxpayer accounts. The past 2 years have highlighted the need and desire of taxpayers and practitioners for access to their tax records electronically. Additional functionality should include two-way secure chats with an IRS representative, the ability to upload and download documents, and the ability to receive email communications to access and view notices and other communications.

Question. The American Rescue Plan roughly tripled the Earned Income Tax Credit (EITC) for workers without dependent children. That will mean an important income boost for 17 million struggling workers, including nearly 300,000 in Colorado. Some of these workers have incomes low enough that they are not required to file taxes. Unfortunately, the EITC's rules are complex, and many workers have trouble claiming the credit, which delays their much-needed refunds. When I spoke to Commissioner Rettig recently, I told him I was encouraged by the IRS's progress on simplified filing for low-income workers and families—and that I hoped simplified filing could be significantly expanded in the coming years.

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[10] *See* Internal Revenue Manual 1.1.1.2, *IRS Mission* (July 29, 2019).
[1] Sunita Lough, Deputy Commissioner for Services and Enforcement, *Memorandum for All Services and Enforcement Employees* (March 27, 2020).
[2] Douglas W. O'Donnell, Deputy Commissioner for Services and Enforcement, *Memorandum for All Services and Enforcement Employees* (November 18, 2021).

What are the hurdles and opportunities for simplified filing? And what would it take to develop a simplified filing process that includes the EITC—perhaps even one that pre-populates the amount of credit for which IRS believes the taxpayer is eligible?

Answer. When taxpayers use tax software to prepare their returns—either directly or through preparers—the software generally will prompt them to claim the EITC if the information they enter indicates they are qualified. The software also will generate the amount of the credit for which the taxpayer is eligible based upon the income and family information the taxpayer has entered. It would be difficult for the IRS to prepopulate information to compute accurate EITC benefits. While the IRS has access to a taxpayer's wage information, it does not have access to information relating to changes in family circumstances, such as marital status, the number of qualifying children, and whether the taxpayer meets EITC relationship and residency requirements. The IRS also would not generally know about self-employment income.

However, the IRS could provide taxpayers with certain third-party downloadable data at the time of filing, which would assist in simplifying the entry of this data into tax software. It would also provide taxpayers with relevant information that may reduce errors or show inconsistencies prior to the filing of a return.

We have recommended that Congress restructure the EITC by separating its benefits into two credits: (i) a refundable worker credit based on each individual worker's earned income without regard to qualifying children and (ii) a refundable child benefit. For wage earners, claims for the worker credit could be verified with nearly 100-percent accuracy by matching claims on tax returns against Forms W–2, thereby driving down the improper payments rate on those claims to nearly zero. The portion of the EITC that would vary based on family size could be combined with the Child Tax Credit into a larger family credit. The National Taxpayer Advocate published a special report in 2019 detailing this proposal.[3]

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. You recommended IRS suspend a number of taxpayer notices to provide an opportunity for IRS to clear its backlog and catch up on processing paper returns. Since then, IRS has suspended certain automatic notices and letters to taxpayers. However, according to Commissioner Rettig, "other notices are statutorily required to be issued within a certain time frame to be legally valid." Are there additional notices you support suspending that you believe IRS could suspend under its existing authority? Are there additional notices that you recommend Congress temporally suspend or grant flexibility to IRS to suspend?

Answer. We continue to work with the IRS on a variety of issues relating to notices, including suspension of certain notices, time frame, and the process for resuming the issuance of notices. At this time, the IRS has halted the issuance of many automated notices.[4] It has also halted the issuance of follow-on notices that are typically mailed after the announced suspended notices. We anticipate that the suspension will continue until the IRS gets the backlog under control and that the IRS will then begin staggering the issuance of future notices. We believe the IRS has begun to take appropriate steps to minimize the impact to taxpayers due to the backlog of unprocessed correspondence.

Question. Recently, IRS selected ID.me to provide identity verification services for accessing taxpayer accounts. While the original plan called for the use of facial recognition, IRS has backed away from that requirement due to concerns from Congress and others. However, ID.me will still provide other verification services. I understand section 6103 does not apply to the data that ID.me collects from taxpayers to verify identities to the IRS. Are you confident that the information that is collected by ID.me, or could be collected and used by any contractor is subject to adequate privacy protections? Should the committee consider whether additional privacy protections should be applied?

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[3] National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress vol. 3 (Special Report: *Earned Income Tax Credit: Making the EITC Work for Taxpayers and the Government*).

[4] IRS News Release IR–2022–31, IRS continues work to help taxpayers; suspends mailing of additional letters (February 9, 2022), *https://www.irs.gov/newsroom/irs-continues-work-to-help-taxpayers-suspends-mailing-of-additional-letters.*

Answer. The confidentiality of tax return information should always be a priority consideration. By its terms, Internal Revenue Code section 6103 generally prohibits IRS employees and contractors with authorized access to return information from disclosing tax return information. In addition, the IRS generally inserts a term in its contracts that prohibits contractors from redisclosing tax return information and may include background checks, training requirements, and penalties.

The IRS engages contractors to provide many services, ranging from processing checks to collecting delinquent tax liabilities. While concerns expressed about facial scans were understandable, it's important to keep in mind that the IRS established a facial recognition requirement to comply with identity verification standards prescribed by the National Institute of Standards and Technology (NIST), including use of biometric data and retention of the data for a period of years. For the highest level of security, NIST recommends utilizing biometrics to protect taxpayer data and prevent fraud. As a result of recently expressed concerns, my understanding is that ID.me has deleted taxpayer biometrics data from its systems and will not retain it after the taxpayers authenticate their identities going forward.

Using the highest level of security is beneficial to taxpayers because it will allow the IRS to provide taxpayer-specific information within an online account as well as other tools and applications. With ID.me's technology, the IRS has been able to authenticate a higher percentage of taxpayers—almost twice the authentication rate compared with the prior technology—allowing more taxpayers to access their data. Decreasing the level of security would negatively impact the IRS's ability to provide taxpayer data online or increase the risk of data breaches. I am a big proponent of having taxpayers access their tax information and increasing the functionality of online accounts, and I support having the level of security required to securely provide that functionality.

I do not believe the circumstances involving the use of facial recognition technology require immediate legislative action. I do believe Congress should continually treat privacy protection as paramount in exercising its oversight responsibilities and should work with the IRS and other Federal agencies using ID.me, another vendor, or an internal program to provide the highest level of security for taxpayers' financial and other personal records while respecting their privacy and other concerns.

Question. Critics of the use of facial recognition technology have raised concerns of racial bias and other civil liberties concerns. Critics have also raised concerns about the ability of low-income taxpayers to be able to access the technology necessary to meet the requirements of facial recognition or biometric security. Proponents of facial recognition insist the technology is effective across all racial groups and is easily accessible. Do you think there is merit to concerns raised that facial recognition technology incorporates a racial bias or that it presents signification hurdles to low-income taxpayers?

Answer. I understand these concerns, but I am unable to quantify the impact to taxpayers. The controversy over the use of facial scans arose recently, and TAS has not yet had an opportunity to study all the concerns that were raised in detail. However, my recommendation is that the IRS provide taxpayers with options when authenticating their identities. IRS records contain vast financial data, and the IRS should do everything possible to protect that data and prevent fraud. The IRS should utilize secure methods of authentication that allow taxpayers and representatives to access their tax records while being respectful of taxpayer privacy issues.

QUESTIONS SUBMITTED BY HON. MAGGIE HASSAN

Question. Many of my constituents who are facing problems because of the IRS backlog amended their tax returns after COVID-response legislation. They are now having difficulty getting resolution on their amended tax returns from the IRS.

How can the IRS improve processing of amended tax returns and clear this part of the backlog?

Answer. According to the most recent IRS data, more than 2 million Forms 1040–X, Amended U.S. Individual Income Tax Return, remain unprocessed. The IRS reports it is taking about ten months to process Forms 1040–X. Many taxpayers and tax professionals say they have been waiting considerably longer. There are two plausible solutions to address the backlog. The first is to assign more employees to the IRS's Submission Processing and Accounts Management functions to process original and amended tax returns and correspondence. The second is to automate more of the work. Relating to automation, TAS has recommended that the IRS implement 2–D barcoding and/or optical character recognition (OCR) technology so paper returns can be machine read and do not need to be manually transcribed. The IRS is currently detailing employees to Submission Processing and Accounts Management to work the amended returns.

TAS generally is not able to assist with cases involving unprocessed tax returns. Once a tax return is entered on IRS systems, we can help. In light of the unprecedented backlogs and refund delays taxpayers are experiencing, however, TAS has worked with the IRS's Wage and Investment Division to create special processes to accept delayed amended return cases referred by congressional offices for tax year 2020 and earlier years, provided the return was filed at least five months prior to the request for TAS assistance. Our specific procedures have been communicated to the local offices of all members of the Senate and House.

QUESTIONS SUBMITTED BY HON. ROB PORTMAN

Question. As we discussed, the IRS is in a crisis with an astounding 23.5 million pieces of mail including 8.5 million paper returns and a total of nearly 17.6 million returns. This has a real impact on many Ohioans.

Most of this backlog is the result of tax returns and other forms filed in paper. While the IRS advises taxpayers to file electronically, not all forms, past year tax returns, or amended returns can be filed electronically. When a taxpayer is trying to get into compliance and fix back tax years they must file these amended returns in paper. So, if a taxpayer has an offer-in-compromise (OIC) pending and mailed in their amended back-year tax returns their offer can get rejected since the IRS hasn't opened the mail. This causes additional delays and generates more paperwork when a new OIC is submitted because the first one was rejected.

Is there any additional relief we can provide to these taxpayers? Would providing broad appeal rights for OICs during this delay make sense?

Answer. The delays in processing tax returns are causing adverse impacts in multiple areas. For example, the delays may adversely affect loan applications, whether for mortgages, personal or business loans, and even student aid. For those reasons, among others, the IRS's top priority must be to work through its returns backlog.

The delays also have the potential to cause OIC applications from qualifying taxpayers to be rejected. However, the IRS recently issued guidance designed to prevent that from happening.[5] Under the guidance, IRS employees are instructed not to return OIC applications as "not processible" when tax year 2020 returns are not showing on IRS systems as having been filed. Employees are instructed to address the missing return(s) during the offer evaluation. This guidance is scheduled to expire on April 30th, but I have recommended the IRS continue to follow current procedures until it works through the processing backlog.

Question. Low-Income Taxpayer Clinics in Ohio have indicated that the taxpayer transcripts are very helpful, but that notices sent to the taxpayer are not listed. It would be useful to ensure that notices, especially statutory notices which must be responded to in a set amount of time and can be confusing to taxpayers, are indicated on the transcript.

Would you recommend that the IRS add these notices to taxpayer transcripts?

Answer. This is an easy answer: yes. In addition, my vision of online taxpayer accounts also encompasses notices and would provide taxpayers with electronic notification of notices, the ability to view the notices, the ability to download the notices, and the ability to respond through their online accounts.

Question. You have stated that clearing the backlog should be the top priority at the IRS. In your testimony before the Ways and Means Committee, you mentioned that one of the things we could do *right now* was to utilize IRS employees by directing more employee resources towards processing the backlog, as well as outsourcing some of the clerical work to third parties. Commissioner Rettig has indicated to us

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[5] IRS Small Business/Self-Employed Division, Control No. SBSE–05–1221–0071, *Extension of Temporary Deviation on Offers in Compromise (OICs) Involving Delayed Processing of Individual Master File (IMF) and Business Master File (BMF) Tax Returns* (December 22, 2021), *https://www.irs.gov/pub/foia/ig/sbse/sbse-05-1221-0071.pdf.*

that the IRS has already been deploying "surge teams," which are employees from across the agency who are organized to focus on urgent issues like the backlog.

Would you suggest that the IRS add more "surge teams" or make additional efforts directing employee resources on the backlog? Would it be helpful for employees from elsewhere in the Department of the Treasury to aid in processing the backlog, or potentially even employees from other parts of the Federal Government?

Please detail any additional measures that can be taken to reduce the backlog, and whether action from Congress could be helpful to the agency in this regard.

Answer. The IRS should focus on two measures to expedite its processing of backlogged returns:

1. *More Employees Assigned to Returns Processing.* It is my understanding that the IRS is reassigning more employees from other parts of the agency to its Submission Processing (SP) function, including campus compliance employees (inventory surge team #2). Despite increases in electronic filing, the IRS still receives roughly 17 million paper Forms 1040 each year, and employees still manually keystroke all numbers from paper returns into IRS systems. The first employee "surge" the IRS announced involved Accounts Management (AM) employees. These employees are being trained and should begin processing returns and correspondence in March. AM employees answer toll-free telephone calls, process correspondence, and process some amended tax returns. To make progress in working through the backlog of paper tax returns, however, the IRS must increase the number of employees working in SP. The IRS has begun identifying additional employees and will be reassigning a second surge team to cover SP and AM.
2. *Scanning Technology to Machine Read Paper Tax Returns.* The IRS should take immediate steps to implement technology that would allow paper tax returns to be machine read and thereby avoid the need for an employee to transcribe them digit by digit. In my written statement for this hearing, I described the two leading types of scanning technology: (i) 2–D barcoding and (ii) optical character recognition (OCR). The IRS conducted a pilot involving OCR last year but has decided not to continue with it. While the IRS explores other OCR options, I recommend it adopt 2–D barcoding technology for the next filing season. It is a "tried and true" method that has been used by State tax agencies for some 2 decades.

   The IRS Office of Chief Counsel recently advised that the IRS lacks the authority to require software companies to place barcodes on paper-filed tax returns.[6] As noted, however, software companies have routinely done it for the States. In the National Taxpayer Advocate's 2004 Annual Report to Congress—18 years ago—we reported that 17 States were using it.[7] 2–D barcoding will require some lead time to implement because the software companies will need to modify their software to generate barcodes, and the IRS will need to program its systems to read the barcodes and import the data they contain. For that reason, I recommend the IRS immediately enter into discussions with the software industry to request that it place barcodes on 2022 returns filed during the 2023 filing season and, if software companies decline, to notify Congress within 30 days so it can decide whether to impose the requirement through legislation.

Question. On February 9th, the IRS announced the suspension of certain notices, and Commissioner Rettig previously outlined additional measures underway to provide relief to taxpayers. As you know, the backlog of returns at the IRS is creating challenges for taxpayers whose filings have not yet been processed, such as some taxpayers having their loan applications put on hold and experiencing extraordinarily long waiting times for audit reconsideration and penalty abatement.

What further relief measures should the IRS provide for taxpayers whose filings are backlogged, or who are experiencing other delays as a result of the backlog, and what might those look like?

[6] IRS Office of Chief Counsel, PMTA 2022–02, *Program Manager Technical Advice: Authority to Mandate Tax-Software Developers to Embed Two-Dimensional Barcodes on Returns and Forms or to Incorporate Two-Dimensional Barcodes on Returns and Forms that the IRS Designs and Issues* (December 17, 2022), *https://www.irs.gov/pub/lanoa/pmta-2022-02.pdf.*

[7] National Taxpayer Advocate 2004 Annual Report to Congress 89, 101 (Most Serious Problem: *Electronic Return Preparation and Filing*).

Answer. I have recommended that the IRS provide automatic first-time abatement (FTA) penalty relief for taxpayers from the failure-to-file, failure-to-pay, and failure-to-deposit penalties. Because FTA relief is only available once every 3 years and arguably may be viewed as an acknowledgement that the taxpayer was liable for the penalty, I have further recommended that taxpayers be given the opportunity to demonstrate they had "reasonable cause" for their noncompliance. If a taxpayer successfully demonstrates reasonable cause, the IRS should abate the penalty on that basis and allow the taxpayer to preserve FTA relief for late filings or payments not attributable to IRS processing delays.

Question. I have heard from numerous constituents—individuals and businesses both large and small—that are awaiting refunds stemming from amended returns following the 2020 CARES Act. Some of these constituents have been waiting for nearly 2 years for the IRS to process their refund claim.

My staff has been in touch with the IRS on these issues, and the taxpayers and their representatives have reached out in many instances as well. However, the IRS has not provided any updates.

What do we tell taxpayers who have tried every avenue, and what can we do to help them?

Answer. TAS may be able to help. Although TAS historically has not handled processing cases, we have worked with the IRS's Wage and Investment Division to create special processes to accept delayed amended returns cases referred by congressional offices for Tax Year 2020 and earlier years provided a return was filed at least 5 months prior to the request for TAS assistance. The specific procedures have been communicated to the local offices of all members of the Senate and House.

Question. I understand the challenges the IRS faces to quickly process returns that haven't even been entered into the system yet. As you know, every day these items are not processed costs the government money in the form of back-interest. What is the IRS plan to address these types of returns?

Answer. This question is better directed to the Commissioner and the IRS operating divisions. However, my impression is that minimizing interest payments is not the overriding driver of IRS decision-making at this point. The IRS recognizes that eliminating the processing backlog must be its top priority for many reasons. Although reducing interest payments is one of them, the main driver is to deliver to taxpayers the refunds they deserve.

Question. There have also been reports of math error notices being sent to taxpayers, but many of these notices are a result of the backlog, with automated messages going out before the backlogged return is processed.

Would you recommend that the IRS suspend or modify these automatic notices, or provide subsequent clarification for math error notices sent to tax filers with a backlogged amended return?

Answer. This may be a matter of terminology, but I don't believe the premise that the IRS is issuing math error notices to taxpayers as a result of the backlog is correct. Math error notices are issued as part of the processing of a tax return—not prior to the processing of a return. For example, the IRS issued more than 11 million math error notices last year when it processed tax returns that claimed Recovery Rebate Credit amounts that were inconsistent with IRS records. More generally, however, there are many notices that have been issued prematurely as a result of the processing backlog. The IRS recently suspended most of those notices.

Question. In 2018, I was the sponsor of the 21st Century Integrated Digital Experience Act, "21st Century IDEA" (Public Law No. 115–336), which among other things, requires that any Federal agency form that is related to serving the public be made available in a digital, mobile responsive format that is fully functional and usable on common mobile devices.

Can you tell me how many IRS forms are fully compliant with the 21st Century Integrated Digital Experience Act (Public Law 115–336) today? What is your plan and timeline to fully modernize all publicly facing, as well as all internal IRS paper-based forms (including accepting them for e-filing)?

Which office within the IRS has overall responsibility for ensuring full compliance and implementation of the 21st Century Integrated Digital Experience Act?

Specifically, who is responsible for the IRS website, e-signature, and forms modernization efforts?

Answer. We discussed e-filing challenges in the National Taxpayer Advocate's 2021 Annual Report to Congress (Most Serious Problem #8: E-Filing Barriers: *Electronic Filing Barriers Increase Taxpayer Burden, Cause Processing Delays, and Waste IRS Resources*). Our discussion provides detailed information on numerous IRS forms that cannot be e-filed. We anticipate the IRS will respond to our recommendations by the end of April, and we will be posting its responses on our website. I speak only for TAS so I cannot directly answer your question about the IRS's plans and timeline to fully modernize its forms. I suggest you direct that question to the Commissioner or his staff for more information.

Primary responsibility for digitalization issues rests with the IRS's Enterprise Digitalization and Case Management Office. Hampden (Harrison) Smith is the Co-Director for Digitalization in that office.

Several functions within the IRS work on the website, e-signature policy, and forms modernization, including the Office of Online Services, the Office of Privacy, Governmental Liaison and Disclosure, and the operating divisions, respectively. The Office of Information Technology and several other functions are also involved. Online Services and the operating divisions report to Doug O'Donnell, Deputy Commissioner for Service and Enforcement. Privacy, Governmental Liaison and Disclosure and Information Technology report to Jeff Tribiano, Deputy Commissioner for Operations Support.

PREPARED STATEMENT OF HON. MIKE CRAPO, A U.S. SENATOR FROM IDAHO

Thank you, Mr. Chairman, and I thank all of our witnesses for joining us today.

For Ms. Collins, this represents her first official appearance before the Finance Committee in her role as the National Taxpayer Advocate.

Let me divert from my prepared remarks for just a moment to respond to some of the comments of the chairman about the responsibility for this crisis we are seeing in the IRS right now. The entire attack from some on the other side of the aisle, saying that the cause of our crisis right now is the failure of Republicans to adequately fund the IRS over the years, is, in my opinion, an attempt to justify why we see the crisis, and to try to justify their desire, which was built into the Build Back Better Act: an $80-billion influx of revenue to the IRS. This would have virtually doubled the budget of the IRS over a period of time, and would have been focused almost entirely funding an army of new auditors to go after the so-called "tax gap," claiming that the tax gap was among very, very wealthy individuals who were tax cheats.

When you look at the so-called tax gap—and there is a tax gap—that tax gap comes largely from the lower- and middle-income categories from people who are having difficulty figuring out how to deal with the complex IRS code. That is not the entirety of it, but that is where the focus really is. And that is why we were fighting so hard not to have such a heavy-handed response, to help those in our society who are having difficulty dealing with the IRS not to just face basically an increased enforcement pressure.

What we need is assistance from the IRS, and I think we can find some common ground there if we can work in that context. I should also note, just for a couple data points, you can make data look like you want to as you pick your starting points and ending points for analysis, but over the years I think that the IRS budget has pretty much kept up with inflation.

In the last 4 or 5 years, the IRS budget has been appropriated at 100 percent of their budget request. This was not a problem that came about because Congress was refusing to give the IRS its requested budget—it is a problem which the IRS leadership has told us, as recently as a day ago or so, came about because of the pandemic, which shut down the IRS, just like it shut down much more of the economy. The ensuing problems have come because of that, and because of the inability of the IRS to adequately update its IT and actually be able to communicate with taxpayers, which is what I hope we will be able to discuss significantly today.

This committee relies on the Taxpayer Advocate Service for analysis, guidance, and vital assistance for our constituents, and for taxpayers across the country. That assistance is especially useful in the current environment.

By any measure, the 2022 tax filing season is shaping up to be the most challenging and frustrating in decades, on the heels of challenging 2020 and 2021 filing seasons. In 2021, just over 1 in 10 Americans was ever able to reach the IRS by telephone. More than 250 million calls to the IRS went unanswered in 2021. Those who did manage to get through spent more than 23 minutes on hold, to say nothing of the lengthy waits spent by those who could not get through at all.

Also in 2021, the IRS began the tax filing season with a backlog of more than 13 million unprocessed tax returns from the prior season, and it began this year's tax filing season with an even greater backlog of at least 18 million unprocessed tax returns and correspondence. This backlog has grown to over 23 million items today.

Currently, millions of Americans need to file their tax returns, despite not having their last year's tax returns even processed. These are by no means the only areas of deep concern.

Many Americans await last year's tax refunds. Many Americans await any response to correspondence they sent the IRS, in many instances many months ago. Many Americans have received incorrect or outdated information from the IRS, or have been subject to improper collections or other adverse actions simply because the IRS does not know they have filed a return or responded to a notice. Many Americans cannot receive accurate answers to basic questions, like how long it will take to receive their tax refund or an answer to their correspondence.

These problems show no sign of abating, and appear to be magnifying. Even at this very early stage of the season, significant filing delays already abound—and new problems are arising.

For example, many taxpayers are struggling to reconcile the stimulus and Advance Child Tax Credit (ACTC) payments they received in 2021 with the applicable tax credits they are allowed, and countless others do not even realize they are required to do this. Official communications meant to assist taxpayers with these tasks have, in many instances, only added to the confusion or were simply inaccurate.

I appreciate the willingness of the IRS to be open to providing relief to taxpayers affected by the straining circumstances of this filing season. But the IRS has the ability to do more, and taxpayers deserve more.

This is the third consecutive filing season impacted by COVID, and it is time for the IRS to demonstrate it has learned—and grown—from the prior two.

Despite the many issues plaguing the IRS, I do support the agency's efforts to further its essential mission, and salute the sacrifices its employees are currently making to "do more."

I look forward to hearing the perspectives of our witnesses in today's hearing.

Prepared Statement of Jan F. Lewis, Chair, Tax Executive Committee, American Institute of CPAs

INTRODUCTION

The American Institute of CPAs (AICPA) recognizes and appreciates the efforts the Department of the Treasury ("Treasury") and the Internal Revenue Service (IRS) have made to provide various forms of relief to taxpayers affected by the Coronavirus Disease 2019 pandemic (commonly known as "Coronavirus"). However, as we enter a third filing season under the pandemic many taxpayers and their tax advisors continue to face challenges and are still unable to voluntarily comply with their tax obligations, despite making good faith efforts to do so. Furthermore, the IRS continues to be stretched thin by the Coronavirus pandemic and has a staggering 23 million returns,[1] correspondence, and adjustments needing manual processing, on top of their ability to only answer 2 percent of all phone calls at certain

[1] Erin Collins, National Taxpayer Advocate, Testimony before House Ways and Means Oversight Subcommittee Hearing on "Challenges Facing Taxpayers," February 8, 2022.

points of the year.[2] For the entire FY 2021, IRS received 282 million calls, of which only 32 million were answered, or about 11 percent.[3]

All taxpayers, regardless of their economic standing, deserve a tax administration system that provides support to help them meet their tax obligations. With this in mind, the AICPA proposes both short-term recommendations to immediately mitigate IRS service deficiencies experienced by taxpayers, and long-term recommendations to help establish a modernized and respected Federal agency. Additionally, we flag some potential areas of concern that could create further hardship to the already strained tax administration system, particularly during the current tax filing season.

We would like to acknowledge recent steps taken by IRS in reaction to the growing expression of concerns including (1) suspension of the CP80 notice on January 27, 2022; (2) the February 2, 2022 creation of a Service-wide inventory surge team to address inventory backlogs; and (3) the February 9, 2022 suspension of additional letters including certain automated collection notices.

The AICPA appreciates that the IRS seems to be listening and responding to the collective frustrations of all taxpayers. Taxpayers, practitioners and IRS will benefit from reducing unnecessary contact that will result from the notice suspensions. However, we must urge the Service to move as quickly as possible to offer all possible, reasonable measures of relief as we are already in the beginnings of tax busy season. All of the recommendations that follow are actions that the IRS can legally take right now to provide immediate relief to taxpayers. Time is of the essence.

SHORT-TERM RECOMMENDATIONS

1. DELAY IRS COLLECTIONS

Background

If taxpayers do not timely pay their tax obligations, they generally will receive a series of automated notices reminding them of the amount owed, including escalating amounts of any penalties and interest accrued, and demanding payment. These notices precede the automated collection process, which continues until the account is satisfied, the case is transferred to a revenue officer, or until the IRS is no longer able to legally collect the tax.

If taxpayers do not contact the IRS to pay their tax obligation in full or make payment arrangements, for example through an installment agreement or offer in compromise, the IRS may file a Federal tax lien against the taxpayer, serve a notice of intent to levy to the taxpayer, or offset some other refund to which the taxpayer is entitled, to satisfy the liability. In 2020, due to the Coronavirus pandemic, under its "People First Initiative," the IRS suspended required payments on installment agreements and halted certain collection activities, including new automatic liens, systemic liens and systemic levies through July 15, 2020.

After July 15, 2020, once the People First Initiative expired, taxpayers started to receive numerous automatic collection notices for amounts owed, new automatic liens, systemic liens and systemic levies. The IRS's compliance cycle was not realigned to the postponed due date, mail and processing backlogs, and resource limitations which resulted in millions of incorrect notices and actions. Over a year later, taxpayers are still inappropriately receiving collection notices or threatening liens or levies, often with severe penalties.

Recommendation

The AICPA recommends that the IRS temporarily discontinue automated compliance actions until it is prepared to devote the necessary resources for a proper and timely resolution of the matter. At a minimum, the IRS should halt its automatic collections activities of liens and levies for at least 90 days after the April 18, 2022 filing deadline. At that time, the IRS should reassess further extending the halt of the automatic collection activities based on its capacity and capability.

Furthermore, many taxpayers must respond to notices through paper correspondence and must wait months for a resolution. Even though the IRS, in some instances, has indicated that taxpayers need not respond to these erroneous notices as IRS will systemically abate them, taxpayers are understandably concerned about

[2] National Taxpayer Advocate Blog, "2021 Filing Season Bumps in the Road: Part I," April 22, 2021.
[3] 2021 National Taxpayer Advocate Annual Report to Congress, Most Serious Problem #3, page 66.

the escalation of inappropriate IRS compliance activities before the penalty abatement.

The IRS must provide taxpayers relief from the endless cycle of unnecessary and inappropriate notice and collection activities.

2. ACCOUNT HOLDS

Background

Taxpayers and their advisors can request a temporary delay, typically 8 or 9 weeks, of the collection process for various reasons (*e.g.,* disputing a notice, penalty abatement requests or to discuss other payment options).

Recommendation

The AICPA recommends that the IRS align the length of a requested account hold with the amount of time it takes to process and resolve any notice disputes, penalty abatement requests or coordination of alternative payment arrangements.

It is our understanding that the current account holds are for 9 weeks. However, the current time for the IRS to process the mail is about 16 weeks. This time discrepancy forces taxpayers and their advisors to unnecessarily call the IRS and request additional account holds to prevent further collections activities.

Given the fact that an incredibly low percent of taxpayers are able to speak with the IRS, not automatically aligning account holds with their current processing times creates an undue burden on taxpayers and further contributes to the number of phone calls the IRS receives. In addition, anecdotally, CPAs tell us that when they are able to reach a call assistor, the hold is of limited duration, and they are told to call back if they need additional time.

3. REASONABLE CAUSE REQUESTS

Background

A taxpayer can request reasonable cause penalty relief for "[a]ny reason that establishes a taxpayer exercised ordinary business care and prudence but nevertheless failed to comply with the tax law. . . ."[4] However, taxpayers must provide documentation to support their claim, such as hospital records, and must submit a written request.

At the end of 2020, to help alleviate the burdensome written requirement, the IRS stated that taxpayers could request penalty relief due to reasonable cause over the phone up to a certain threshold.[5] Additionally, if the request is for an amount above the phone threshold, the IRS should offer an e-fax alternative.

Recommendation

For taxpayers that have received failure to file or late payment penalty notices due to the monumental difficulties of the Coronavirus, the AICPA recommends the IRS offer a reasonable cause penalty waiver, **similar to** the procedures of FTA administrative waiver, based on the Coronavirus effects on both the taxpayer and the practitioner.[6] As the Coronavirus is an extraordinary event unlike anything faced in recent history, penalty relief based on a Coronavirus effect should not be considered first time abate. A taxpayer's eligibility for first time abate should not be affected in future tax years even if the taxpayer was granted penalty relief due to Coronavirus effects.

Furthermore, the IRS should honor reasonable cause penalty abatement requests when a taxpayer qualifies for reasonable cause relief. Though the IRS has stated that penalty relief requests due to reasonable cause can be requested through the phone, only a very small number of taxpayers are granted reasonable cause penalty abatement. Instead, as IRS policy dictates, taxpayers are offered FTA regardless if the taxpayer qualifies for reasonable cause penalty relief.[7] Certainly, there are taxpayers who qualified for and requested reasonable cause relief in 2020 but were provided with an FTA waiver. The leniency was appropriate and appreciated but those

[4] Internal Revenue Manual § 20.1.1.3.2.1.

[5] IRS, "IRS Operations During COVID–19: Mission-critical functions continue," January 13, 2021.

[6] We indicate "similar to" so that taxpayers who don't qualify for FTA will qualify for relief, and those who would otherwise qualify for FTA can reserve it.

[7] The FTA is an administrative waiver which is considered and applied prior to reasonable cause analysis as policy of the IRS. Information on the waiver and the policy to apply it prior to reasonable cause analysis can be found in the Internal Revenue Manual 20.1.1.

taxpayers, however deserving, will not qualify for FTA for problems experienced in 2021.

Finally, the IRS should make it well known that an e-fax alternative to **written** reasonable cause requests over a certain threshold (determined by the IRS) is available. Instead, the IRS telephone assistors are instructing taxpayers and their advisors to submit a written request and must wait months for a resolution.

4. UNDERPAYMENT AND LATE PAYMENT PENALTY RELIEF

Background

Taxpayers are generally required to make payments of estimated Federal income taxes. In order to avoid failure to pay estimated tax ("underpayment") penalties, individuals, with limited exceptions, are required to pay at least 90 percent of the tax due for the current year or 100 percent (110 percent if adjusted gross income exceeds $150,000) of the amount of tax shown on their United States (U.S.) income tax return for the prior year, whichever is smaller. Alternatively, taxpayers with a tax due of less than $1,000 receive an exception to the underpayment penalties.[8]

Taxpayers are also required to pay the amount of tax shown on their U.S. income tax return by the tax deadline or the taxpayer is subject to failure to pay ("late payment") penalties. Taxpayers who can show reasonable cause for not paying on time may not have to pay the late payment penalty.[9] Historically, the IRS has granted relief to taxpayers that request an extension of time to file their income tax return and pay at least 90 percent of the taxes owed with the request. Taxpayers must pay the remaining balance by the extended due date.[10]

Recommendation

The AICPA recommends providing taxpayers relief from underpayment and late payment penalties for the 2021 tax year. Specifically, we recommend taxpayers receive relief from the underpayment penalty if:

- Taxpayers paid at least 70 percent of the tax due for the current year; or
- Taxpayers paid 70 percent (90 percent if adjusted gross income (AGI) exceeds $150,000) of the amount of tax shown on their U.S. income tax return for the prior year.

Taxpayers should also receive relief from late payment penalties if they timely request an extension of time to file their income tax return and pay at least 70 percent of the taxes owed with the request.[11]

Some taxpayers, such as the elderly or those with pre-existing health conditions, have been hesitant to meet with their tax advisors to provide all their tax data. Also, social distancing requirements for others continue to create difficulties in providing all tax data to preparers to accurately calculate necessary payments required for extensions.

Though we realize that the majority of Americans receive refunds and do not make quarterly estimated payments, hardworking Americans that pay estimated taxes, such as business owners or gig economy workers, should not be penalized by the difficulties created by the Coronavirus pandemic. Nor should taxpayers be penalized for the ongoing effects on the IRS, such as delayed or continuing lack of important guidance.

Income status should not be used as a shield against reasonable tax administration relief. Approximately 76 percent of Schedule C, Profit or Loss From Business, filers have relatively modest incomes below $100,000 of AGI.[12] Similarly, 68 percent[13] of Schedule F, Profit or Loss From Farming, filers have AGIs below $100,000. Indeed, IRS's own "Taxpayer Bill of Rights" indicates that "each and every taxpayer" has fundamental rights that include:

- The right to be informed.

[8] Section 6654. All references to "section" or "§" are to the Internal Revenue Code of 1986, as amended, and all references to "Treas. Reg. §" and "regulations" are to U.S. Treasury regulations promulgated thereunder.

[9] Section 6651.

[10] IRS, IRS Tax Tip 2013–58, "Eight Facts on Late Filing and Late Payment Penalties," Tip #5, April 18, 2013.

[11] AICPA letter, "Underpayment and Late Payment Penalty Relief for 2020 Tax Year," February 16, 2021.

[12] IRS SOI Tax Stats—Individual Income Tax Returns with Small Business Income and Losses (2018).

[13] *Id.*

- The right to quality service.
- The right to pay no more than the correct amount of tax.
- The right to challenge the IRS's position and be heard.

Along the lines of fundamental rights, an important purpose of offering underpayment and late payment penalty relief is to reduce the administrative burden on the IRS to issue these notices and to reduce the number of touch points taxpayers have with the IRS (*i.e.,* the number of phone calls and written responses necessary for a taxpayer to resolve the notice).

Furthermore, by extending underpayment and late payment penalty relief retroactively for the 2021 tax year, there is little room for abuse since the last estimated payments were due on January 18, 2022.

Given the hardship and challenges so many taxpayers and their advisors continued to face during the 2021 tax filing season, it is both necessary and appropriate to provide penalty relief to all taxpayers.

LONG-TERM RECOMMENDATIONS

The AICPA is committed to supporting the IRS in achieving improved customer service and organizational modernization from a long-term, strategic perspective. Our suggestions are focused in two areas: (1) Pub. L. No: 116–25 (referred to as the Taxpayer First Act (TFA)); and (2) resources for the Internal Revenue Service.

(1) The Taxpayer First Act

The IRS should adopt a visionary approach looking beyond immediate constraints to develop long term goals (which look towards a 10- or even 15-year horizon). In addition, the IRS should provide flexibility in its design to ensure the agency will continue to evolve. In January 2021, IRS sent its Taxpayer First Act Report to Congress as required by statute. We provided input as the IRS established a comprehensive customer service strategy, a comprehensive training strategy and a comprehensive written plan to redesign the organization of the IRS, as required by TFA and are pleased that IRS adopted several AICPA ideas into its report.

Importantly, we appreciate that a new Third-Party Relationships Office [14] is being contemplated as an integral part of the organizational modernization. Leveraging the value that practitioners and other third-parties provide to taxpayers will ultimately serve to elevate the level of service IRS is able to provide to all taxpayers. AICPA's full recommendations follow:

COMPREHENSIVE CUSTOMER SERVICE STRATEGY

The IRS's comprehensive customer service strategy should provide its customers with access to empowered employees, timely information, and tailored resources.

– *Access to empowered employees*—In order to improve customer service, the IRS should: (1) grant authority to general assistors to resolve issues over the phone; (2) provide an opportunity for a discussion with a higher skilled/trained assistor (on the same call); and (3) expect a sense of ownership from a single team (or "pod"). Resolving issues on the "front end" of the process (*e.g.,* through the initial assistor) would free up resources on the back end.

– *Access to timely information*—To streamline interactions, the IRS should provide: (1) a secure communications platform (for two-way communication with tax professionals); (2) a robust tracking system (similar to Where's my Refund?) for notices, ITIN applications, time-stamped responses, confirmations of receipt, and other correspondence; (3) an efficient process for taxpayers to authorize third parties; and (4) an online professional account (with single sign-on for access to all of their clients' information, not just one client.) Authentication for accessing information must be strict, but manageable.

– *Access to tailored resources*—The vast majority of resources have traditionally focused on taxpayers. Other customers, such as tax professionals and hard to serve taxpayers with differing needs, should not be forced to use platforms/resources designed for general taxpayers. The IRS would create efficiencies by developing resources to serve tax professionals (who represent the majority of taxpayers, including taxpayers served by low-income clinics). The IRS also should form focus groups to better understand how particular taxpayers (that are not currently served by traditional resources) best receive information.

[14] Taxpayer First Act Report to Congress, January 2021, page 107.

COMPREHENSIVE TRAINING STRATEGY

The IRS's strategy on training should include customer-focused subject matters, a consistent and high-quality format, and the leveraging of trained employees.

– *Customer-focused subject matters*—In addition to substantially enhancing the way it teaches core and advanced tax law, the IRS should fundamentally prioritize the training it provides employees on: (1) general customer service; (2) procedural issues; and (3) real-life business practices and taxpayer limitations.

– *Consistent and high-quality format*—To deliver training comparable to the private sector, the IRS should: (1) standardize its approach (perhaps through an IRS University); (2) modernize its approach to training, including implementing current training best practices and offering interactive options; (3) leverage the experience of tax professionals; and (4) use subject matter experts with strong instructional skills (internal and external) to train employees. If an internal "IRS University" is deemed unfeasible, we recommend a centralized and more coordinated oversight of cross-organization specialized training to ensure consistency and quality.

– *Leveraging of trained employees*—Given the limitations, we recognize it is not realistic to fully train all the IRS employees on the large scope of the tax laws and procedures. Therefore, we recommend that IRS assistors operate in teams (or "pods") that allow general assistors to immediately transfer more complex issues to higher skilled assistors with specialized training.

IRS REDESIGN PLAN

The IRS's comprehensive plan to redesign the organization should incorporate a customer-focused culture, provide an integrated technological infrastructure, and create a dedicated Practitioner Services Division.[15]

– *Customer-focused culture*—To improve customer service, the IRS should (1) adopt a business-like approach to maximize its efficiencies; (2) embrace a mind set as if there were a competitive incentive to provide stellar service; (3) partner with external stakeholders to efficiently leverage private sector best practices; and (4) develop metrics based on quality of service instead of the number of touches with taxpayers and metrics that will help determine the success of implementing the TFA.

– *Integrated technological infrastructure*—The IRS currently has a significant number of legacy systems that prevents it from using current and evolving technology. Therefore, we recommend the IRS move to a platform company model in which the technological infrastructure allows for integration and coordination of information throughout the organization. An integrated infrastructure will ultimately allow the IRS to meet the needs of both the taxpayers and their representatives in an efficient and timely manner. Furthermore, the IRS should explore the efficiencies of cost and timeline of implementation with inhouse development as well as outsourcing. Many partner organizations, such as banks, software companies and municipalities, are currently utilizing the technological platforms and understand the benefits and challenges of implementing the platforms. Outsourcing could potentially allow the IRS to remain current from a technological perspective.

– *Dedicated Practitioner Services Division*—Practitioners play a vital role in tax administration. In order to enhance its relationship with the practitioner community, the IRS should commit to a Practitioner Services Division. Without a dedicated "executive-level" Practitioner Services Division that can participate in the design of key practitioner-impacting policies and programs, the IRS will not achieve the success it desires with the tax preparer community.[16] At a minimum, the Practitioner Services Division should: (1) engage with the tax professional community; (2) ensure practitioner feedback is acted upon through a liai-

[15] This recommendation is consistent with previously submitted recommendations: Tax professionals' coalition letter, "Ensuring a Modern-Functioning IRS for the 21st Century," April 3, 2017; AICPA comment letter, "Taxpayer First Act Discussion Draft," April 6, 2018; and NAEA white paper, "Creating a Taxpayer-Focused Internal Revenue Service," January 15, 2020.

[16] Tax professionals represent millions of taxpayers, including 58.34 percent of all e-filed returns in 2019, according to the Filing Season Statistic for Week Ending November 22, 2019.

son with all major operating divisions; (3) maintain robust practitioner hotlines; and (4) provide an online tax professional account.

(2) Resources for the Internal Revenue Service

We understand that enforcement is an important aspect of the responsibilities of the IRS, however, enforcement actions must be in balance with the services the IRS provides to taxpayers. In order to meet the needs of taxpayers, we encourage the IRS to strive to be a modern-functioning IRS for the 21st century. A modern-functioning IRS prioritizes customer satisfaction, including from enforcement actions, a modernized technological infrastructure, and provides IRS employees with the experience and training to understand and address taxpayer needs.

The legislative and executive branches should determine the appropriate level of service and compliance necessary for the IRS to provide and dedicate adequate resources for the agency to meet those goals. Given the historic low levels of IRS taxpayer services, we are concerned about a possible imbalance between the funding for taxpayer services and enforcement.

OTHER AREAS OF CONCERN

1. FILING DEADLINE

Discussions regarding the viability of the April 18th tax return due date have been flourishing. AICPA members are split in opinion on the due date although a majority prefer that April 18th not be changed. And of those who prefer that the date change, there is no unanimity as to the month of postponement with their choices mainly split between May, June, and July, with other months cited as well.

AICPA is not currently advocating for a change but will closely monitor the situation as we move through tax filing season. However, practitioners are unified on at least one point: if the IRS does opt to extend the filing season, that decision should be made early, and the extension should apply to both return filing and tax payments including estimated tax due dates.

2. TELEPHONE CALL SERVICES

Because of the unprecedentedly low IRS telephone response rates,[17] practitioner use of commercial telephone call services, such as enQ, have prospered. At least one congressional inquiry[18] has asked IRS Commissioner Rettig to evaluate whether these commercial services are impacting the capacity of IRS systems and that he consider "all potentially applicable remedies." In addition, media reports[19] indicate that IRS is looking into the issue.

The AICPA has no position regarding the use of commercial telephone services; however, we note that their growing use is symptomatic of degraded IRS service levels.

3. TIMING OF THE USE OF THE NEW SCHEDULES K–2 AND K–3

The AICPA, the tax return preparer community, and taxpayers welcome any and all relief that the IRS can provide for the expanded international reporting on Schedules K–2 and K–3. A streamlined and expanded reporting tool of complex matters through fiscally transparent entities was undeniably necessary. However, with further clarification needed on the actual mechanics of filing, along with the late IRS announcement expanding expectations for reporting with regards to foreign tax credits, the tax system has been left confused and in disarray.

Given IRS's already unprecedented processing backlogs, the AICPA has deep concerns that implementing these new requirements will ultimately exacerbate the significant challenges everyone in the tax administration community currently faces. We therefore recommend that the IRS delay the implementation of the Schedules K–2 and K–3 to at least the 2023 tax filing season (the 2022 tax year). Delaying the filing of Schedules K–2 and K–3 will provide the IRS with additional time to properly complete the Modernized e-File (MeF) acceptance of these forms in electronic format and allow the tax professional community to appropriately apply the expanded guidance and scope only recently announced in updates to the final instructions.

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[17] *See* footnotes 2 and 3.

[18] Letter to IRS Commissioner Charles P. Rettig, November 18, 2021, from Senators Bill Cassidy, Robert Menendez, Todd Young, and Mark Warner.

[19] "IRS Looking Into Phone-Line-Jumping Service," *Tax Notes,* November 8, 2021.

CONCLUDING REMARKS

From a broad policy perspective, this year, the IRS should liberally waive penalties for late filing returns or late payments that are delayed both due to the effects of the Coronavirus on taxpayers and their advisers as well as unprecedentedly low IRS service levels. Furthermore, the procedures for granting penalty relief should be expedited and adjusted so that the procedures reduce the burdens placed on the taxpayer, the practitioner, or the IRS. Indeed, the IRS has indicated that it still has a 23-million-piece return, adjustment, and mail backlog, questioning the efficacy of requiring abatement requests in writing. An expedited and streamlined reasonable cause penalty abatement process is both necessary and appropriate to provide the needed penalty relief during these extraordinary circumstances.

The AICPA appreciates the opportunity to submit this written statement for the record in support of taxpayers and the tax system.

QUESTIONS SUBMITTED FOR THE RECORD TO JAN F. LEWIS

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. You and the AICPA have submitted many recommendations to the IRS regarding the improvement of their return processing time. One of those recommendations is to halt temporarily the sending of all automated compliance actions to taxpayers.

How do you believe halting the transmission of all automated compliance actions can improve return processing times?

Answer. After July 15, 2020, once the People First Initiative expired, taxpayers started to receive millions of incorrect notices and actions. In response to those incorrect notices, taxpayers flooded the IRS call lines or submitted paper correspondence in hopes of resolving the notices. These attempts to resolve the notices are often unsuccessful, in part because taxpayers or their practitioners simply cannot connect with IRS staff, and needlessly consume IRS resources. By halting more automated compliance actions the IRS should have the ability to devote more resources into improving return and correspondence processing times and thereby stopping the continual cycle of inappropriate IRS compliance activities. The key issue here is that if we are able to stop much of the correspondence and phone calls coming into the IRS as a response to these incorrect notices or as a response to follow-up notices that keep coming out, IRS personnel will have more of a chance to clear the backlog of returns and correspondence and answer the phone calls from taxpayers and practitioners.

Question. While the IRS has already suspended sending eight types of notices to taxpayers, what other additional notices should the IRS immediately stop sending?

Answer. As of March 10, 2022, it is still unclear what additional notices the IRS believes it can and should unilaterally suspend, which is why it is important that the IRS immediately provide to Congress the additional notices they have the power to suspend; the additional notices they do not think should be suspended; and any notices that require congressional action to suspend. We believe the IRS has broad authority to suspend more notices and that they ought to announce a comprehensive plan for notice suspension as soon as possible.

Question. What do you believe are the risks to taxpayers associated with temporarily halting all automated compliance actions?

Answer. We believe the risks of temporarily halting all or a vast majority of automated compliance actions are small since it is temporary and therefore a timing issue. However, some taxpayers may be under the impression that they do not have to pay their tax liabilities when notices are suspended. We appreciate that but believe that the IRS and the National Taxpayer Advocate have made it clear that taxpayers still have tax obligations. We understand that taxpayers may need some notice information to pay their taxes in a timely manner, but in the vast majority of the automated compliance actions issues we are concerned about the notices are not advising of a tax liability that is correct and agreed upon. They are requiring more information to determine whether additional tax is owed at all—thus, they are adding to the backlog.

Question. During your hearing testimony, you mentioned that a large percentage of the clients you assist are small businesses.

What are the biggest challenges you and your small business clients encounter when interacting with the IRS?

Answer. Small businesses receive many erroneous notices, and they, much like individual taxpayers, also are unable to communicate with the IRS right now. One of the biggest IRS problems currently facing small businesses is that processing backlogs have delayed certain pandemic-relief refunds like the Employee Retention Credit (ERC). IRS Notice 2021–49 mandates that an employer claiming the ERC must reduce the deduction for the corresponding wages on their Federal income tax return in the taxable year the wages were paid or incurred. Due to delays in processing ERC claims and the timing of the inclusion of additional income in 2021 Federal income tax returns due March and April of 2022, many taxpayers will be responsible for an additional cash outlay before receiving the ERC refund. This creates a cash-flow issue for small businesses and minimizes the positive impact of the pandemic related relief.

Also, given the inability to get paper returns timely processed and the difficulty in getting the IRS to answer the phone, taxpayers are enduring hardships waiting for refunds due from originally filed income tax returns and refunds from amended income tax returns for loss carrybacks.

Small businesses have endured ongoing hardships due to the IRS delays. Since many small businesses operate as pass-through entities the repercussions of the problems end up affecting both the business and the individual owners.

Question. As you know, millions of taxpayers and thousands of small businesses have experienced extraordinary challenges throughout the pandemic. In many cases, those challenges have resulted in taxpayers and small businesses being unable to meet certain filing deadlines. In your testimony, you expressed the need for the IRS to "liberalize the reasonable cause penalty waiver process."

What specific actions do you recommend the IRS take as it relates to its process for providing penalty relief due to reasonable cause? Which of those recommendations do you believe the IRS could implement immediately to streamline penalty relief for individual taxpayers and businesses?

Answer. The IRS could immediately offer a reasonable cause penalty waiver, similar to the procedures of first time abate administrative waiver, based on the myriad effects of the COVID–19 pandemic on both the taxpayer and the practitioner. Additionally, a taxpayer's eligibility for first time abate should not be affected in future tax years even if the taxpayer was granted penalty relief due to Coronavirus effects.

Question. What are the biggest challenges your members and their clients encountered when attempting to request penalty relief due to reasonable cause from the IRS?

Answer. In our profession's experience, it seems that the IRS consistently and automatically denies reasonable cause penalty abatement requests. While the taxpayer can appeal the denial, that exacerbates the backlog in appeals and creates a dilemma for taxpayers who may not have the time or the ability to pay a professional to represent them to follow through on the issue. Oftentimes, a taxpayer will pay a penalty that should be abated only to avoid this and to stop the continuing cycle of notices that cause stress to the taxpayer. The IRS should honor reasonable cause penalty abatement requests when a taxpayer qualifies for reasonable cause relief.

Additionally, the current reasonable cause abatement procedures require taxpayers to submit written correspondence. This further adds to the backlog and forces the taxpayer to wait many months for a response. Though the IRS said in 2020 that they would offer an option to call in or e-fax the abatement request, the telephone assistors are unaware of this option and often request taxpayers submit written correspondence.

Question. On February 2, 2022, I joined all of my Senate Finance Committee Republican colleagues on a letter expressing the need for Congress to reconsider the proposed tax on financial statement income of U.S. companies, or otherwise known as the "book minimum tax," which was included in the House-passed version of the

Build Back Better Act (H.R. 5376).[1] I understand the AICPA also submitted a similar letter to Congress expressing concern with the book minimum tax.

What do you believe are the fundamental flaws of the book minimum tax?

Answer. The introduction of a corporate minimum tax based upon financial statement income takes the definition of taxable income out of Congress's hands and puts it into the hands of industry regulators and others. There are many key conceptual differences between financial income and taxable income, including the idea of materiality. Public policy taxation goals should not have a role in influencing accounting standards or the resulting financial reporting. Independence and objectivity of accounting standards are the backbone of our capital markets system. A corporate book minimum tax would substantially increase the complexity of the Internal Revenue Code and would present a fundamental shift in the taxation of U.S. entities, with uncertain results to taxpayers and a costly compliance requirement.

Question. If implemented, how would a book minimum tax affect U.S. investment, competitiveness, and jobs?

Answer. The new minimum tax would eliminate tax breaks, such as benefits for new capital investments, that Congress has put in place to achieve other policy goals. The tax will likely lead companies to alter what they report to their shareholders and would tarnish the value of reporting book income, which is very important to various stakeholders such as investors and creditors and will lead to less transparent information for financial markets. Disincentivizing certain tax breaks through the minimum tax will create many unintended consequences that will be harmful to the economy, such as limiting clean energy investment. The introduction of a corporate minimum tax that is not based on tax law will not simplify the tax system, will not be neutral with respect to decision making by management, or promote economic growth and efficiency. It will not be transparent or minimize the tax gap. This will directly lead to an adverse impact on U.S. investment, competitiveness, and jobs.

Question. As you noted in your testimony, some of my Senate Finance colleagues and I wrote a letter to IRS Commissioner Rettig last year regarding a company called "enQ" that floods the IRS with robocalls and sells front-of-the-line access to individuals paying as much as $1,000 a year.[2]

I understand from your testimony that the AICPA has no position regarding the use of commercial telephone services. However, at a general level, do you believe taxpayers or tax professionals should have to pay money to a private company in order to reach someone at the IRS in a timely manner?

Answer. No, I do not believe it is fair that some practitioners feel that they need to pay money to a private company in order to reach someone at the IRS. This service exists because it is a symptom of the degraded IRS service levels which need to be addressed.

Question. During the hearing, we heard the National Taxpayer Advocate comment that "paper is the [IRS's] kryptonite." I would imagine tax practitioners have similar sentiments.

From a practitioner's standpoint, can you please briefly comment on the IRS's management of paper submissions?

Answer. From a practitioner's standpoint, for many years prior to COVID, the IRS's ability to timely respond to written communications has been the top area that, if improved, would have the biggest impact on their practice. Knowing there is a 23-million-piece return and correspondence backlog at the IRS creates a sense of helplessness amongst practitioners. Without immediate actions to meaningfully reduce the backlog, we fear that next year's filing season could be problematic as well.

Question. What recommendations would you make to address the IRS's "paper kryptonite" issue?

Answer. From a broad policy perspective, this year, the IRS should liberally waive penalties for late filing returns or late payments that are delayed both due to the effects of the Coronavirus on taxpayers and their advisers as well as unprec-

[1] *https://www.young.senate.gov/newsroom/press-releases/young-finance-committee-members-congress-should-close-the-book-on-the-failed-book-minimum-tax.*

[2] *https://www.young.senate.gov/newsroom/press-releases/young-joins-colleagues-to-urge-irs-to-investigate-enqs-pay-for-service-scheme.*

edentedly low IRS service levels. Furthermore, the procedures for granting penalty relief should be expedited and adjusted so that the procedures reduce the burdens placed on the taxpayer, the practitioner, or the IRS. The IRS has indicated that it still has a 23-million-piece return, adjustment, and mail backlog, which questions the requirement for penalty abatement to be in writing. An expedited and streamlined reasonable cause penalty abatement process is both necessary to provide the needed penalty relief during these extraordinary circumstances. Finally, we call on IRS to delay for 1-year the implementation of the Schedules K–2 and K–3. The recent transitional relief IRS provided is confusing and insufficient. In addition, IRS's e-file system does not currently accept those schedules. Collectively, all these efforts will help address the IRS "paper kryptonite" issue.

PREPARED STATEMENT OF JESSICA LUCAS-JUDY, DIRECTOR, STRATEGIC ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE

TAX FILING

Preliminary Observations on IRS's Efforts to Address Persistent Challenges

WHY GAO DID THIS STUDY

During the annual tax filing season, generally from January to mid-April, IRS processes more than 150 million individual and business tax returns and provides telephone, correspondence, online, and in-person services to tens of millions of taxpayers. To accommodate new tax legislation and provide additional relief to taxpayers, IRS extended the 2021 individual filing and payment deadline by 1 month to May 17, 2021.

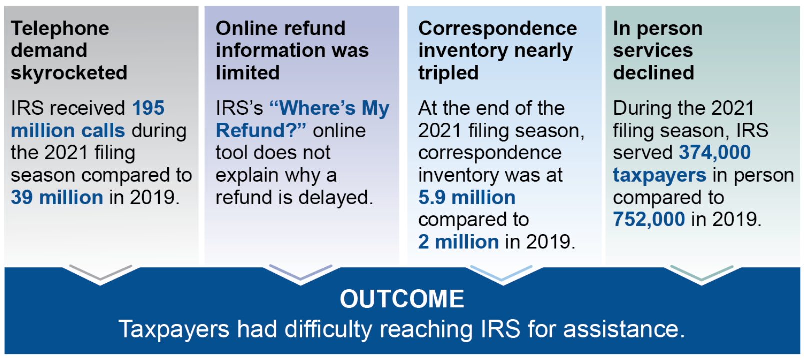
GAO was asked to testify on IRS's performance during the 2021 filing season. This statement summarizes GAO's findings from prior reports and preliminary observations from ongoing work describing IRS's performance during the 2021 filing season on (1) processing individual and business income tax returns, and implications for the 2022 filing season; and (2) providing customer service to taxpayers.

GAO analyzed IRS documents and data on filing season performance, refund interest payments, hiring, and employee overtime; and interviewed cognizant officials. GAO also updated selected information from March 2021 (GAO–21–251), January 2020 (GAO–20–55), and March 2019 (GAO–19–176) reports.

WHAT GAO FOUND

IRS experienced multiple challenges during the 2021 filing season as it struggled to respond to an unprecedented workload that included delivering COVID–19 relief. IRS began the filing season with a backlog of 8 million individual and business returns from the prior year that it processed alongside incoming returns. IRS reduced the backlog of prior year returns, but as of late December 2021, had about 10.5 million returns to process from 2021. For the current filing season, IRS will need to process the remaining returns from 2021 along with incoming returns from 2022 and may need to rely on overtime to do so. IRS also expects about 21 million returns to be stopped for errors associated with recent tax law changes.

Challenges with IRS Customer Service during the 2021 Filing Season



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-105802

In 2021 IRS answered more phone calls than in recent years, but taxpayers had a difficult time reaching IRS due to high call volumes. IRS expects customer service representatives to answer about 35 percent of incoming calls during the 2022 filing season.

To help manage high call volumes, IRS urged taxpayers to access its Where's My Refund? online tool to get refund status information. This tool provides limited information on refund status and delays. GAO's preliminary observations indicate IRS has no plans to modernize Where's My Refund?, although this could help IRS better serve taxpayers, lower call volume, and reduce costs. In ongoing work, GAO plans to further review this issue.

IRS also struggled to respond to taxpayer correspondence. IRS's correspondence inventory grew to more than 8 million by the start of 2022. IRS expects this inventory to exceed 10 million by the end of fiscal year 2022—more than triple what it was as of the end of fiscal year 2020. This backlog will be difficult to manage as IRS balances prioritizing telephone calls from taxpayers with responding to incoming correspondence in 2022.

Finally, in-person service visits have significantly declined since 2015. IRS officials attributed the decline to the ongoing impacts of the pandemic and the option for taxpayers to use services via the phone and online.

Chairman Wyden, Ranking Member Crapo, and members of the committee, I am pleased to be here today to discuss preliminary observations from our ongoing work on the tax filing season, including challenges IRS faces in processing returns and correspondence.

Every tax filing season is a large-scale, critical operation during which the IRS processes more than 150 million individual and business tax returns electronically or on paper, issues hundreds of billions of dollars in refunds, and provides customer service to tens of millions of taxpayers. IRS has experienced several challenges in recent years, including difficulty hiring workers to process returns, implementing notable tax law changes, and, most recently, managing the 2020 and 2021 filing seasons during the COVID–19 pandemic.

As a result of the CARES Act and other pandemic relief legislation, IRS and the Department of the Treasury have been given additional responsibilities.[1] For example, during the 2021 filing season, IRS was responsible for issuing a third round of Economic Impact Payments to millions of taxpayers and establishing capabilities to issue monthly Advance Child Tax Credit payments to eligible taxpayers starting in

[1] CARES Act, Pub. L. No. 116–136, 134 Stat. 281 (2020). The American Rescue Plan Act of 2021 (ARPA) authorized the IRS and the Department of the Treasury to issue advance payments of the Child Tax Credit, as amended by ARPA, and to issue direct payments known as Economic Impact Payments, to eligible individuals to help address financial stress due to the pandemic. Pub. L. No. 117–2, §§ 9601, 9611, 135 Stat. 4, 138, 144 (2021).

July 2021.[2] IRS also had to manage its typical filing season operations—such as updating its systems and procedures to incorporate tax law provisions enacted in early 2021—and processing millions of backlogged returns from the 2020 filing season along with incoming returns from 2021.[3] To accommodate this and provide additional relief to taxpayers, IRS delayed the 2021 filing season by about 2 weeks to February 12, 2021, and extended the 2021 Federal individual income tax filing deadline from April 15, 2021, to May 17, 2021.

In my statement today, I will draw on data and preliminary results from our ongoing work to discuss IRS's performance on (1) processing tax returns during the 2021 filing season, and implications for the 2022 filing season; and (2) providing customer service to taxpayers. Our ongoing work also updates selected information from three prior reports, published in March 2021, January 2020, and March 2019.[4]

For the ongoing work on which this statement is based, we analyzed IRS's 2021 weekly filing season performance data on processing electronic and paper tax returns for individuals and businesses and issuing refunds. We also analyzed individual and business tax return data from IRS's Compliance Data Warehouse from October 1, 2014 through September 30, 2021 to identify refund interest payments by fiscal year and other characteristics of the returns, such as whether the returns were amended. In addition, we analyzed IRS's 2021 weekly filing season performance data on providing customer service (via telephone, online, correspondence, and in person), and the results of IRS's online survey about user satisfaction with its Where's My Refund? application (January 2018 to October 2021). We also analyzed IRS data on correspondence inventory to report on IRS's performance responding to paper or digital taxpayer communications and amended returns within prescribed time frames. We reviewed data reports on the volume of in-person services IRS provided during 2021. Additionally, we analyzed IRS's data on hiring during 2021 and its use of overtime. We compared IRS's 2021 filing season performance data on returns processing and customer service to performance data from prior filing seasons, as appropriate, and average performance data from prior filing seasons. We also reviewed relevant documentation and interviewed IRS officials.

The data we reviewed were the most recent available at the time of our work. We assessed the reliability of the data by reviewing existing information and interviewing agency officials. Where appropriate, we performed electronic testing and compared our results with other sources.

We determined that these data were sufficiently reliable to address our reporting objectives. We provided a draft of this statement to IRS officials for technical review and incorporated their technical comments as appropriate.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.[5]

IRS HAD CHALLENGES PROCESSING TAX RETURNS DURING THE 2021 FILING SEASON, RESULTING IN DELAYS AND INCREASED COSTS

IRS Began the 2021 Filing Season With a Large Backlog of Returns

IRS's ability to process returns was hindered, in part, by a backlog of millions of unprocessed returns from the prior year. The majority of these returns were paper, which take longer to process. As we reported in March 2021, the COVID–19 pandemic created challenges for IRS during the 2020 filing season because IRS had to close return processing centers and manage the filing season with reduced staff,

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[2] As of December 10, 2021, IRS had issued about $410 billion to about 176 million taxpayers for the third round of Economic Impact Payments.

[3] GAO, *Tax Filing: Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season,* GAO–21–251, (Washington, DC: March 1, 2021). We reported that as of December 2020, IRS had more than 13 million unprocessed 2020 returns and about 4 million pieces of taxpayer correspondence that required IRS's review and response.

[4] GAO–21–251; GAO, *2019 Tax Filing: IRS Successfully Implemented Tax Law Changes but Needs to Improve Service for Taxpayers With Limited-English Proficiency,* GAO–20–55 (Washington, DC: January 15, 2020); and *Internal Revenue Service: Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission,* GAO–19–176 (Washington, DC: March 26, 2019). We plan to issue our upcoming report on the filing season in early spring 2022.

[5] We have been conducting our ongoing audit work since February 2021.

particularly for in-person work.[6] As of the end of December 2020, IRS had about 13.1 million unprocessed 2020 filing season returns.[7] By mid-February 2021, as the 2021 filing season began, IRS had reduced the backlog to about 8 million.

IRS had to process the remaining backlogged returns and incoming 2021 returns simultaneously. In March 2021, IRS officials said this was a challenging task. For example, the returns from 2020 had to be handled as prior year returns, and required manual, time-consuming coding and editing of return information in IRS's systems. In our ongoing work, IRS officials also said they had to train additional returns processing staff on processing prior year returns. Meanwhile, IRS had to continually adjust staffing and prioritize workloads at processing centers to manage returns from both years.[8] As a result, from February to August 2021, IRS required returns processing staff to work 10 hours of overtime per week to help address the dual inventory of returns and correct returns suspended due to errors, as discussed later in this testimony.

IRS gradually reduced the backlog to about 1.2 million by the end of the 2021 filing season in mid-May, as we reported in July 2021.[9] IRS reported that as of early June 2021, it had entered all of the individual returns it received in 2020 into its processing systems. In our ongoing work we found that in mid-December 2021, IRS completed entering all remaining business returns from 2020 into its systems for processing.[10]

Our preliminary observations indicate IRS will have a return backlog again this filing season. As of the end of 2021, IRS had about 10.5 million 2021 returns that had not been fully processed due to the additional workload of processing the 2020 backlog, along with other issues discussed in this testimony such as the high volume of returns with errors and staffing challenges. IRS may need to again rely on overtime to process the backlog along with new incoming returns from 2022.

IRS Suspended Millions of Returns With Errors Related to Pandemic Relief, Leading to Processing and Refund Delays

From January to November 2021, our preliminary observations indicate IRS suspended about 35 million individual and business returns in its Error Resolution System (ERS). As shown in figure 1, IRS suspended about 86 percent (16 million) more returns in ERS in 2021 compared to the average volume of returns with errors from 2017 to 2019, which were more typical filing seasons.[11] These returns were suspended because they contained errors that prevented IRS's systems from processing the returns automatically, such as math errors or discrepancies in income amounts reported on the taxpayer's return that did not match IRS records. To reconcile the errors, IRS staff review the suspended returns, which can take substantially longer than automated processing and can delay refunds.

[6] GAO–21–251.

[7] Unprocessed returns include those filed on paper or electronically that IRS received but had not fully processed, and returns suspended due to errors, such as math errors, or potential fraud.

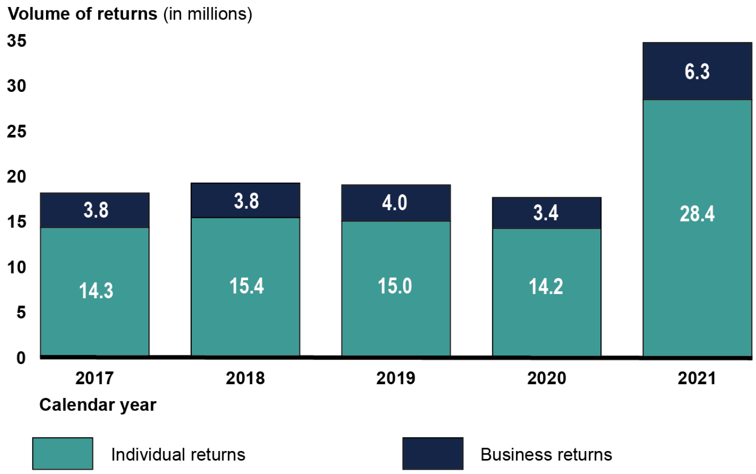
[8] IRS used a first-in, first-out method to prioritize 2020 returns, meaning prior year returns received first were processed first. Since 2020 and 2021 returns were processed simultaneously, 2020 returns were not necessarily prioritized over 2021 returns due to the fact they were received first. Rather, IRS developed strategies to ensure both year returns could be processed in the order in which they were received. IRS officials also stated that in April and May 2021, they shipped backlogged 2020 returns between processing centers to better match workloads at each center with available resources.

[9] GAO, *COVID–19: Continued Attention Needed to Enhance Federal Preparedness, Response, Service Delivery, and Program Integrity,* GAO–21–551 (Washington, DC: July 19, 2021).

[10] Once returns are entered into IRS's processing systems, the returns may still not be fully processed and refunds provided to the taxpayer if the return was stopped for various reasons. These reasons include a miscalculated tax credit, incorrect Social Security number or Employer Identification Number, or suspected fraud.

[11] For comparison, we calculated the average volume of returns in ERS from 2017 to 2019. We excluded 2020 from this calculation because it was an atypical filing season, due to the impacts of the COVID–19 pandemic.

Figure 1: Total Volume of Returns IRS Suspended in Its Error Resolution System, 2017 through November 2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-105802

Note: IRS's Error Resolution System (ERS) is a computer program that identifies problems with tax returns that must be reviewed and corrected before IRS can continue processing the return. IRS has the authority to correct some types of errors; other errors require the taxpayer to provide additional information. Data represent the total volume of returns IRS suspended in ERS during each calendar year. Data from 2021 are current as of November 27, 2021. The volume for 2021 may include returns from the 2021, 2020, or an earlier filing season because, according to officials, IRS cannot differentiate between current and prior year returns in ERS.

In March 2021, IRS officials said that they anticipated an increase in errors during the 2021 filing season due to the Recovery Rebate Credit and other tax law changes, but the volume of errors was much higher than expected.[12] The need to manually review and correct errors led to refund delays of up to several months for millions of taxpayers.[13]

In December 2021, as part of our ongoing work, IRS provided documentation indicating that during the 2022 filing season it expects about 21 million returns to be stopped for errors associated with recent tax law changes.[14] Officials said that they plan to adjust their systems for the 2022 filing season to automate selected ERS processing functions and identify returns that could be processed more quickly. According to IRS documentation, this adjustment will help to streamline the workflow and allow IRS to process returns with errors more efficiently.

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[12] Consolidated Appropriations Act, 2021, Pub. L. No. 116–260, § 272, 134 Stat. 1182, 1965–76 (2020) and American Rescue Plan Act of 2021, Pub. L. No. 117–2, § 9601, 135 Stat. 4, 138 (2021). The Recovery Rebate Credit was new for the 2021 filing season and required taxpayers to report the total amount they received for two economic impact payments during 2020. To the extent the amount taxpayers received was less than the credit amount for which they were eligible, taxpayers could claim a credit for that amount. If the credit the taxpayer claimed exceeded the amount in IRS's records, IRS suspended the return for manual review.

[13] Beginning in late July 2021, IRS's website stated that individual returns suspended due to RRC and refundable credit errors were taking longer than the normal 21 days to process, and that taxpayers should expect their return to be delayed for up to 120 days.

[14] IRS projected that about 17 million returns filed during the 2022 filing season will be stopped for processing due to changes in the Child Tax Credit, and about 3.6 million returns will be stopped due to the new Refundable Child and Dependent Care Credit. IRS's projections also indicate that if a return is stopped for errors, the taxpayer may need to wait 3 to 6 months before receiving their refund. IRS's planned improvements to ERS processing is intended to shorten this time frame for some taxpayers.

Nearly $14 Billion Dollars Has Been Paid in Refund Interest Since 2015

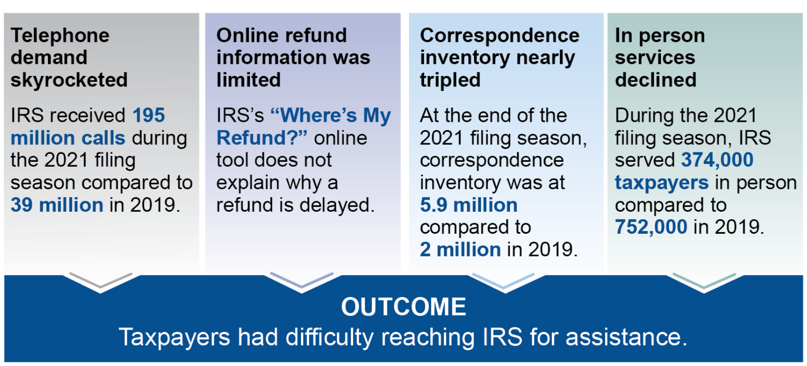
In March 2021, we reported that IRS paid a total of $3.03 billion in interest on refunds to individual and business taxpayers in fiscal year 2020.[15] This was about a 50-percent increase compared to the $2.06 billion in refund interest that IRS paid in fiscal year 2019. IRS officials told us that the increase in refund interest during fiscal year 2020 was due to circumstances out of IRS's control as a result of the COVID–19 pandemic. These circumstances included the extended 2020 filing and payment deadline of July 15, 2020, and the requirement for IRS to pay more refund interest to individuals than initially expected due to the Federal disaster declaration.

Our preliminary findings indicate that total interest payments on refunds increased further in fiscal year 2021. According to our ongoing analysis, IRS paid a total of $3.27 billion in interest on refunds in fiscal year 2021, about an 8-percent increase over refund interest paid in fiscal year 2020. From fiscal years 2015 to 2021, IRS has paid a total of about $13.85 billion in interest on refunds. We are analyzing data on refund interest payments and further exploring factors that may have contributed to increases.

TAXPAYERS STRUGGLED TO GET HELP FROM IRS DURING THE 2021 FILING SEASON

Our ongoing review shows that taxpayers experienced challenges obtaining assistance from IRS during the 2021 filing season compared to the 2019 filing season (see figure 2).[16]

Figure 2: Challenges with IRS Customer Service during the 2021 Filing Season



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-105802

Taxpayers Had Difficulty Reaching IRS Customer Service Representatives on the Telephone

IRS answered more calls during the 2021 filing season than in the last four filing seasons, but our preliminary findings indicate an unprecedented increase in taxpayer inquiries by telephone resulted in a low level of taxpayer customer service overall. As shown in figure 3, customer service representatives (CSR) answered about 36 percent (2.9 million) more calls during the 2021 filing season than the 2019 filing season. However, from January 1 to the end of the filing season on May 17, 2021, IRS received about 195 million calls from taxpayers seeking assistance, compared to about 39 million calls during the same period in 2019, which is about a 400 percent increase.[17] Further, each filing season includes calls that ultimately

[15] GAO–21–251.

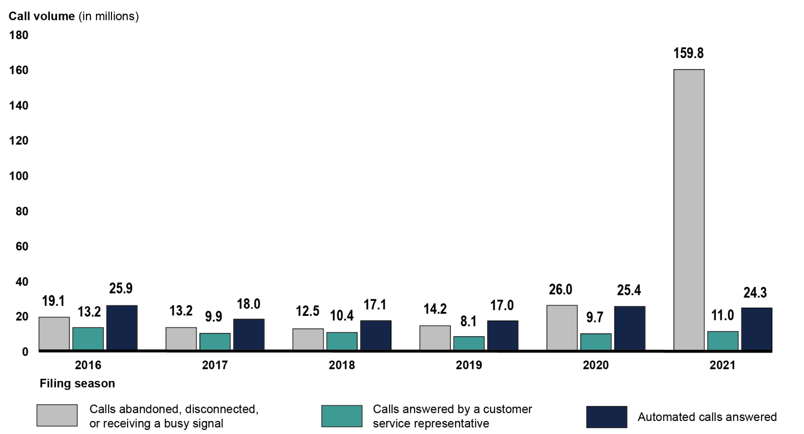
[16] We compared IRS's performance in providing customer service during the 2021 filing season to the 2019 filing season because during the 2020 filing season, IRS offices were closed and customer service operations were suspended for several weeks due to the COVID–19 pandemic.

[17] We calculated the total number of taxpayer calls as those (1) answered by a CSR; (2) that used IRS's automated tools such as automated account information; and (3) that the taxpayer abandoned, received a busy signal, or IRS disconnected.

do not get through to a CSR. During the 2021 filing season, about 159.8 million incoming calls did not reach IRS:

- IRS disconnected 102.9 million calls (53 percent) due to lack of CSR availability;
- Taxpayers abandoned 52.5 million calls (27 percent); and
- Taxpayers received a busy signal on 4.4 million calls (2 percent).

Figure 3: IRS Telephone Call Volume, Filing Seasons 2016 through 2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-105802

Note: Telephone call data for the filing season are cumulative from January 1 of each year to April 23, 2016; April 22, 2017; April 21, 2018; April 20, 2019; July 15, 2020; and May 17, 2021, respectively. Numbers may not sum to totals due to rounding. Data from 2019 do not include calls answered by a CSR, those that received a busy signal, or were disconnected because IRS was not answering calls due to a 5-week lapse in appropriations. For 2020, live telephone assistance was completely unavailable between late March and late April due to IRS closing all processing and customer service sites during the COVID-19 pandemic. IRS re-opened live telephone assistance for identity theft-related issues on April 27, 2020, and IRS began opening additional phone lines on May 11, 2020. All customer service telephone lines were open during the 2021 filing season.

Additionally, figure 3 shows that taxpayers' use of automated call assistance increased by about 43 percent (7.3 million calls) compared to 2019. Using IRS's automated call services, taxpayers can listen to recorded information to help answer a tax law question or access automated account information such as a balance due.

IRS officials attributed the volume of calls in 2021 to the impacts of the COVID–19 pandemic, including taxpayer questions about Economic Impact Payments and delayed refunds. In July 2021, we recommended that IRS update relevant pages of its website to help explain the nature and extent of refund delays to taxpayers and to help reduce the volume of incoming taxpayer calls.[18] Taxpayers also had questions about new provisions in ARPA, which, among other things, changed how much taxpayers were required to pay in taxes on unemployment income earned in 2020 and established monthly Advance Child Tax Credit payments for eligible taxpayers starting in July 2021.[19]

Although CSRs answered more calls overall during the 2021 filing season than in the last four filing seasons, officials stated that they still did not have enough staff to meet the demand for live taxpayer assistance. IRS customer service officials said that they hired about 3,800 customer service staff by the end of the filing season. However, officials explained that new CSRs have about 14 weeks of training

[18] GAO, *COVID–19: Continued Attention Needed to Enhance Federal Preparedness, Response, Service Delivery, and Program Integrity,* GAO–21–551 (Washington, DC: July 19, 2021). IRS took action to address our recommendation before we issued our final report by updating relevant pages of its website in June 2021.

[19] ARPA, which was enacted about a month after the start of the 2021 filing season, excluded up to $10,200 per person in 2020 unemployment compensation from taxable income calculations. The exclusion applied to individuals and married couples whose modified adjusted gross income was less than $150,000. IRS performed manual adjustments on relevant returns that were filed prior to ARPA's enactment. Pub. L. No. 117–2, § 9042, 135 Stat. 4, 122 (2021).

before they can work with taxpayers on the phone, meaning that these newly hired staff were unable to answer calls during IRS's busiest season. In addition, IRS officials said that the ongoing effects of the COVID–19 pandemic contributed to periods of reduced staffing and unexpected attrition, which also affected IRS's ability to meet taxpayers' needs for live telephone assistance.

As of November 2021, IRS officials stated that they expect CSRs to answer about 35 percent of incoming calls during the 2022 filing season. This figure is based on current projections for the volume of incoming calls and staffing levels. IRS officials described additional services to help manage high call volumes during the 2022 filing season, including implementing an online chat function on IRS's website and expanding its telephone call-back feature. However, limited information online about refund delays as well as delayed processing and responses to correspondence typically increase telephone calls to IRS as taxpayers seek information. Throughout the 2022 filing season, we will continue to monitor IRS's efforts to provide the level of telephone customer service that taxpayers and Congress expect.

Most Taxpayers Do Not Find IRS's Where's My Refund? Application Helpful and IRS Does Not Have Plans to Modernize It

Throughout the filing season, IRS consistently directed taxpayers to use IRS's online application Where's My Refund? to get the most up-to-date information about the status of their return and refund.[20] However, our ongoing review indicates Where's My Refund? provides limited information to taxpayers and taxpayers' satisfaction with the application has declined. IRS recognizes that Where's My Refund? has limitations, but it does not have plans to modernize or replace the existing application. According to IRS officials, this is due to limited information technology resources funding to address the technical limitations of the application's supporting infrastructure.

According to IRS, Where's My Refund? is IRS's most frequently used online service. In our ongoing review, we identified the following issues with the Where's My Refund? application:

Limited refund status information is available online. After taxpayers verify their identity, Where's My Refund? displays one of three statuses: (1) return received, (2) refund approved, or (3) refund sent. In the "return received" phase, taxpayers may also see a general message that IRS is processing their return. For returns where the refund has been sent, Where's My Refund? may also display information on the refund amount and any corrections IRS made to the return during processing.[21] However, our ongoing review found that Where's My Refund? does not provide taxpayers with additional status information between the "return received" and "refund approved" phases, which can take several weeks during a typical filing season. For example, the application does not alert taxpayers if processing has been suspended due to an error or other reason, which could delay refunds.[22]

As previously discussed, millions of taxpayer returns were stopped for manual review during the 2021 filing season that prevented IRS's systems from processing the returns automatically. In July 2021, IRS began posting regular updates on its "IRS Operations Status" webpage, informing taxpayers that some returns may take up to 120 days or longer to process due to the need for IRS staff to manually review returns containing errors. This was a positive step in communicating general information to taxpayers on IRS's processing delays. However, because taxpayers could not get detailed status information from Where's My Refund?, they continued to call IRS for live assistance or in some cases filed a second return, which created additional work for IRS staff.

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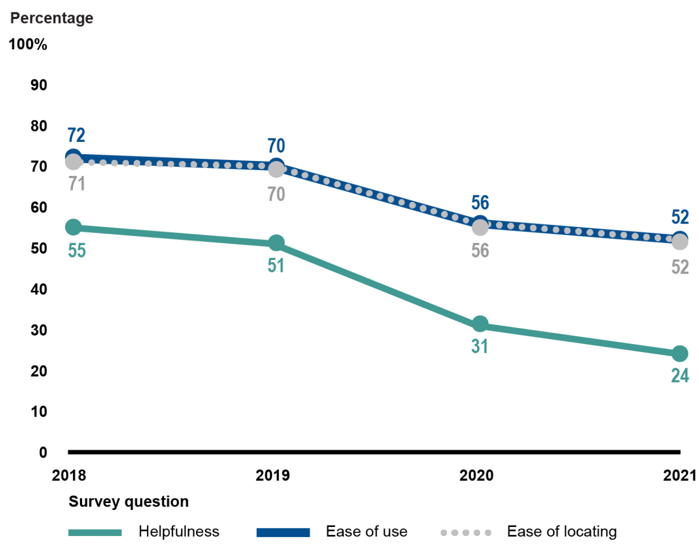
[20] IRS communicated this information on *IRS.gov,* during on-hold messages on its toll-free phone line for taxpayers, and in print materials. Taxpayers can access Where's My Refund? at *https://www.irs.gov/refunds,* or through IRS2Go, IRS's mobile phone application. Taxpayers are required to provide information to verify their identity before accessing their return and refund status information in Where's My Refund?

[21] This may include corrections to the refund amount, which IRS can make using its math error authority.

[22] In its annual report to Congress, the National Taxpayer Advocate cited similar limitations with IRS's Where's My Refund? application and the impact of the lack of useful refund status information on taxpayers and IRS. The National Taxpayer Advocate preliminarily recommended that IRS improve Where's My Refund?, IRS2Go (IRS's mobile application), or online accounts by providing taxpayers specific information about the cause of their refund delay and an estimated date when the IRS might issue their refund. In response, IRS stated that they plan to perform research to help inform potential updates to Where's My Refund? National Taxpayer Advocate, *Annual Report to Congress 2021* (Washington, DC: December 31, 2021).

User satisfaction has declined. All taxpayers who access Where's My Refund? have the option of answering three user experience survey questions, including a question on how helpful the application's information is regarding the status of their refund.[23] As shown in figure 4, results from IRS's survey from January 2018 to October 2021 show that user satisfaction with Where's My Refund? has declined in all three areas—helpfulness of information, ease of use, and ease of locating the application. In 2018, about 55 percent of taxpayers who responded to the survey were satisfied with the helpfulness of the information provided in the application; that measure declined to about 24 percent satisfaction in 2021.

Figure 4: Percentage of Users Satisfied with IRS's "Where's My Refund" Application, January 2018 to October 2021



Sources: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-105802

Note: The total number of responses for all three questions was: 654,814 (2018); 669,361 (2019); 1,619,701 (2020); and 2,469,115 (through October 19, 2021). The survey questions ask respondents to rate their satisfaction with: 1) the ease of locating the "Where's My Refund" application on IRS.gov; 2) the ease of using "Where's My Refund"; and 3) the helpfulness of the information received through "Where's My Refund." The data represent survey respondents who said that they were either "satisfied" or "somewhat satisfied" in response to the questions above. Taxpayer responses of "no answer" were not included in this analysis.

In November 2021, IRS officials stated that due to the limited information in the survey results, they do not use it in a meaningful way. For example, the survey does not allow taxpayers to provide specific feedback on the reasons for their dissatisfaction with Where's My Refund?, so that IRS could identify improvements. IRS officials attributed the more recent overall decline in user satisfaction with Where's My Refund? to pandemic-related processing delays and taxpayers' frustration with being unable to reach IRS for additional information on the status of their return or refund during the 2021 filing season.

However, the Where's My Refund? survey results show that in the 2 years prior to the start of the pandemic, only about half of taxpayers reported being satisfied with the helpfulness of the information provided in the application. These data may

[23] Taxpayers using the Where's My Refund? application must elect to take the survey; therefore, the survey results are not generalizable to all taxpayers who used the application from January 2018 to October 2021. The survey asks taxpayers to rate their satisfaction with: (1) the ease of locating the application on *IRS.gov;* (2) the ease of using the application; and (3) the helpfulness of the information received through the application. Responses were on a 6-point scale, ranging from "totally dissatisfied" to "satisfied." According to IRS officials, the survey questions have not been modified since 2006.

indicate the application had not been meeting user needs and expectations since before the pandemic— despite being one of IRS's most commonly used applications.

IRS does not have plans to modernize Where's My Refund? In October 2021, as part of our ongoing review, IRS officials said that Where's My Refund? has limitations due to its age and described some of the technical challenges associated with updating it. First, they said that the application is nearly 20 years old and the last time IRS made improvements that related to taxpayer experience—that is, changes that the taxpayer could see—was in 2013. Second, IRS officials said the current Where's My Refund? application is not capable of accessing the data sources that provide more detailed return processing status information, and modifying the existing application to include this information would be cost-prohibitive. Finally, IRS officials raised concerns about balancing taxpayers' need for additional refund status information in Where's My Refund?, and the risk of providing details that could be useful to fraudsters.

Further, IRS does not have plans to modernize Where's My Refund? According to IRS officials, this is due to a lack of information technology resources and funding, and the technical limitations described above. IRS officials said that they planned to make some simple changes to the application in January 2022, prior to the start of the filing season. These include adding general, static messages on the Where's My Refund? status page so that taxpayers are aware of possible circumstances where their refund may be delayed, similar to the information IRS currently provides on processing delays on its website.

In addition, for taxpayers whose returns have taken more than 21 days to process, IRS plans to include a link to its "Frequently Asked Questions" webpage in Where's My Refund? so that taxpayers can read about general IRS processing delays. According to IRS officials, only such simple improvements are possible given the current technical limitations of the application. IRS also identified high-level efforts related to Where's My Refund? in its January 2021 *Taxpayer First Act Report to Congress.* For example, the report states that IRS intends to make the same information from Where's My Refund? available in the taxpayer's online account and the IRS2Go mobile application, as well as send notifications about return status changes to the taxpayer's mobile device. However, these efforts do not change the extent or detail of return information currently provided through the Where's My Refund? application. As noted above, the lack of detailed information in the application has led taxpayers to call IRS for live assistance, or in some cases file a second return, which creates additional work for IRS staff.

We recognize that IRS has significant long-term efforts underway to modernize and upgrade its IT infrastructure and components. Further, we understand that modernizing Where's My Refund? will take planning and resources given the application's current technical limitations. In February 2022, IRS said its long-term goal is to give taxpayers access to more information through IRS modernization efforts.

As part of our ongoing work we are continuing to explore challenges with modernizing Where's My Refund?

IRS's Inventory of Taxpayer Correspondence Has Increased Due to Competing Demands for Customer Service

Throughout the 2021 filing season, IRS's inventory of individual and business-related taxpayer correspondence continued to increase.[24] This was due to increased demand for live telephone assistance and because the rate of incoming correspondence outpaced how many existing correspondence cases CSRs could address. As discussed below, many CSRs are responsible for both telephone and correspondence duties. Due to the high demand for live phone assistance during the 2021 filing season, IRS prioritized answering calls over responding to taxpayer correspondence.

Our preliminary analysis indicates that IRS's inventory of taxpayer correspondence as of the end of the 2021 filing season was nearly three times the average inventory compared to the same time period from 2016 through 2019 (see figure 5). Further, about 46 percent (2.7 million pieces) of 2021 taxpayer correspondence was overage as of the end of the 2021 filing season.[25]

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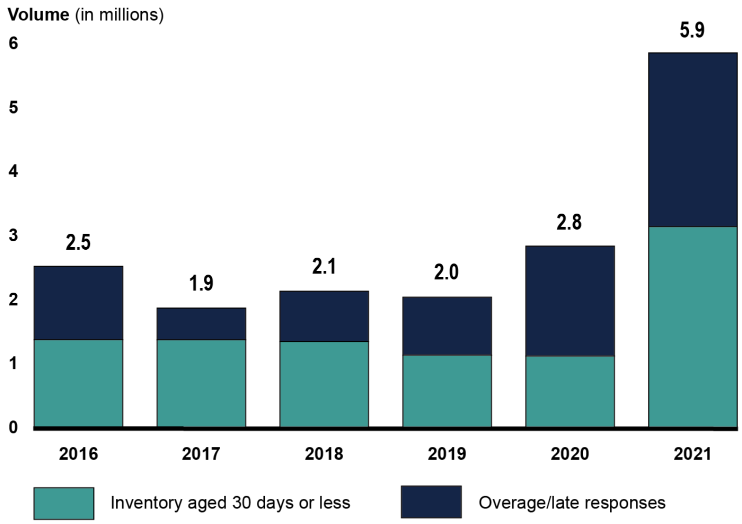
[24] Inventory reflects all paper and digital correspondence from taxpayers that IRS received but had not yet responded to.

[25] IRS's policy is to generally respond to correspondence within 30 days of receipt, but it may take longer than 30 days to respond to taxpayer correspondence depending on the type and complexity of the issue. IRS generally considers correspondence that is older than 45 days to be "overage."

Figure 5: IRS Correspondence Inventory and Overage Rates (Late Responses), as of the End of the Filing Season, 2016—2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-105802

Note: IRS's policy is to generally respond to correspondence within 30 days of receipt, but it may take longer than 30 days to respond to taxpayer correspondence depending on the type and complexity of the issue. IRS generally considers correspondence that is older than 45 days to be "overage." Data reflect individual and business-related correspondence in IRS's inventory as of the end of the filing seasons shown above: April 23, 2016; April 22, 2017; April 21, 2018; April 20, 2019; July 18, 2020; and May 22, 2021, respectively. Inventory reflects all paper and digital correspondence IRS received but had not yet responded to. Note that 2020 inventory does not reflect all taxpayer correspondence IRS received during 2020 due to IRS's mail backlog (see GAO-21-251). As a result, some correspondence received in 2020 is reflected in the 2021 inventory.

During our ongoing review, IRS officials described several reasons for the increase in the volume and types of backlogged correspondence:

- **Duplicate Returns.** As a result of delayed processing of returns filed in 2020 and 2021, some taxpayers filed a second return because they could not get information on the status of their initial return and refund, and were concerned that IRS had not received the initial return.
- **Amended Returns.** The increase in amended returns was likely due, in part, to new provisions included in pandemic relief legislation. Under provisions in the CARES Act, some taxpayers filed amended returns to claim net operating loss carrybacks in 2018, 2019, or 2020. In addition, ARPA, which was enacted a month after the filing season began, included changes to the amount of taxable unemployment income for 2020 which prompted some taxpayers to file an amended return.
- **Refund Inquiries.** According to IRS officials, IRS received more refund and account inquires by correspondence because taxpayers could not get through to a CSR on the phone for information on the status of their return or refund, and could not get detailed information online; therefore, taxpayers tried to reach IRS by mail.

IRS's different customer service options are interdependent, often sharing the same staff. As we have reported in prior years, IRS has struggled to balance competing demands for maintaining quality customer service levels via telephone and timely written correspondence because many CSRs are responsible for both telephone and correspondence duties.[26] As a result, IRS's ability to respond to correspondence in a timely manner is dependent on the volume and length of telephone calls answered by CSRs and the volume of calls that are addressed through self-service options including automated telephone lines and online tools. Further, as discussed earlier, when taxpayers cannot find the information they need using IRS's online resources such as Where's My Refund?, they will call IRS or send inquiries through the mail.

In November 2021, as part of our ongoing review, IRS officials told us they were continuing to work through the correspondence inventory, which by that time had grown to about 7.8 million with about 57 percent (4.5 million) of it overaged. IRS officials stated that they were continuing to rely on overtime, training additional staff to help work through some types of correspondence inventory such as identity theft, and were hiring additional staff, as discussed later in this testimony. Nevertheless, millions of taxpayers continue to wait for IRS to process a wide range of correspondence, including amended returns and reviewing documentation related to resolving identity theft issues, both of which may result in a refund to the taxpayer.

The extent of IRS's correspondence inventory as of January 1, 2022, was 8.2 million, a backlog that IRS will need to address during the 2022 filing season. Further, IRS's data from early January 2022 showed that IRS expects its correspondence inventory to exceed 10 million by the end of fiscal year 2022. This is more than five times IRS's inventory of correspondence as of the end of fiscal year 2019 and more than three times the inventory as of the end of fiscal year 2020. This backlog will be difficult to manage as IRS balances prioritizing telephone calls from taxpayers with reducing the volume of correspondence such as amended returns from 2021 and incoming correspondence for 2022.

In-Person Taxpayer Service Volume Has Declined in Recent Years

Our ongoing analysis of IRS data on the volume of taxpayers visiting a TAC shows a gradual decline in visits since 2015, even prior to the COVID–19 pandemic.[27] As seen in figure 6 below, during calendar year 2015, IRS served about 5.5 million taxpayers in person; this volume dropped by an average of about 800,000 taxpayer interactions annually from 2016 to 2019. From 2019 to 2020, in-person visits declined by about 70 percent (1.6 million). The total volume of taxpayers served in-person further declined to about 700,000 during 2020, and was about 1 million during 2021. In June 2021, IRS officials stated that the ongoing impacts of the COVID–19 pandemic, along with increased service options available to taxpayers via the phone and online, primarily accounted for the overall decline in in-person service volume in 2020 and 2021, compared to prior years.[28]

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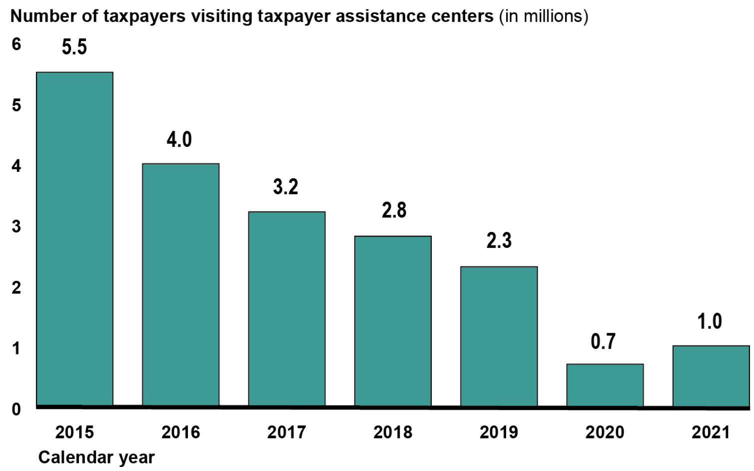
[26] *See* GAO–21–251; GAO–20–55; and, *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies,* GAO–16–151 (Washington, DC: December 16, 2015).

[27] IRS's 358 TACs are located across the United States and in Puerto Rico, and taxpayers are generally required to make an appointment to receive in-person assistance. IRS Field Assistance staff provide various in-person services, including authenticating taxpayers whose returns have been held for potential identity theft, assisting taxpayers applying for an Individual Taxpayer Identification Number, issuing overseas travel permits, handling cash payments from taxpayers, and providing taxpayer assistance with account adjustments and Economic Impact Payments.

[28] GAO–21–251. As we previously reported, from late March 2020 to late June 2020, IRS closed all TACs and halted in-person customer service functions due to the pandemic. IRS gradually resumed in-person services during 2020.

Figure 6: Volume of Taxpayers IRS Served In-Person at Taxpayer Assistance Centers, 2015 through 2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-105802

IRS Increased Hiring and Relied on Overtime to Manage Unprecedented Workloads

To address challenges providing customer service and processing returns in the 2021 filing season, IRS increased its hiring efforts, but with mixed success. As a result, it primarily relied on overtime and shifted existing staff to higher priority areas of work, including manual review of returns stopped due to errors and answering record-high volumes of calls from taxpayers.

IRS used several approaches to increase staffing levels during the 2021 filing season. To help address immediate needs, it converted seasonal workers to permanent hires, and rehired former IRS staff with expertise in handling returns with errors. In addition, IRS human capital officials stated that they used a streamlined hiring approach to match a potential applicant with multiple positions for which they were qualified, to help reduce the number of incoming applications. Officials also sought to hire filing season staff throughout the year, including the summer and fall which are not typical hiring periods.

IRS officials reported that they exceeded their hiring goal of 5,000 customer service staff as of the end of fiscal year 2021. As of early May 2021, IRS hired 3,817 customer service staff (76 percent of their goal), and then hired an additional 1,377 staff as of early September 2021.[29] Officials noted that newly hired CSRs are trained for 14 weeks before they can help taxpayers on the phone, so staff hired toward the beginning of the filing season were not trained before the filing season ended. Nevertheless, officials noted that once trained, new CSRs were assigned to phones to assist taxpayers.

However, our ongoing review indicates IRS encountered challenges in hiring enough new returns processing staff during fiscal year 2021. As of October 2021, officials reported that they had hired 3,662 returns processing staff out of about 5,500 planned (67 percent of their goal), and had not hired new staff since the end of August. Additionally, attrition has further contributed to reduced levels of returns processing staff, who perform essential filing season functions.[30] As of the end of fiscal year 2021, IRS reported that the attrition rate for returns processing staff was 17 percent (about 1,630 staff), which is more than twice the agency's overall attri-

[29] IRS officials reported that of the 3,817 new hires, 2,935 (77 percent) were CSRs, who primarily provide live telephone assistance to taxpayers. The remaining positions were for tax examiners (713) and clerks (169).

[30] Returns processing staff open and batch mail, process tax returns, and perform other onsite work at IRS campuses.

tion rate of 7.6 percent.[31] Therefore, for every 10 newly hired returns processing staff discussed above, IRS needed about four staff to offset attrition.

As we have previously reported, IRS has consistently used overtime to meet returns processing milestones, respond to taxpayer calls and correspondence, and address increases in workload.[32] For example, in January 2020—prior to the start of the COVID–19 pandemic—we reported that IRS increasingly relied on overtime to meet returns processing and customer service demands, with its use of overtime more than quadrupling from fiscal year 2014 through mid-July of fiscal year 2019.[33]

We recommended that IRS develop and implement a strategy for the efficient use of overtime. At the time, IRS agreed with this recommendation, but stated that its existing process within the Wage and Investment division for the use and approval of overtime is sufficient, so it did not plan to take further action.[34]

During fiscal year 2021, IRS again relied heavily on overtime to address both customer service demand and returns processing work. We recognize that overtime is a practical and necessary tool to help organizations manage short-term and unexpected surges in workload. However, it is not sustainable to rely primarily on overtime to offset complex human capital challenges such as reduced staffing levels and attrition. IRS's use of overtime may also be indicative of a larger need for IRS to establish and use a strategic workforce plan that addresses mission-critical skills gaps. In 2019, we recommended IRS establish such a plan.[35] IRS agreed and has made progress towards implementing a strategic workforce plan, but that effort remains delayed.

Given the recent challenges IRS has experienced during the last two filing seasons and the ongoing impacts of the COVID–19 pandemic, we believe our recommendation to develop an overtime strategy remains valid. As we noted in our prior work, consistent reliance on the use of overtime, among other things, can contribute to low morale and employee dissatisfaction, and increased errors. Further, if not well managed, overtime can be expensive, inefficient, and contribute to skills gaps.

In conclusion, ongoing challenges precipitated by the COVID–19 pandemic, coupled with new responsibilities to provide relief to Americans, adversely affected IRS's return processing and customer service during the 2021 filing season. Amid these challenges, IRS issued economic impact payments and answered more telephone calls than in prior years, as taxpayers sought unprecedented levels of assistance. Nevertheless, the new and persistent challenges that IRS faced pose risks for the 2022 filing season.

Chairman Wyden, Ranking Member Crapo, and members of the committee, this concludes my prepared statement. I look forward to answering any questions you may have.

Questions Submitted for the Record to Jessica Lucas-Judy

Questions Submitted by Hon. Michael F. Bennet

Question. This year, IRS is delivering transformational benefits that are helping families cope with rising costs and get ahead. In Colorado, families with kids received an average of $445 per month in advance monthly payments from the expanded Child Tax Credit. And they will receive the second half of the credit—up to $1,800 per child—with their tax refund. In Colorado, the average child-care cost

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[31] The attrition rate for returns processing and customer service staff includes separations and retirements, and instances where staff moved to another organization within IRS.

[32] GAO–20–55.

[33] GAO–20–55. We measured increases in overtime in terms of full-time employee equivalents. IRS's workload increases during the 2019 filing season were due, in part, to IRS needing to implement provisions of the Tax Cuts and Jobs Act before the filing season began, and a 5-week lapse in appropriations which furloughed many IRS employees during the critical filing season preparation period.

[34] IRS allocates a certain amount of overtime for both returns processing and customer service staff each fiscal year, based in part on prior year usage and its budget. IRS operating divisions can also request increases to their overtime allocation, as needed. In addition, a 2019 agreement with the National Treasury Employee Union governs other aspects of overtime, such as ensuring fairness of offering overtime opportunities to employees.

[35] GAO, *Internal Revenue Service: Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission,* GAO–19–176 (Washington, DC: March 26, 2019).

for a 4-year-old is nearly $12,400 per year. But this year, thanks to the expanded Child and Dependent Care Tax Credit (CDCTC), families can receive up to $4,000 per child back on their tax refund.

As you noted in your testimony, the IRS expects a large number of tax returns to require extra processing because of errors associated with these and other recent tax law changes. This could delay refunds for families by 3 to 6 months.

Can you describe the IRS's planned improvements to its Error Resolution System, which is designed to shorten this timeframe for taxpayers?

Answer. As stated in my testimony, as part of our ongoing work, IRS provided us documentation indicating that during the 2022 filing season it expects about 21 million returns to be stopped for errors associated with recent tax law changes. In December 2021, IRS officials said that they planned to adjust their systems for the 2022 filing season to automate selected Error Resolution System (ERS) processing functions and identify returns that could be processed more quickly. Such automation would reduce the need for time-consuming, manual review of returns stopped for errors, which contributed to processing delays during 2021. In February 2022, officials confirmed that IRS implemented the FixERS tool in late January, prior to the start of the 2022 filing season. As part of our review of the 2022 filing season, we plan to assess IRS's performance in processing returns. This will include following up on IRS's efforts to process returns stopped due to errors. We expect the results of this work to be released by the end of 2022.

Question. What other steps could IRS take this filing season and next to reduce the wait time for error resolution for low- and middle-income taxpayers who most depend on their refunds?

Answer. Our prior work has shown that communicating clear, timely information to taxpayers can help IRS better manage taxpayers' expectations and potentially reduce the volume of calls to IRS. IRS has taken steps to provide key information to taxpayers before they file their tax returns, with the goal of stopping errors before they occur. For example, in December 2021 and January 2022, IRS began issuing letters to recipients of the advance child tax credit, and the third economic impact payment. These letters include the amounts that IRS paid out to taxpayers during 2021, which is information that the taxpayer needs when filing their 2021 tax return. IRS also made this information available in taxpayers' online accounts at *www.irs.gov.* IRS anticipates that making this information more widely available to taxpayers will result in taxpayers making fewer errors on their returns compared to last year, such as for errors related to the Recovery Rebate Credit. In addition, IRS continues to post processing updates on its website, including a new webpage with special filing season alerts. Making this information available will help taxpayers to adjust their expectations if processing delays occur. Our forthcoming April 2022 CARES Act report (GAO–22–105397) will include an enclosure on IRS's administration of the Advance Child Tax Credit and Economic Impact Payments, which may be of interest.

QUESTIONS SUBMITTED BY HON. CHUCK GRASSLEY

Question. Everybody agrees that IRS must update its information technology (IT) systems to more efficiently perform its duties and provide top-level taxpayer service. However, IRS has a long history of over-promising and under-delivering in its modernization efforts. Individual GAO reports over the past several decades detail various struggles dating back to the early 2000s and reference past failed attempts as far back as the 1980s.

Based on previous GAO reports, are you able to provide a timeline or summary of past IT modernization efforts that will give Congress an overview of all successes, failures, and setbacks IRS has experienced in its modernization attempts?

Answer. IRS began modernizing its paper-intensive approach to processing tax returns in the mid-1980s. However, we identified serious management and technical weaknesses in the modernization program that jeopardized its successful completion. We made several recommendations aimed at addressing the weaknesses and added IRS's modernization to our High Risk List in 1995.[1] Over the years, IRS

[1] GAO, *High-Risk Series: An Update,* GAO–13–283 (Washington, DC: February 2013). In 1995, we also added the agency's financial management to our High Risk List due to longstanding

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worked to address our recommendations, build management capacity, and deliver key programs, including a segment of the Customer Account Data Engine (CADE) 2 program that is critical to the modernization of the individual Master File (IMF), IRS's authoritative data source for individual tax account data. Due to IRS's progress in addressing the weaknesses we identified and the agency's commitment to sustaining progress, we removed Business Systems Modernization from our High Risk List in 2013. We have continued to monitor IRS's modernization efforts and make recommendations to increase the successful delivery of the modernization program.[2] In October 2021, we reported that, while the agency had reported implementing most modernization activities planned for fiscal years 2019 and 2020 within cost and schedule goals, the long-term performance and outlook for CADE 2 was troubling.[3] Specifically, we noted that IRS had revised the program's cost, schedule, and scope goals on numerous occasions since its inception in 2009. As a result, a key major program milestone for replacing key functions of the IMF had slipped 9 years—from 2014 to 2023—and the completion of CADE 2 was projected for 2030, further delaying the benefits to be gained by modernizing the IMF. We also have two ongoing reviews which are likely to lead to recommendations. In one review, we are examining IRS's detailed modernization plans and cloud computing efforts, and in the other, we are examining the agency's safeguards for protecting taxpayer information.

Question. Over the decades, GAO has made a number of recommendations to IRS on carrying out its modernization efforts. Are there outstanding recommendations that IRS has not implemented, or not agreed to, that you believe IRS must implement to ensure current modernization efforts don't repeat the failures of the past?

Answer. Since IRS began modernizing its paper-intensive processes for processing tax returns, we have made a number of recommendations aimed at addressing technical and management weaknesses with the program and increasing the likelihood IRS will successfully deliver it. IRS has addressed many of the recommendations over the years. In June 2018, we reviewed the performance of selected IRS investments and the extent to which IRS had identified and taken steps to address the risks associated with three mission critical legacy systems. We made 21 recommendations as a result of our findings. IRS neither agreed nor disagreed with the recommendations, and, as of October 2021, had implemented 18 of the 21 recommendations. Specifically, we reported that IRS had yet to fully implement two recommendations for improving its analyses of the performance of two investments and one recommendation to implement effective workforce planning practices for mission-critical investments.[4] In addition, as part of a March 2019 review of the agency's enterprise-wide strategic workforce planning efforts, we made six recommendations to IRS that included implementing its delayed workforce planning initiative, evaluating actions to improve the agency's hiring capacity, and addressing changes in its processes that have contributed to hiring delays.[5] The agency agreed with our recommendations. As of February 2022, IRS had implemented five of the recommendations and had taken steps to implement the recommendation to fully implement its workforce planning initiative. Finally, as mentioned above, we also have two ongoing reviews, which are likely to lead to recommendations.

Question. In 2019, IRS unveiled an updated 6-year IT modernization plan. In your view, how successful has the IRS been in implementing this plan and is this 6-year plan still an effective strategy for IT modernization as viewed in 2022?

Answer. IRS's April 2019 IT modernization plan defined efforts IRS considered necessary to transform the agency's technology and deliver a modernized taxpayer experience in support of its mission for fiscal years 2019 through 2024. In October 2021, we reported that IRS had made changes to its plan, and that, according to the agency, these changes were made primarily to account for advances in tech-

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and pervasive problems which hampered the effective collection of revenues and precluded the preparation of auditable financial statements.

[2] We have reviewed IRS's IT modernization efforts as part of our mandated reviews of IRS's system modernization expenditure plans from 1999 to 2011 and nearly annual reviews of IRS's IT investments since then.

[3] GAO, *Information Technology, Cost, and Schedule Performance of Selected IRS Investments,* GAO–22–104387 (Washington, DC: October 19, 2021).

[4] GAO–22–104387. We made the recommendations in GAO, *Information Technology, IRS Needs to Take Additional Actions to Address Significant Risks to Tax Processing,* GAO–18–298 (Washington, DC: June 28, 2018).

[5] GAO, *Internal Revenue Service, Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission,* GAO–19–176 (Washington, DC: March 26, 2019).

nology and evolving customer expectations and needs.[6] As noted above, we also found that IRS had reported completing most of its activities intended for fiscal years 2019 and 2020 within cost and on or ahead of schedule, but the longer-term performance and outlook for CADE 2 which is critical to replacing the IMF were troubling. Specifically, we noted that IRS had revised the program's cost, schedule, and scope goals on numerous occasions, including seven times between 2016 and 2019.[7] As a result, a key major program milestone for replacing selected IMF functions, known as transition state 2, had slipped 9 years—from 2014 to 2023, and CADE 2 completion was projected for 2030. IRS IT modernization officials, including the Chief Information Officer, recently told us that they were updating the modernization plan to reflect current needs. They stated they expected to complete the update in the spring. As mentioned above, we also have ongoing work to examine IRS's plans for implementing its modernization program and efforts to safeguard its taxpayer information which are likely to result in additional recommendations.

Question. As Congress considers additional IT funding, what priorities or requirements should Congress consider specifying in legislation?

Answer. IRS is already required to report to Congress on the status of its efforts to modernize information technology on a quarterly basis. We believe these reports, as well as periodic hearings such as the one held by the committee on February 17, 2022, will continue to keep attention on IRS's efforts.

Question. What role does the Federal procurement process play in inhibiting IT modernization at the IRS? Should Congress look at reforming procurement government wide in order to facilitate more rapid IT modernization at the IRS?

Answer. We have not done the work to determine the role, if any, that the Federal procurement process plays in inhibiting IT modernization at the IRS, nor have we done the work to determine what government-wide procurement reforms would help facilitate more rapid IT modernization at the agency. However, IRS has commented that successful implementation of its modernization efforts depending, among other things, on multiyear funding at predictable levels. Relatedly, in October 2021, we found that IRS had completed five activities it had planned for fiscal years 2019 and 2020 later than planned, and that the agency attributed the late completion primarily to funding delays.[8] In March 2021, Congress and the President enacted the American Rescue Plan Act, which provided approximately$1.5 billion to the agency to continue to develop "integrated, modernized, and secure Internal Revenue Service systems," among other things.[9] IRS is currently using these funds to accelerate several programs.

Question. Based on GAO reports, in 1999 IRS instituted a Business System's Modernization (BSM) plan, which was intended to modernize several systems. A core project under its plan was the Customer Account Data Engine (CADE), which was intended to operate a number of customer service applications and eventually replace its antiquated Individual Master File (IMF). Unfortunately, due to system limitations, cost overruns, and repeated delays, CADE was abandoned in 2009. In its place, IRS began work on CADE 2 with plans for it to replace the legacy IMF system by 2014. Yet, according to an October 2021 GAO report, CADE 2 is now expected to replace "core functions" of the IMF only and not until 2030.

Since 1999 to date, how much has IRS spent on its BSM plan?

Answer. IRS reported spending $5.4 billion for Business Systems Modernization activities from fiscal year 1999 to fiscal year 2020. In addition, the agency's operating plan for BSM was $252 million for fiscal year 2021.

Question. How much did IRS spend on the original CADE project prior to its suspension? How much has IRS spent to date on CADE 2?

Answer. IRS reported spending about $400 million for CADE before suspending the program in fiscal year 2011. IRS reported spending $1.5 billion on CADE 2 from fiscal year 2009 to fiscal year 2020. In addition, the agency's operating plan for CADE 2 was $100 million for fiscal year 2021.

[6] GAO–22–104387.

[7] We specifically noted that the CADE 2 delays and IRS's continued use of IMF were troubling given, that IMF (1) is one of the oldest systems in the Federal Government; (2) has software written in an archaic language that IRS stated is no longer taught in school; and (3) is supported by a workforce with specialized skills that are increasingly harder to find.

[8] GAO–22–104387.

[9] American Rescue Plan Act of 2021, Pub. L. No. 117–2, title IX, subtitle G, § 9601(d), 135 Stat. 4, 144 (March 11, 2021).

Question. The IRS has told the Finance Committee that it selected ID.me, a private company, to provide identity verification services for accessing taxpayer accounts because only ID.me met National Institute of Standards and Technology (NIST) requirements while being able to handle the volume of Internet traffic the IRS expected. While the original plan called for the use of facial recognition, IRS has backed away from that requirement due to concerns from Congress and others. Are there alternative methods for providing identity verification services that do not use facial recognition technology or biometric data at all that fully comply with NIST? Is there a list of companies providing verification services that meet NIST standards?

Answer. According to the NIST Digital Identity Guidelines (NIST 800–63), in certain situations, identity verification may be performed by comparing photographs from identity documents provided by applicants, such as driver's licenses or passports, to real-life applicants instead of using biometrics comparison, such as facial recognition.[10] In 2019, OMB issued a memo directing General Services Administration (GSA), in coordination with OMB, to determine the feasibility for accrediting products and services on GSA acquisition vehicles that meet NIST 800–63 criteria, including identity verification, and to develop a roadmap for achieving this goal.[11] In response, GSA has issued a roadmap that provides a fiscal year 2023–2025 time frame to design and implement a validation process for companies that provide identity, credential, and access management services.[12] Further, validation of companies that would meet NIST standards would not begin until fiscal year 2025 or later.

Question. In August of last year the GAO published a report titled "Facial Recognition Technology: Current and Planned Use by Federal Agencies," which I understand did not include reference to the use of ID.me by the IRS. Outside of the standards on the use of facial recognition published by NIST, is there a point in the Federal Government that tracks and monitors the use of biometric data or facial recognition throughout the Federal Government and ensures that existing standards are in fact complied with?

Answer. We are not aware of a central point in the Federal Government that tracks and monitors the use of facial recognition technology throughout the Federal Government. In order to compile the information for our August 2021 report, we needed to administer a survey to the 24 Chief Financial Officers Act agencies to collect information on how agencies used facial recognition technology and their plans to expand its use in the future. Further, to compile the information in our June 2021 report (GAO–21–518, *Facial Recognition Technology: Federal Law Enforcement Agencies Should Better Assess Privacy and Other Risks*), we similarly needed to administer a survey to 42 agencies that employ law enforcement officers to collect information on the facial recognition systems owned or used by these agencies. We made recommendations to 13 of those agencies because they did not track their use of non-Federal systems, including systems owned by State, local, and non-government entities. We will be following up with these agencies to determine their progress in implementing our recommendations.

Question. Critics of the use of facial recognition technology have raised concerns of racial bias and other civil liberties concerns. Critics have also raised concerns about the ability of low-income taxpayers to be able to access the technology necessary to meet the requirements of facial recognition or biometric security. Proponents of facial recognition insist the technology is effective across all racial groups and is easily accessible. Do you think there is merit to concerns raised that facial recognition technology incorporates a racial bias or that it presents signification hurdles to low-income taxpayers?

Answer. In our 2020 report on the commercial uses of facial recognition technology (GAO–20–522, *Facial Recognition Technology: Privacy and Accuracy Issues Related to Commercial Uses*), we found that evaluations by the National Institute of Standards and Technology (NIST) and others have found that many facial recognition systems perform differently among demographic groups. For example, NIST's recent evaluations of facial recognition algorithms found significant improvements in the accuracy of facial recognition technology, but also that accuracy differs

[10] U.S. Department of Commerce, National Institute of Standards and Technology, *Digital Identity Guidelines: Enrollment and Identity Proofing* (June 2017, includes updates as of March 2, 2020).
[11] Office of Management and Budget, Memo 19–17, *Enabling Mission Delivery Through Improved Identity, Credential, and Access Management* (Washington, DC: May 21, 2019).
[12] General Services Administration, *GSA Identity, Credentialing, and Access Management (ICAM) Solutions and Shared Services Roadmap* (November 12, 2020).

by race, ethnicity, or country of origin, as well as by gender and age. Differences in errors across demographic groups were undetectable for a small number of algorithms. But, in general, NIST found that facial recognition algorithms performed more accurately on white males. NIST also found elevated error rates for the elderly and children, and these rates climbed with increasingly older or younger subjects. Performance differences varied by the algorithms tested, with some performing better than others.

QUESTIONS SUBMITTED BY HON. TODD YOUNG

Question. In the GAO's fiscal year 2020 audit of the IRS, GAO identified new information system control deficiencies related to access controls and security management. These findings were in addition to the 114 recommendations GAO previously made to the IRS to address its deficiencies in its information systems, for which corrective action by the IRS was never taken. GAO notes that these "new deficiencies, along with unresolved information system control deficiencies from GAO's prior audits, increase the risk of unauthorized access to, modification of, or disclosure of financial reporting and taxpayer data and disruption to critical operations."[13]

As you know, the IRS has struggled to secure taxpayers' sensitive personal information, as evidenced by the June 2021 ProPublica leak that included confidential taxpayer information of multiple high-profile individuals.

Do you believe that any of the IRS's control deficiencies identified by GAO may have contributed to the IRS's failure to prevent private and sensitive taxpayer information from being disclosed publicly?

Answer. In our review, we focus on key financial systems, including taxpayer systems, that process transactions needed to prepare IRS's financial statements. Our work did not identify any control deficiencies that would have a reasonable possibility of a material misstatement in IRS's financial statements. Furthermore, IRS has many systems that process taxpayer information that are outside the scope of our review. Without knowing the root cause of the issue, we cannot speculate on how private and sensitive taxpayer information was disclosed publicly.

Question. Why do you believe the IRS has failed to remediate the control deficiencies noted by GAO?

Answer. IRS has made considerable efforts to address information system control deficiencies identified. In our fiscal year 2021 and 2020 reviews, IRS addressed 63 and 41 recommendations, respectively. In addition, IRS has developed plans of action and milestones to address the remaining recommendations. However, entity-wide recommendations can take multiple years to correct because of their coordinated efforts. These challenges in implementing certain recommendations are due to the complexities in the environment and the impact to and maintaining the continuity of business operations.

Question. In a June 8, 2021 appearance before this committee, IRS Commissioner Rettig confirmed that an investigation into the apparent IRS leak to ProPublica was already underway.[14] In her June 16, 2021 testimony before this committee, Treasury Secretary Yellen indicated that the matter was referred to TIGTA and the Department of Justice, and that the IRS Commissioner was looking into the matter.[15] However, in her November 30, 2021 testimony before the Senate Banking Committee, Secretary Yellen said, "We don't know what the source of the leak of that information was, and I would say it's premature to indicate that it came from the IRS."[16]

In your opinion, do you believe it is reasonable that Treasury and the IRS appear to have zero leads on this matter despite investigating for over 8 months?

Answer. We have ongoing work on the security of taxpayer information and expect to issue a report later in 2022.

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[13] *https://www.gao.gov/products/gao-21-401r#:~:text=What%20GAO%20Found%20During%20its%20audit%20of%20the,in%20its%20internal%20control%20over%20financial%20reporting%20systems.*
[14] *https://www.finance.senate.gov/hearings/the-irss-fiscal-year-2022-budget.*
[15] *https://www.finance.senate.gov/hearings/hearing-on-the-presidents-fiscal-year-2022-budget.*
[16] *https://www.banking.senate.gov/hearings/cares-act-oversight-of-treasury-and-the-federal-reserve-building-a-resilient-economy.*

Question. During last year's filing season, many of my constituents were frustrated by the widespread closures of the IRS's Taxpayer Assistance Centers.

How did the lack of in-person services during the 2021 tax filing season affect the IRS's ability to deliver high-quality service to taxpayers?

Answer. Overall, taxpayers experienced challenges in getting help from IRS during the 2021 filing season, whether it was over the phone, online, via mail, or in person. However, as I noted in my testimony, our ongoing analysis of IRS data on the volume of taxpayers visiting Taxpayer Assistance Centers (TAC) shows a gradual decline in visits from 2015 to 2019, prior to the COVID–19 pandemic. Specifically, about 5.5 million taxpayers visited TACs in 2015, compared to about 2.3 million in 2019. During this time, TACs were generally open to serve taxpayers. Over the years, IRS officials have told us that about half of the taxpayers who called IRS to schedule an appointment at a TAC end up not needing the appointment because assistors were able to resolve the taxpayer's issue over the phone. During the pandemic, in-person volumes further declined due to temporary TAC closures, but also due to increased service options available to taxpayers online or over the phone, according to IRS officials. We have ongoing work in this area, which will be issued in April 2022.

Question. About 73 percent of the U.S. population over the age of 12 is fully vaccinated against COVID–19 and about 95 percent of vulnerable seniors have received at least one dose.[17] I am hopeful that these positive developments will encourage the IRS to get employees back in the office and reopen its Taxpayer Assistance Centers to help more Americans resolve their tax issues in person.

Based on your observations of past filing seasons, do you believe it is important for taxpayers to have an in-person option to address their tax issues with the IRS?

Answer. As we have noted in prior work, OMB Circular A–11 provides guidance to agencies on evaluating and improving the customer experience. Among other things, OMB's guidance cites the importance of providing services to citizens through multiple channels to ensure they are equitable and effective, particularly for taxpayers who do not have or are unable to use information technology tools. We have ongoing work on IRS's in-person customer service, which will be issued in April 2022.

Question. As discussed during the hearing, other countries' tax-collecting agencies have already rolled out live-chat functions to assist their citizens with resolving tax-related matters. Meanwhile, the IRS has only managed to roll out such a function on a very limited basis.

Are you aware of any plans the IRS may have to introduce a live-chat function across the agency?

Answer. IRS shared its strategy for improving customer service in a variety of ways, including adding both online live chat and artificial intelligence chat options to assist taxpayers. In March 2022, IRS announced that it has established the Taxpayer Experience Office to improve taxpayer services and implement its strategy.

Question. How can a live-chat function assist taxpayers and result in shorter wait times on the IRS phone lines?

Answer. We plan to review IRS's performance providing customer service during the 2022 filing season, including the extent to which IRS implements an online chat feature and further expands its telephone call-back option to help manage high call volume. However, as I testified, limited information online about refund delays as well as delayed processing and responses to correspondence typically increase telephone calls to IRS as taxpayers seek information.

Question. In the past, Commissioner Rettig has expressed the need for the IRS to have direct-hiring authority over certain positions, attributing the lack of sufficient staffing levels to the IRS's lack of such authority.

Based on GAO's research, do you believe the IRS should have direct-hiring authority, and if so, for what categories of position?

Answer. Direct-hiring authority can be an important tool for agencies when there is a demonstrated severe shortage of candidates or a critical hiring need, and the agency can demonstrate that its efforts, such as the use of other appointing authorities and flexibilities and training and development programs tailored to the posi-

[17] *https://covid.cdc.gov/covid-data-tracker/#vaccinations—vacc-total-admin-rate-total.*

tions, have not been sufficient.[18] IRS has taken steps to identify and address persistent mission-critical skills gaps at the agency, and direct-hiring authority for those positions—such as customer service representatives, human resource specialists, information technology specialists, and revenue agents—could potentially help IRS be more competitive with the private sector or other agencies for these in-demand skills.

In March 2022, IRS confirmed that it had received direct-hiring authority for submission processing staff. IRS has scheduled several direct hiring events in an effort to support its goal to hire about 5,500 submission processing staff during 2022.

Question. Can providing the IRS with direct-hiring authority lead to the IRS ultimately reaching sufficient staffing levels?

Answer. Direct-hiring authority is one of many tools IRS could use to address skills gaps in mission-critical occupations, but the authority alone will not lead to sufficient staffing levels. In 2019, we recommended IRS implement a strategic workforce plan.[19] Such a plan would help inform IRS's use of not only its hiring authorities, but also its decisions related to recruiting, training, retention, overtime, and contracting for assistance. IRS has made progress in implementing its plan and expects to fully address this recommendation by August 2022. This plan, when combined with consistent monitoring and evaluation of results, will provide information IRS needs to determine when and how best to use direct-hiring authority and other available tools to achieve sufficient staffing levels.

Question. The IRS recently announced that it was hiring 5,000 positions in preparation for the 2022 filing season, but has only been able to fill 179 positions so far.

Based on GAO's observations of the IRS, what do you believe are the IRS's biggest hurdles in finding workers and what steps would you recommend the agency take to overcome those hurdles?

Answer. We have not specifically reviewed the root causes of IRS's recruiting challenges. We have previously reported, however, on hiring and retention issues that contributed to skills gaps at the agency.[20] For example, we reported that IRS's human capital office had limited capacity to hire new employees and had skills gaps among its human resources staff. IRS took steps to measure the effectiveness of its hiring activities, and it will be important for IRS to identify and address problems with its hiring capacity that may emerge as the agency works to close skills gaps in mission critical occupations going forward.

We also found that there were issues related to employee retention. For example, causes for skills gaps among revenue agents included ineffective onboarding, IRS's negative stigma, and more lucrative opportunities in the private sector. These issues could also contribute to issues bringing in new staff today.

Question. As you know, IRS refund delays are not only causing taxpayer frustration, but also costing the Federal Government an exorbitant amount in refund interest payments. As you communicated to this committee, preliminary findings from a continuing analysis show that the IRS paid $3.27 billion in interest on refunds in the 2021 fiscal year. This total marks a roughly eight percent increase over the $3.03 billion paid in refund interest in fiscal year 2020, and even more concerning, a fifty percent increase from the $2.06 billion in fiscal year 2019.

What immediate steps can the IRS take to ensure that refund interest paid out in future years does not continue to grow?

Answer. We highlighted the issue of increasing refund interest payments in September 2020, March 2021, and again in my testimony. Our analysis of IRS's data on refund interest payments shows that this has been an ongoing issue for several years. In March 2021, we reported that comprehensively identifying and addressing barriers to e-filing faced by business taxpayers may help IRS reduce costs of processing paper returns and potentially reduce overall refund interest payments. We recommended that IRS identify barriers taxpayers face to e-filing business-related returns, and determine what actions it could take to address the barriers and implement those actions, as feasible. IRS agreed with these recommendations and is tak-

[18] Office of Personnel Management, *Direct Hire Authority: Policy, Data, Oversight,* accessed March 8, 2022, *https://www.opm.gov/policy-data-oversight/hiring-information/direct-hire-authority/.*

[19] GAO, *Internal Revenue Service: Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission,* GAO–19–176 (Washington, DC: March 26, 2019).

[20] GAO–19–176.

ing steps to implement them. We also recommended that IRS track business refund processing, such as through its weekly performance tracking. IRS disagreed with this recommendation, stating that it tracks information on the timeliness of business refund processing, and that a report to track business refunds would not be useful in reducing interest payments. We maintain that this recommendation is valid and that IRS does not know how well it is processing business returns with refunds, or the extent to which it will have to pay refund interest. We will continue to monitor this issue. We also have ongoing work on this complex topic more broadly—including on refund interest paid to business and individuals—which will be issued in April 2022.

Question. Last year, some of my Senate Finance colleagues and I wrote a letter to Commissioner Rettig regarding a company called "enQ" that floods the IRS with robocalls and sells front-of-the-line access to individuals paying as much as a thousand dollars a year.[21]

Do you believe taxpayers should have to pay money to a private company in order to reach someone at the IRS in a timely manner?

Answer. GAO has not studied robocall services and the extent to which taxpayers and tax professionals utilize the service to reach IRS. As I testified, IRS answered more calls during the 2021 filing season than in the last four filing seasons, but our preliminary findings indicate an unprecedented increase in taxpayer inquiries by telephone resulted in a low level of taxpayer customer service overall. IRS officials attributed the volume of calls in 2021 to the impacts of the COVID–19 pandemic, including taxpayer questions about economic impact payments and delayed refunds. We continue to believe that providing alternative options for taxpayers to get information from IRS can improve IRS's telephone service. For example, providing more information online about refund delays as well as delayed processing and responses to correspondence can help reduce telephone calls to IRS if taxpayers can obtain the information by other means.

Question. In your testimony, you stated that during the 2021 filing season, about 159.8 million incoming calls did not reach the IRS, out of a total volume of 195 million calls. A staggering 53 percent of all calls during the 2021 filing season were disconnected by the IRS due to a lack of staff availability. Many of my constituents have shared with me their frustrations after receiving these so-called "courtesy disconnects." As you noted in your testimony, the IRS projects it will only be able to answer about 35 percent of incoming calls during the 2022 filing season.

Would you expect robocall services such as enQ to ultimately increase wait times on the IRS call lines?

Answer. GAO has not studied the effect of robocall services on IRS's telephone service and the extent to which such calls increase wait times. However, the number of calls IRS answers and wait times can be affected by multiple factors including the number of customer service representatives available to answer telephone calls and total calls received, both of which vary each year.

Question. Based on GAO's study of the IRS, what advice would you have for my constituents who are seeking to reach the IRS by phone?

Answer. Overall, taxpayers experienced challenges in getting help from IRS during the 2021 filing season, whether it was over the phone, online, via mail, or in person. These challenges may continue during the 2022 filing season. If taxpayers are unable to find the information they seek on IRS's website, then it may be necessary to call IRS for assistance. If call volumes are high, taxpayers may have to wait or call IRS back later to reach a live assistor. IRS includes general information on call wait times during the filing season and after, including when to expect longer wait times, on its help page at *https://www.irs.gov/help/telephone-assistance.* Alternately, taxpayers may opt to use IRS's call-back feature rather than wait on hold.

Question. In your testimony, you mentioned several aspects of the Democrats' American Rescue Plan Act (ARPA) that exacerbated IRS processing delays in the 2021 tax filing season.

Can you please briefly summarize why ARPA had such a negative impact on processing timelines?

[21] *https://www.young.senate.gov/newsroom/press-releases/young-joins-colleagues-to-urge-irs-to-investigate-enqs-pay-for-service-scheme.*

Answer. As stated in my testimony, processing delays during the 2021 filing season were primarily attributed to the backlog of work from the 2020 filing season and a large volume of errors related to the Recovery Rebate Credit in which taxpayers had to reconcile payment amounts from the first two Economic Impact Payments authorized by the CARES Act. ARPA introduced changes that affected taxpayers during the 2021 filing season, which prompted many taxpayers to call for assistance. For example, ARPA, which was enacted a month after the filing season began, reduced the amount of unemployment income earned in 2020 that was taxable. As a result, taxpayers who already filed their return may have called IRS about getting a refund on unemployment income taxes paid, or may have filed an amended return. ARPA also established temporary monthly Advance Child Tax Credit payments for eligible taxpayers starting in July 2021, which also prompted additional taxpayer calls to IRS.

Question. How will ARPA continue to impact IRS processing delays during the current tax filing season?

Answer. Similar to the 2021 filing season, IRS will need to reconcile the payments taxpayers received from the third Economic Impact Payment during the 2022 filing season. Additionally, IRS will need to reconcile the Advance Child Tax Credit payments and confirm eligibility for the refundable Child and Dependent Care Tax Credit, which were authorized under ARPA. IRS anticipates about 21 million returns to be stopped for errors associated with these recent tax law changes.

In December 2021, IRS officials said that they planned to adjust their systems for the 2022 filing season to automate selected Error Resolution System (ERS) processing functions and identify returns that could be processed more quickly. Such automation would reduce the need for time-consuming, manual review of returns stopped for errors, which contributed to processing delays during 2021. In February 2022, officials confirmed that IRS implemented the FixERS tool in late January, prior to the start of the 2022 filing season. As part of our review of the 2022 filing season, we plan to assess IRS's performance in processing returns. This will include following up on IRS's efforts to process returns stopped due to errors. We expect the results of this work to be released by the end of 2022.

Question. I understand that the IRS estimates that about 17 million returns filed in 2022 will be stopped for manual processing because of the Child Tax Credit changes enacted by ARPA.

If a taxpayer's return is stopped for manual processing, what kind of delay might they expect in the IRS's processing of any refund for which they may be eligible?

Answer. IRS's projections indicate that if a return is stopped for errors, the taxpayer may need to wait 3 to 6 months before receiving their refund. As noted above, IRS's planned improvements to error resolution processing is intended to shorten this timeframe for some taxpayers.

PREPARED STATEMENT OF HON. RON WYDEN, A U.S. SENATOR FROM OREGON

Once again, it's income tax filing season in America. Struggling after a decade of Republican budget cuts that have decimated its staff, technology, and operations, the IRS is overwhelmed. Customer service is suffering. Enforcement against tax cheating by the rich has been hollowed out. There's a huge backlog of returns to work through.

This did not happen by osmosis. Democrats and Republicans used to agree on the importance of funding the IRS. Even Ronald Reagan—nobody's idea of a tax and spend liberal—shared that perspective. There were more employees at the IRS at the end of his term than there were at the beginning.

The cuts that have hurt customer service and enforcement against cheats started more than a decade ago. Republicans could have changed course and corrected these issues in their big 2017 tax law. They could have worked on processing to deal with the backlog, and the country would have been in better shape to deal with the stresses of the pandemic. They did not. In fact, the budget cuts continued while the tax code got more complicated.

The result is what you see today. Typical working Americans are dealing with tax filing nightmares, and wealthy tax cheats getting away with rip-offs are living the dream.

I want to tick through a few of the effects of these budget cuts—first, on customer service. According to the National Taxpayer Advocate, the IRS received a record 282 million customer service phone calls during the last fiscal year. It was able to answer only 11 percent of them.

Now there's a cottage industry popping up—companies are charging taxpayers hundreds or even up to $1,000 for the ability to cut the line and get through to the IRS by phone. This is an insult added to injury for typical Americans, and it's a direct result of Republican budget cuts that have broken a basic government service.

Second, on the IRS's aging technology. This committee has spent a long time discussing the decrepit IT used by the IRS. Some of it goes back to the days of the Apollo program. A new report from the IRS Inspector General out last week provided a clear example of how failing technology costs taxpayers money.

The IRS gets a lot of mail, and some of it includes physical checks sent by taxpayers. The problem is, the machines that scan and sort that mail are out of date and unable to properly handle the envelopes that contain checks. This cost the taxpayer more than $56 million in 2021 alone because the IRS was unable to open the right envelopes and process the payments in time. So, in the long run, failing to invest in IT upgrades doesn't save taxpayer dollars, it costs them.

Third, on enforcement. Commissioner Rettig, a Trump appointee, has told the committee a few key facts. One is that the amount of taxes owed that go unpaid every year could be as high as $1 trillion. Another is that the IRS is especially overmatched when it comes to cracking down on partnership schemes.

This is one of the go-to tax avoidance loopholes for the rich. Partnership rules got a whole lot more complicated under Donald Trump. The IRS, meanwhile, is able to audit only a tiny sliver of the partnership returns that come in. That's in part because there are fewer auditors working today than at any point since World War II.

When the tax rules get more complicated and the IRS's enforcement division shrinks even more, it's no surprise that high-flyers see a green light for cheating. This simply cannot go on.

Furthermore, at a time when a lot of members are concerned about prices going up for a lot of goods and services, closing the tax gap and making sure the rich pay what they owe is a promising way to cut the deficit and fight inflation. I'd rather go that route than cut financial support for working families who are walking an economic tightrope.

A few final points before I wrap up. First, Commissioner Rettig made the right call dropping the plan to require taxpayers to use facial recognition to access their IRS data. The use of this technology raises serious concerns dealing with privacy and civil liberties, as well as built-in biases that can have a harmful impact on women, Black and Latino Americans, and seniors. My view is, when you're talking about digital identity, this is sensitive IT infrastructure that the government should not be outsourcing.

My staff and I were in contact with the IRS as soon as it became clear this facial recognition contract was causing problems, and I urged them to reconsider. The IRS made the right decision, because the reality is, protecting Americans' privacy and increasing security are not mutually exclusive. Going forward, this isn't just an IRS issue because this same shady contractor and its facial recognition technology are used by nine other Federal agencies. I hope my Republican colleagues will work with me to address it there too.

I also want to welcome Erin Collins, the new Taxpayer Advocate, to her first hearing with the Senate Finance Committee. This committee really counts on the Taxpayer Advocate, and I'm pleased she's here with us today, along with all our witnesses. I know the entire committee is looking forward to working with her in the months and years ahead.

COMMUNICATIONS

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Dear Chairman Wyden and Ranking Member Crapo, thank you for holding the hearing, "Spotlighting IRS Customer Service Challenges," to consider important tax administration issues. Effective tax administration is vital to our nation's system of voluntary tax compliance. Fairness, equity and certainty for taxpayers are among the important factors to achieve that goal.

We are writing to bring to your attention a proposal in the Build Back Better Act ("BBBA") that would violate those principles. House-passed Section 138303 and Senate Section 128403 propose to repeal Internal Revenue Code ("IRC") section 6751(b). Section 6751(b) prevents the assessment of many types of commonly imposed IRS penalties unless "the initial determination of such assessment is personally approved (in writing) by the immediate supervisor of the individual making such determination. . . ." Enacted in the IRS Restructuring and Reform Act of 1998, the provision is intended to protect taxpayers from the arbitrary imposition of IRS penalties. The BBBA not only proposes to repeal this taxpayer protection policy, the repeal would be retroactive to the date of enactment in the 1998 legislation, *almost 24 years ago.*

We respectfully suggest that the proposal to repeal IRC 6751(b) be stricken from future consideration of the BBBA.

Since enactment, the IRS has failed in many instances to comply with this statutory requirement. In recent years the courts have ruled that the IRS may not impose penalties in such circumstances.[1] To prevent these foot faults in the future, within the last two years the IRS has made changes to the Internal Revenue Manual to clearly establish and clarify the IRC 6751(b) requirements of IRS personnel.[2] Further, the 2021–2022 Treasury Priority Guidance Plan lists as a priority project, "Regulations regarding supervisory approval of proposed penalties under § 6751(b)."

Perhaps contrary to popular assumption, the case files of IRS examiners and other IRS officials are not subject to automatic review. Requiring immediate supervisory approval regarding the imposition of penalties is a safety net that helps ensure that penalties are consistently applied among all types of taxpayers. It helps prevent the imposition of penalties in cases of inadvertent errors on the part of taxpayers or IRS officials, situations where taxpayers have not had an opportunity to submit information relevant to their case, circumstances where IRS backlogs have delayed processing of taxpayer correspondence, personality differences between agents and taxpayers, or the use of penalties as bargaining chips to convince the taxpayer to agree to the proposed adjustments. As former IRS Taxpayer Advocate Nina Olson states,

> Supervisor approval helps ensure consistent and equitable treatment for taxpayers. . . . Laying a second set of eyes and judgement on the case can smooth out the edges of differing value systems and mindsets of examiners.[3]

[1] *Graev v. Commissioner,* 147 T.C. at 460, superseded by, in part, modified by, in part, 149 T.C. 485 (2017); *Chai v. Commissioner,* 851 F.3d 190 (2d Cir.2017); *Clay v. Commissioner,* 152 T.C. 223 (2019).

[2] IRM Sections 20.1.1.2.3.1 (10.19.2020); 20.1.5 2.3 (8.31.2021); 20.1.5.4 (8.31.2021).

[3] Nina Olson, "Throwing the Baby Out With the Bathwater—The Proposed Repeal of IRC Section 6751(b) Supervisor Approval of Penalties," *Procedurally Taxing,* December 1, 2021, *procedurallytaxing.com.*

Repeal of IRC 6751(b) not only would result in taxpayers losing the protection of immediate supervisor approval and the consistency it provides, the retroactive nature of the proposal could result in the imposition of penalties in currently pending cases where the IRS failed to follow the required approval procedures. This would include cases where the IRS already has informed taxpayers that penalties will not be imposed. Further, retroactively repealing a statute that has been in place for almost a quarter of a century could further undermine trust and confidence in our tax system that relies on voluntary compliance and arguably runs counter to any reasonable sense of fairness and certainty.

Repeal would affect a wide array of taxpayers, including lower-income filers. An IRS National Taxpayer Advocate study of 2019 found that in 54% of cases IRS employees did not obtain the statutorily required approval before imposing a two-year ban on the ability to take the Earned Income Tax Credit.[4]

The repeal also would apply to assessable penalties where the taxpayer is required to pay a penalty in advance and in full before being able to contest it. Supervisory approval before the imposition of the penalty could avoid some of these unfortunate circumstances where penalties may be inappropriately imposed but taxpayers cannot afford to challenge them, a Catch-22 situation.

Of course, there may be situations where penalties might be appropriate but cannot be imposed after it is determined that the IRS has not followed the statutorily required approval process. However, these limited situations should not be used as justification to undermine the integrity and efficacy of the penalty process by retroactively repealing a taxpayer protection that was deemed important enough to merit inclusion in a major piece of tax legislation and that has been in place for close to 24 years.

Conclusion

Repealing IRC 6751(b) to cover over the IRS's noncompliance with a significant taxpayer protection mechanism runs the risk of reprising inappropriate or inconsistent actions that triggered the enactment of IRC 6751(b) in the first place. Further, repeal is not necessary since the IRS has taken proactive steps to ensure that IRC 6751(b) is properly executed and Treasury plans to execute guidance toward that same end.

Taxpayer confidence in our nation's tax system is essential to promote voluntary compliance. Fairness and consistency are critical to establishing that confidence. Much attention has been focused during recent tax reform efforts on restoring fairness to the tax code. Repealing a longstanding taxpayer protection measure intended to help achieve that goal controverts these efforts. Please strike the provision in the BBBA that would repeal IRC 6751(b).

Thank you for the opportunity to provide these comments. Please contact Mary Baker at mary.baker@klgates.com or (202) 778–9223 with any questions or for further discussion.

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Statement of Michael Bindner

Chairman Wyden and Ranking Member Crapo, thank you for the opportunity to address this issue. You have much to discuss with Erin Collins, the new Taxpayer Advocate. I wish her luck. We submitted these comments to the Ways and Means Committee, Subcommittee on Oversight on February 8, 2022.

We urge you to submit a written question (or one during the hearing) about the advisability of using support contractors—both for the hotline and for audit services. There are many qualified revenue agents working in the private sector who are up to this task, as well as top flight federal customer service providers to handle simple questions and arrange follow-up calls with revenue agents.

[4] "Study of Two-Year Bans on the Earned Income Tax Credit, Child Tax Credit, and the American Opportunity Tax Credit," Taxpayer Advocate Service—2019 Annual Report to Congress, pp. 239–256.

We are sure you already have questions on how Build Back Better can help the IRS meet these challenges as well. This is especially true regarding the suspension of payments refundable child tax credits to parents. Hopefully she will not have to handle inquiries for long from distressed families.

The Child Tax Credit should be the focus of BBB, as well as childcare and sick leave. While other matters are certainly important, they realistically will have to wait for a larger Senate majority. In the interim, it should be shouted from the housetops that the CTC is anti-abortion legislation. The Catholic Bishops must be urged in the strongest possible language to assure that increasing the CTC be scored as a must-pass pro-life vote.

As we have said before, to end the "stink of welfare" that Senator Manchin so objects to, CTC payments should be included with wages for all employees—not just those with three or more children. They should also be distributed through other federal and state assistance programs—some of which can be reduced to do so.

For middle-income taxpayers whose increased credits are less than their annual tax obligation, a simple change in withholding tables is adequate. Procedures are already in place to deliver refundable credits to larger families. For the coming year, they merely need to be expanded to all families with children.

Employers can work with their bankers to increase funds for payroll throughout the year while requiring less money for their quarterly tax payments (or estimated taxes) to the IRS. The main issue is working out those situations where employers owe less than they pay out. This is especially true for labor intensive industries and even more so for low wage employers.

A higher minimum wage would make negative quarterly tax bills less likely. Indeed, no one should have to subsist mainly on their child tax payments.

Please ask, either orally or in written form, how such a CTC proposal might work and how it would make things easier for taxpayers whose returns would be simpler—with fewer having to file at all.

We have attached the latest version of our tax reform plan, with a separate attachment on how implementation of this plan would affect IRS manpower. The answer is that the change would be drastic. It would also allow the Committee to focus more on how social welfare is being delivered in general, as well as eliminating current roadblocks to promptly filing for Social Security Disability Income.

Thank you, again, for the opportunity to add our comments to the debate. Please contact us if we can be of any assistance or contribute direct testimony.

Attachment One—Tax Reform, Center for Fiscal Equity, December 7, 2021

Individual payroll taxes. Employee payroll tax of 7.2% for Old-Age and Survivors Insurance. Funds now collected as a matching premium to a consumption tax based contribution credited at an equal dollar rate for all workers qualified within a quarter. An employer-paid subtraction value added tax would be used if offsets to private accounts are included. Without such accounts, the invoice value added tax would collect these funds. No payroll tax would be collected from employees if all contributions are credited on an equal dollar basis. If employee taxes are retained, the ceiling would be lowered to $100,000 to reduce benefits paid to wealthier individuals and a $16,000 floor should be established so that Earned Income Tax Credits are no longer needed. Subsidies for single workers should be abandoned in favor of radically higher minimum wages. If a $10 minimum wage is passed, the employee contribution floor would increase to $20,000.

Wage Surtaxes. Individual income taxes on salaries, which exclude business taxes, above an individual standard deduction of $100,000 per year, will range from 7.2% to 57.6%. This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction.

Our proposed brackets have been increased from $85,000 to $100,000 because this is the income level at the top of the 80% of tax paying households who earn the bottom third of adjusted gross income. Earners above this level are considered middle class. Likewise, the top 1% of income earners are at the $500,000 level, which will be used as the start of the highest rate.

Asset Value-Added Tax (A–VAT). A replacement for capital gains taxes, dividend taxes, and the estate tax. It will apply to asset sales, dividend distributions, exercised options, rental income, inherited and gifted assets and the profits from short sales. Tax payments for option exercises, IPOs, inherited, gifted and donated assets will be marked to market, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as income or S–VAT surtaxes.

This tax will end Tax Gap issues owed by high-income individuals. A 26% rate is between the GOP 23.8% rate (including ACA–SM surtax) and the Democratic 28.8% rate as proposed in the Build Back Better Act. It's time to quit playing football with tax rates to attract side bets. A single rate also stops gaming forms of ownership. Lower rates are not as regressive as they seem. Only the wealthy have capital gains in any significant amount. The de facto rate for everyone else is zero. For now, however, a 28.8% rate is assumed if reform is enacted by a Democratic majority in both Houses.

Subtraction Value-Added Tax (S–VAT). These are employer paid Net Business Receipts Taxes. S–VAT is a vehicle for tax benefits, including

- Health insurance or direct care, including veterans' health care for non-battlefield injuries and long-term care.
- Employer paid educational costs in lieu of taxes are provided as either employee-directed contributions to the public or private unionized school of their choice or direct tuition payments for employee children or for workers (including ESL and remedial skills). Wages will be paid to students to meet opportunity costs.
- Most importantly, a refundable child tax credit at median income levels (with inflation adjustments) distributed with pay.

Subsistence level benefits force the poor into servile labor. Wages and benefits must be high enough to provide justice and human dignity. This allows the ending of state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). To assure child subsidies are distributed, S–VAT will not be border adjustable.

The S–VAT is also used for personal accounts in Social Security, provided that these accounts are insured through an insurance fund for all such accounts, that accounts go toward employee-ownership rather than for a subsidy for the investment industry. Both employers and employees must consent to a shift to these accounts, which will occur if corporate democracy in existing ESOPs is given a thorough test. So far it has not. S–VAT funded retirement accounts will be equal-dollar credited for every worker. They also have the advantage of drawing on both payroll and profit, making it less regressive.

A multi-tier S–VAT could replace income surtaxes in the same range. Some will use corporations to avoid these taxes, but that corporation would then pay all invoice and subtraction VAT payments (which would distribute tax benefits. Distributions from such corporations will be considered salary, not dividends.

Invoice Value-Added Tax (I–VAT) Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S–VAT, then they would be funded by the I–VAT to take advantage of border adjustability. I–VAT also forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. Enactment of both the A–VAT and I–VAT ends the need for capital gains and inheritance taxes (apart from any initial payout). This tax would take care of the low-income Tax Gap.

I–VAT will fund domestic discretionary spending, equal dollar employer OASI contributions, and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I–VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs. The latter could also be funded by the asset VAT (decreasing the rate by from 19.5% to 13%).

As part of enactment, gross wages will be reduced to take into account the shift to S–VAT and I–VAT, however net income will be increased by the same percentage as the I–VAT. Adoption of S–VAT and I–VAT will replace pass-through and proprietary business and corporate income taxes.

Carbon Added Tax (C–AT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C–AT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels (including fusion). This tax would not be border adjustable unless it is in other nations, however in this case the imposition of this tax at the border will be noted, with the U.S. tax applied to the overseas base.

Tax Reform Summary

This plan can be summarized as a list of specific actions:

1. Increase the standard deduction to workers making salaried income of $35,000 and over, shifting business filing to a separate tax on employers and eliminating all credits and deductions—starting at 7.2%, going up to 28.8%, in $50,000 brackets.
2. Shift special rate taxes on capital income and gains from the income tax to an asset VAT. Expand the exclusion for sales to an ESOP to cooperatives and include sales of common and preferred stock. Mark option exercise and the first sale after inheritance, gift or donation to market.
3. Employers distribute the child tax credit with wages as an offset to their quarterly tax filing (ending annual filings).
4. Employers collect and pay lower tier income taxes, starting at $100,000 at 7.2%, with an increase to 14.4% for all salary payments over $150,000 going up 7.2% for every $50,000—up to $250,000.
5. Shift payment of HI, DI, SM (ACA) payroll taxes to employers, remove caps on employer payroll taxes and credit them to workers on an equal dollar basis.
6. Employer paid taxes could as easily be called a subtraction VAT, abolishing corporate income taxes. These should not be zero rated at the border.
7. Expand current state/federal intergovernmental subtraction VAT to a full GST with limited exclusions (food would be taxed) and add a federal portion, which would also be collected by the states. Make these taxes zero rated at the border. Rate should be 19.5% and replace employer OASI contributions. Credit workers on an equal dollar basis.
8. Change employee OASI of 7.2% from $18,000 ($20,000 for $10 minimum wage) to $100,000 income are optional taxes for Old Age and Survivors Insurance.

Attachment Two—Tax Administration, Treasury Budget, February 12, 2020

Shifting to a single system for all business taxation, particularly enacting invoice value-added taxes to collect revenue and employer-based subtraction value-added taxes to distribute benefits to workers will end the need for filing for most, if not all, households. Any remaining high salary surtax would be free of any deductions and credits and could as easily be collected by enacting higher tiers to a subtraction VAT.

Subtraction VAT collection will closely duplicate the collection of payroll and income taxes—as well as employment taxes—but without households having to file an annual reconciliation except to verify the number of dependents receiving benefits.

Tax reform will simplify tax administration on all levels. Firms will submit electronic receipts for I–VAT and Carbon Added Tax (C–AT) credit, leaving a compliance trail. S–VAT payments to providers, wages and child credits to verify that what is paid and what is claimed match and that children are not double credited from separate employers.

A–VAT transactions are recorded by brokers, employers for option exercise and closing agents for real property. With ADP, reporting burdens are equal to those in any VAT system for I–VAT and A–VAT and current payroll and income tax reporting by employers.

Employees with children will annually verify information provided by employers and IRS, responding by a postcard if reports do not match, triggering collection actions. The cliché will thus be made real.

High-salary employees who use corporations to reduce salary surtax and pay I–VAT and S–VAT for personal staff. Distributions from such corporations to owners are considered salary, not dividends.

Transaction based A–VAT payments end the complexity and tax avoidance experienced with income tax collection. Tax units with income under $84,000 or only one employer need not file high salary surtax returns. Separate gift and inheritance tax returns will no longer be required.

State governments will collect federal and state I–VAT, C–AT, S–VAT payments, audit collection systems, real property A–VAT and conduct enforcement actions. IRS collects individual payroll and salary surtax payments, performs electronic data matching and receive payments and ADP data from states. SEC collects A–VAT receipts.

I–VAT gives all citizens the responsibility to fund the government. C–AT invoices encourage lower carbon consumption, mass transit, research and infrastructure development. A–VAT taxation will slow market volatility and encourage employee ownership, while preserving family businesses and farms. Very little IRS administration will be required once reform is fully implemented. All IRS employees could fit in a bathtub with room for Grover Norquist.

LETTER SUBMITTED BY JAMES WEBSTER COATES

Dear Chairman Wyden, Ranking Member Crapo, and Members of the Committee:

I am a United States citizen, registered to vote in the 3rd Congressional District of Pennsylvania. I moved to Japan in 2001 immediately after graduating from college, and have been living and working here ever since. My financial life is entirely in Japan since I've never worked a day in my life in the U.S. and have never earned any money there. I am a tax resident of Japan, and my worldwide income is subject to full taxation under the laws of Japan.

I am employed as a compliance officer for a financial institution, so I have a high attention to detail around my own personal tax compliance matters and try very hard to fulfill the requirements of the U.S. tax system in addition to the tax requirements in my country of residence. The reality, though, is that the U.S. requirements (especially the myriad of required informational filings) get increasingly burdensome every year, and the compliance costs for knowledgeable tax preparers are egregious. I rarely actually owe much tax to the United States, but my annual accounting fees have frequently been higher than the ultimate amount of my U.S. Federal tax liability.

The extraterritorial application of the U.S. federal income tax system is a painful issue for the 9 million U.S. citizens who reside outside the United States. In a survey [1] of 1,564 overseas resident citizens conducted by Stop Extraterritorial American Taxation ("SEAT"), an independent, non-partisan not-for-profit association, 46% of participants agreed with the statement "I pay significant fees for preparation of U.S. tax return but owe nothing in U.S. taxes," with 41% of those who engaged a professional preparer paying more than $1,000 in fees.

This is a reflection of the burden non-residents face due to complex information reporting requirements related to ordinary banking, investment and pension products which are "foreign" to the United States but just a part of living an ordinary financial life in one's country of residence.

The uniquely American definition of "tax residency" includes the imposition of taxation on the worldwide (including non-U.S. source) income of persons who are tax residents of other countries. This system requires the IRS to do the impossible: to administer not only a domestic tax system for U.S. residents and a system of source taxation for non-resident aliens, but also an extraterritorial one whose details are defined by unique interactions with the tax codes of other countries in the world.

Administering an extraterritorial tax system has become an overwhelming task, both procedurally and substantively. The IRS cannot remotely serve U.S. tax residents in the more than 100 countries in the world where they live, let alone in the languages that they speak. Nor can the IRS know how U.S. laws apply to the local financial services, small business structures, and retirement savings plans that are common in all those other countries.

Indeed the IRS itself has identified "international taxpayers" as a community which is underserved by the IRS. Although the IRS's Publication 54, "Tax Guide for U.S. Citizens and Resident Aliens Abroad," is helpful, it does not adequately enable non-

[1] *http://seatnow.org/survey_report_intro_page/*.

resident taxpayers to understand their U.S. tax obligations in the context of the financial systems of the countries in which they live. Since IRS guidance is not sufficient for non-resident taxpayers to accurately understand how the U.S. tax system applies to them, they require the support of professional tax service providers, which is unaffordable for many.

The IRS's inability to provide non-resident taxpayers with essential services violates several aspects of the Taxpayer Bill of Rights, including the following:

- The right to be informed, including the right to know what to do to comply with tax laws and the right to receive clear explanations.
- The right to quality service, including the right to receive prompt service and clear and easily understandable communications from the IRS.
- The right to pay no more than the correct amount of tax, including the right to have the IRS apply all tax payments properly.
- The right to a fair and just tax system, including the right to expect the tax system to consider facts and circumstances that might affect taxpayers' underlying liabilities and ability to timely provide information.

In order for the IRS to fairly administer the system of extraterritorial taxation which the United States currently imposes, the IRS must provide equal levels of service to both taxpayers resident in the United States and non-resident U.S. citizens. The level of service currently provided by the IRS is highly unequal.

In a paper entitled, "Mission Impossible: Extraterritorial Taxation and the IRS" published in the *Tax Notes Federal* journal, authors Laura Snyder, Karen Alpert and John Richardson [2] explain that "international taxpayers" have been identified by the IRS as an underserved community, and that the failure to provide access to the following services, individually and collectively, constitute violations of the Taxpayer Bill of Rights:

- In-person assistance.
- Toll-free telephoning.
- Knowledgeable IRS agents.
- Online accounts.
- E-filing.
- Timely delivery of postal mail.
- Use of other languages.
- Explanations of tax obligations.
- Making payments to the IRS.
- Receiving payments from the IRS.
- Third-party assistance.
- Low income taxpayer clinic.
- IRS internal organization.

According to Alpert, et al., **these failures when considered as a whole, "manifest a systemic pattern of discriminatory treatment of international taxpayers as compared with domestic taxpayers. The collective failures are evidence that the IRS is either unable or unwilling to administer an extraterritorial tax system."**

With limited ability to interface with non-resident taxpayers, the IRS has shut itself off from taxpayers, and as a result is unable to determine whether the taxpayer is providing accurate information, unless the IRS selects his or her return for audit. For their part, Americans living abroad are subject to potentially devastating penalties for failure to file a variety of documents accurately, even for inadvertent noncompliance. According to the SEAT survey, 80% "experience personal stress in relation to U.S. taxation," a large part of which is due to the constant sense of fear because of the excessive penalties that could be applied for making an honest mistake in our tax compliance. The inability of the IRS to address their questions makes it more likely that filers will get it wrong. As a result, the inaccessibility of these basic services leads to further non-compliance, as evidenced by the low rate of filing compared to domestic citizens.

The IRS should take immediate steps to address the many valid concerns that have been raised by Americans abroad. **If the United States continues to subject overseas residents to extraterritorial taxation, then it must enhance the capabilities of the IRS to support these taxpayers.**

[2] Snyder, Laura, et al.. "Mission Impossible: Extraterritorial Taxation and the IRS," *Tax Notes Federal,* Volume 170, March 22, 2021.

I urge the Senate Finance Committee to hold a hearing focused on the difficulties U.S. citizens who reside outside the United States are facing in navigating the increasingly complex extraterritorial tax compliance regime that the U.S. imposes on its non-resident citizens. These issues are not well known or understood, but they are a tremendous burden on millions of ordinary people who happen to live overseas.

If the IRS is unwilling or unable to administer a system of extraterritorial taxation, then it is time for Congress to take action to cease the imposition of tax on the non-U.S. source income of non-residents. The cost-benefit analysis of the impact of a transition from citizenship-based taxation to a residence-based system of taxation should include an assessment of the investments which would be required to enhance the capabilities of the IRS to provide fair and equitable support to non-resident taxpayers under the current system.

The best solution to this problem is for the U.S. to come into alignment with every other developed nation on the planet and move to a residence-based taxation system for individuals. **The definition of "individual" in Treasury Regulation, 26 Section 1.1-1 should be modified to include only "residents." U.S. citizens who are tax residents of other countries would continue to be liable to pay U.S. Federal income tax on any income which is effectively connected with the United States, as all non-resident aliens do, by using Form 1040–NR instead of Form 1040.**

The tax compliance industry of lawyers and accountants will hate my suggestions because they would remove red tape which drives inordinate amounts of revenue to their industry. But the reality is that by solving these issues for ordinary U.S. citizens who live in other countries, the United States would sacrifice a relatively small amount of tax revenue, while freeing up IRS resources to focus on other larger priorities.

Thank you for your attention to this matter.

James Webster Coates
Tokyo, Japan

Statement Submitted by Joseph Eugene Coolidge

I would like to thank the committee for the opportunity to have my statement added to the record. I have watched the recorded hearing and listened to the questions asked by members of the senate. I have listened to the comments and answers provided by the witnesses, as well as the committee members. I felt it necessary to provide some further information.

I currently work for the IRS in Accounts Management as a Customer Service Representative, although our official designation is Contact Representative. I am the voice on the phone when you call with questions about the status of your refund, or have questions about a notice you received, etc. I have been doing this since 2012. It is a challenging job, even without the addition of the pandemic, new refundable credits, and tax law changes midway through the filing season. I feel I have unique insight and information that may help the committee in addressing the current situation with the IRS.

Why is there a backlog? This is a straightforward answer. Not enough people to do the work. Now you may say that this statement isn't correct because the IRS was having no issues processing things timely with the staff it had before the pandemic started, and the staffing levels haven't decreased substantially. This is true, but let's look at what has happened over the years. Beginning in 2003 the IRS determined that it could save money in the budget by consolidating its service centers where paper returns are processed. They merged 10 processing centers into 5. This was in response to the increased use of electronic filing, and the decline in paper returns. In 2016, after a continuing decline in appropriations made to the IRS by Congress, the IRS put in place a plan to shutdown 3 of the remaining service centers over a period of years, starting with the Covington, KY office in 2019, then Fresno, CA in 2021, and Austin, TX in 2024.

The closure of the office in Covington meant that there were 1,800 less people to process paper returns, and although the IRS created new positions and moved as many people as they could into other jobs, jobs were lost. The pandemic occurred just months after this closure. All processing centers were closed completely. Tractor trailers of unopened correspondence and tax returns sat in parking lots at the remaining processing centers. When employees returned to work, they made great efforts to get through the backlog and get things processed as quickly as possible, while preparing for the next filing season for 2020 year tax returns. During this time, Congress enacted legislation that helped to get money into the hands of Americans who were struggling with being out of work, and to help business owners who were impacted by the safety mandates enacted. The legislation was beneficial and helped millions of Americans, and the IRS was able to implement the legislation and get millions of dollars in funds paid to the American public. There was an unforeseen issue with this, however. For taxpayers to receive the economic impact payments, the IRS had to determine eligibility. It used records from previously filed returns in the past couple of years to determine this. This meant that taxpayers who had not filed a return for 2018 and 2019, or were not receiving payments through social security, railroad retirement, supplemental security income benefits or VA benefits, or had never filed a return would not be getting the economic impact payments. The IRS set up an online system where taxpayers who were not required to file a return based upon these reasons, could input their information to update IRS records. It was called the Non-Filers Tool. This tool allowed these taxpayers to provide information regarding dependents, as well as update address and banking information. It created a simple 2019 tax return for IRS records. It helped get more taxpayers the money that Congress had made available that would have otherwise not received them. For Taxpayers that still did not receive economic impact payments, they could file a tax return for 2020 and claim the recovery rebate credit. Here is where some of the backlog started. The electronic system for filing needs to verify the AGI or Self-Selected PIN number from the previous year's return to be accepted electronically. When a taxpayer has never filed a return before, or has not filed for several years, although they are generally able to electronically file, most of them have difficulty because they do not know to enter "0" as the AGI. and end up mailing the return. In the case of Identity theft, where an electronically filed return has been filed by the Identity thief, then the real taxpayer must mail their return. In cases where an Identity Protection PIN number is issued, that PIN number must be included, or the electronically filed return is rejected by the IRS. Many taxpayers are unable to retrieve this Identity Protection PIN using the online verification system or are unable to have it reissued by mail as their identity cannot be verified. Another reason a return is required to be mailed is a dependent being claimed on more than one return. Once a return is accepted electronically, the social security numbers used on it are locked from being used on another electronically filed return, except for returns filed as married filing separate, or the checkbox is selected that another person can claim you as a dependent on their return. Anyone else claiming the same dependent must mail in their return. All these situations led to more paper returns being filed. For taxpayers that used the Non-Filers Tool, the creation of a simple 2019 return in the IRS system stopped them from filing their original 2019 tax return electronically. This meant they had to mail in their tax return. That tax return was then treated by the IRS system as an amended return because the system thought a return was already submitted. Legislation was then enacted during the filing season that impacted millions of taxpayers with unemployment payments. Before programming was put in place to systemically adjust accounts for this change, taxpayers who had already filed were submitting amended returns. There was much confusion among taxpayers with the new credits, economic impact payments, using the Non-Filers Tool and changes to unemployment. This resulted in many more paper returns, amended returns, and calls to the IRS. The IRS, although facing more paper returns and amended returns, continued with its plans to shut down processing centers, and closed its Fresno facility in 2021. The unprocessed 2020 tax returns from this service center were then distributed to the remaining three processing centers in Ogden, UT, Kansas City, MO, and Austin, TX increasing the workload for them. If the closing of this service center would have been postponed, there would have been over 3,000 more employees able to process 2020 paper returns and amended returns. With the changes made to the Child Tax Credit for the 2021 tax year, and the Advanced Child Tax Credit payments that were issued from July thru December of 2021, many taxpayers who would otherwise not be required to file a return, now must do so to reconcile the advanced payments. Since the advanced payments were based upon previously filed returns to determine eligibility, there will undoubtedly be those who are in the same situation as they were in 2020 with the economic impact payments and will be mailing in their returns. On a positive note, the IRS has decided to delay it's planned closure of the service center in Austin, TX.

Because the primary reason for the backlog is staffing, I would like to address the issue. The IRS is currently at around the same staffing levels it had in the 70s. While normal attrition occurs with every employer, the IRS has seen a greater level of attrition than most agencies. Around the time that I was hired, there was an IRS training video that garnered attention from the public and Congress. It was seen as a waste of taxpayer funds. Shortly after, there was also an investigation and scandal regarding the IRS denying applications for tax exempt status due to certain political viewpoints. These contributed in part to a reduction in the budget allocated to the IRS by Congress. This also affected the image of the IRS as an employer. The cuts to the budget caused a hiring freeze for the IRS for a period of years. When the IRS did have hiring authority again, a series of continuing resolutions, as well as government shutdowns further contributed to the inability for IRS to hire adequate staff. The images on the news of IRS, and other federal employees, being told they must work without a paycheck undoubtedly created a negative image of the government as a great employer to work for. This has only been further supported by the disparity in pay for government employees vs. the private sector. Under the current GS schedule, the position of Contact Representative starts at GS–5. This position requires a bachelor's degree or equivalent experience. In many locations, someone working fast food or other service industry can be hired quicker and make more money, without a degree. This puts the IRS, as an employer, at a disadvantage. With the increase in the federal minimum wage to $15hr, there is no incentive for someone with a degree to apply, as there is no real pay benefit. This is further compounded by locality. In Seattle where my office is located, the cost of living is far beyond the pay received by the Customer Service Representatives working there. Everyone commutes from outlying areas. There is no parking at our office, so most everyone commutes using public transportation. Although using public transportation is great for the environment and reduces traffic congestion, not everyone wants to spend hours on a bus or a train to work for less than they can make right around the corner working at a drive thru window. While we have seen increases in pay in the past few years, they have been negated by the increased premium costs for insurance, resulting in an overall pay cut. The discussion between the committee and the witnesses regarding the number of employees hired by the IRS only addressed the total number hired. The number of employees that were hired, then left during the training process or shortly after was never addressed. I'm sure that those numbers are available and would shed additional light on the difficulty the IRS is having in hiring and retaining employees.

In order address the issue with staffing, there will have to be several changes made. First, an audit of the base GS pay table needs to be performed, and corrections made, to ensure that pay is comparative to the private sector as stipulated in the Federal Pay Comparability Act of 1970. Second, the locality pay adjustments need to be reviewed and corrected to ensure that wages remain competitive for the locality. Adjusting the salary table to be competitive would entice qualified applicants to apply. Third, the image of the IRS as an employer needs to be addressed. Years of budget cuts, negative news stories, and declining service levels have led to a negative view of the IRS in general. Positivity in the media and from Congress can help change this image and help make the IRS's ability to hire new employees easier. Fourth, the current process for hiring employees is a long process, taking months. This needs to be changed to align with the private sector, allowing for direct hiring authority. Taking all these actions would help to create a position that compares with the private sector, bringing in qualified applicants.

I would like to address the issue of Customer Service, and the experience the taxpayer has when they call the IRS. The IRS tracks many statistics when it comes to customer service calls. The big talking points that were brought up by the Committee and the witnesses address the percentage of answered calls. The statistics that were brought up were that only 11% of calls were answered in Fiscal Year 2021. The National Taxpayer Advocate had stated that there was a low point during which only 4% of calls were answered, but also stated that there was also an unprecedented call volume due to the tax law changes, and that the IRS answered more calls in 2021 than in the prior year. The IRS tracks statistics such as the average hold time, the average time of the call, how many calls are disconnected, how many calls are transferred, and how many calls are received, but it doesn't track how many calls resolve the taxpayer's issue, or how many times a caller has had to call back to have the issue resolved. Based upon my interactions with callers, the taxpayer doesn't always have their issue resolved on the first call. I have spoken with many taxpayers, and their primary complaints have been that they were on hold for long periods of time, they have called numerous times and they haven't been able to speak to a live person, they get transferred to a line that states that the call volume is too high and they get disconnected, they have spoken with several people and get different information from each of them, and that they wait on hold for hours only to be disconnected before speaking to somebody. As a customer service representative, I can empathize with them. IRS employees that have tax questions and issues call the same toll-free number that the taxpayer does and go through the same experience. These issues could be resolved with adequate staff to handle phone calls.

The IRS has many procedures in its Internal Revenue Manual, which Customer Service Representatives are required to follow. Once we determine the issue the taxpayer is calling about, we refer to the appropriate guidance in the manual and follow its steps. Calls are required to be randomly reviewed to ensure that we are correctly following procedure, and our performance evaluations and annual appraisals are based in part upon how well we followed the procedures and if any mistakes were made. This affects not only our pay, but our ability to remain an employee, and the ability to advance in our IRS career. We are held to a high standard of perfection. We are also required to ensure that the Taxpayers rights are upheld in all interactions. This is sometimes a difficult thing to do. I will provide a general example. When a taxpayer moves, the IRS does not automatically know. Generally, address updates are based upon the filing of a tax return, unless the taxpayer has provided correspondence to the IRS informing them of an address change. If we are speaking to a taxpayer, and they inform us that they have moved, the procedure in the Internal Revenue Manual is to update the address if it is a permanent address change. This seems like a simple procedure. The problem occurs with how the IRS system processes information. Each IRS computer system is part of a hierarchy. The change I input in my computer system is not effective immediately. It is stored on our local server and is transmitted either that evening, or the end of the week to our main computing center. From there it is processed, and the account updated, then that information is transmitted out to the rest of the network. An address update can take up to two weeks to be a permanent change to a tax record. Now let's say a taxpayer submitted a 2020 tax return and it is 2022. The taxpayer has not filed his current year return yet. The IRS has not processed his 2020 return but we see that it was received. The taxpayer explains that they have moved since the return was filed. If I input the address change as required by the Internal Revenue Manual, and it processes before the 2020 return does, then once the 2020 return finishes processing, the old address on the return then updates our system, and the address change I did is reversed. This means that the taxpayer no longer gets correspondence from the IRS at is current address and either must call back, complete a change of address form, or submit the current year return with the current address to update the tax record. Now let's say that the 2020 return address processes through at the same time as the updated address I input. Since there are two separate computer systems submitting an address update to the main computer, one from the center that is processing the tax return, and my own, it doesn't know how to process the input, and generates an error. The taxpayer, through no fault of their own can be negatively impacted in both scenarios. The address of record is where tax refund checks are issued. A taxpayer wanting to ensure they get their refund check timely takes steps to notify the IRS of their address change based upon the scenarios I provided. Our procedure is to update the address, which we are required to follow. In both situations previously described, the taxpayer will most likely face a delay. The refund check will either be issued to the old address as shown on the tax return or be held until the error is resolved. This generally results in another call to the IRS to resolve. It also results in the taxpayers right to have their tax issue resolved properly and timely being denied. This is just one example of how our procedure sometimes gets in the way of the taxpayer's rights, resulting in poor customer service, and increased calls to resolve the issue. Modernization of the IRS infrastructure may resolve this and would certainly make the Taxpayer experience better.

Modernization and updates to the Technology that the IRS uses has been a topic on the radar for years, and the IRS has been making changes, but it has been a slow process. The changes necessary to make a big impact on customer service have still not occurred. The problem is that the change necessary will take years to complete. There is no overnight solution. This requires consistent, reliable, long-term funding. There can't be budget increases and decreases, and continuing resolutions. This is something Congress can do. It won't change the situation with the backlog but will certainly help prevent it from reoccurring. Think of the IRS as a Steam locomotive, traveling back and forth, picking up and dropping of things. When it was created, it was one of the most powerful machines of it's day. It was able to handle substantial loads without issue and was reliable to get the job done. Over time, however, the demands placed upon the Steam locomotive became greater, much like the changing tax code. This required changes to the engineering of the locomotive to keep up and things were added and removed as the budget and time allowed, but the core steam engine remained. This is similar to what has happened with the tax code over the years. The engine was still strong and reliable but was slowing down with the changes. Over time, newer technology created even stronger locomotives, with steam power becoming obsolete. The cost of these newer engines was very expensive and required changing the tracks and equipment for the new engines to do their job. Since the steam engine was still working and could still do its job, the cost to upgrade was not worth it. This is much like the scenario now with the IRS. We still use the steam engine, but the parts are harder to find, the maintenance personnel are becoming fewer, and although it is still working and reliable, it is costing more and more to maintain. This is our IRS. Old, unattractive, and struggling to keep up with the modern day. It is useful and reliable, but behind the times. This engine is the money maker for the nation and its budget. Some people may not like it, but it is necessary for the nation to function, and should be the priority to ensure that it is upgraded. Without it, how long until the voluntary compliance fades away?

Congress needs to enact legislation that funds the IRS for the long haul, including long-term funds for Technology modernization. It needs to correct the pay gap between federal employees and the private sector and ensure that employee benefits remain attractive to potential applicants, so that the IRS can hire enough employees to get its work done for the taxpayer. Congress needs to recognize the continued delay in taking these actions could be more costly, and more detrimental to the nation then making the necessary changes. Thank you.

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February 16, 2022

The Honorable Ron Wyden
Chairman
U.S. Senate
Committee on Finance
221 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
U.S. Senate
Committee on Finance
239 Dirksen Senate Office Building
Washington, DC 20510

Re: Hearing on Spotlighting IRS Customer Service Challenges on February 17, 2022

Dear Chairman Wyden, Ranking Member Crapo, and Members of the Committee:

Democrats Abroad greatly appreciates your holding this important hearing. We recognize the enormous challenges facing the Internal Revenue Service (IRS) in this COVID–19 era. However, just as the IRS is required to assist Americans living in the U.S., it must help Americans living abroad, of whom there are an estimated nine million,[1] the overwhelming majority of whom are working or middle class.[2] Our recommendations would increase tax compliance while also alleviating problems

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[1] The U.S. Department of State's Bureau of Consular Affairs. (2020, January). Consular Affairs by the Numbers. Retrieved February 6, 2022, from *https://travel.state.gov/content/dam/travel/CA-By-the-Number-2020.pdf.*

[2] Democrats Abroad. (2019, March 1). *Tax filing from abroad—2019 Research on Non-Residents and U.S. Taxation.* Page 4. Retrieved February 7, 2022, from *https://democratsabroad.atlassian.net/wiki/download/attachments/4257416635/Tax%20filing%20from%20abroad%20-%202019%20Research%20on%20Non-Residents%20and%20US%20Taxation.pdf?api=v2.*

faced by them. We strongly support the National Taxpayer Advocate's recommendations to reform the tax code.

Americans living abroad are subject to potentially devastating penalties for failure to file a variety of documents accurately, even for inadvertent non-compliance. The inability of the IRS to address their questions makes it more likely that filers will get it wrong. As a result, the inaccessibility of these basic services leads to further non-compliance, as evidenced by the low rate of filing compared to domestic citizens.

We have long advocated common-sense solutions to many of the problems raised in the National Taxpayer Advocate's Purple Books. Despite years of their recommendations—and despite many of the proposed solutions being revenue-neutral or even revenue-positive—at least 23 provisions in the current tax code[3] violate the widely-accepted Taxpayer Bill of Rights and harm Americans filing from abroad, who face greater complexity, harsher penalties, and more ambiguity. Preparing an average tax return filed from abroad costs from $500 to $1000,[4] often exceeding any taxes owed.

We strongly support the National Taxpayer Advocate's 2022 Purple Book recommendations, which also have the support of the Government Accountability Office and the IRS Taxpayer Advocacy Panel:

Legislative Recommendation #8

Harmonize Reporting Requirements for Taxpayers Subject to Both the Report of Foreign Bank and Financial Accounts [FBAR] and the Foreign Account Tax Compliance Act [FATCA/Form 8938] by Eliminating Duplication and Excluding Accounts Maintained by U.S. Persons in the Countries Where They Are Bona Fide Residents.

Legislative Recommendation #14

Allow Additional Time for Taxpayers to Request Abatement of a Math Error Assessment Equal to the Additional Time Allowed to Respond to a Notice of Deficiency When the Math Error Notice Is Addressed to a Person Outside the United States.

Legislative Recommendation #15

Amend IRC § 6212 to Provide That the Assessment of Foreign Information Reporting Penalties Under IRC §§ 6038, 6038A, 6038B, 6038C, and 6038D Is Subject to Deficiency Procedures.

Legislative Recommendation #38

Modify the Definition of "Willful" for Purposes of Finding Report of Foreign Bank and Financial Accounts Violations and Reduce the Maximum Penalty Amounts.

These initial recommendations would improve taxpayer rights while respecting the intentions of the tax code. More fundamental reforms will also be necessary to address underlying issues facing Americans abroad, such as:

1. Double taxation—due to misalignment of tax systems—that cannot be mitigated using the Foreign Earned Income Exclusion (FEIE), Foreign Tax Credit (FTC), or existing Tax Treaties.
2. Phantom gains, caused by the requirement to use the U.S. dollar as the functional currency, even for taxpayers who have no financial connection to the United States.
3. Disproportionately high tax-preparation costs and excessive compliance risks associated with information reporting required for financial assets held in a taxpayer's country of residence harm ordinary taxpayers who are unable to afford sophisticated tax advice or bespoke financial planning.
4. Non-resident taxpayers with a non-U.S. citizen spouse face discriminatory treatment in the tax code and greater difficult in meeting filing obligations due to the lack of a Social Security Number.
5. Corporate tax rules intended to apply to overseas subsidiaries of multinational corporations are applied to small businesses owned by U.S. citizens residing

[3] Democrats Abroad. (2020, May 27). *How to fix 23 tax problems for Americans abroad with three solutions.* Retrieved February 16, 2022, from *https://democratsabroad.atlassian.net/wiki/download/attachments/4271082033/23%20Problems%203%20Solutions%202020.pdf?version=1&modificationDate=1590588973000&cacheVersion=1&api=v2&download=true.*

[4] *Ibid.*

outside the United States, resulting in punitive taxation of undistributed income and unreasonably high compliance costs.

6. Refusal of service by banking and financial services providers, resulting from conflicts between U.S. laws and the laws of the countries that Americans reside in. U.S.-based financial institutions routinely refuse service to Americans abroad while local providers also overwhelmingly have "No U.S. Persons" policies that are used to justify account refusals and shutdowns.

Americans residing abroad have been effectively barred from saving for retirement, starting a small business, taking title to real estate, or sharing finances with their spouse, with devastating consequences. This is on top of the inordinate stress, cost, and time involved just in understanding and meeting the complex reporting requirements of the U.S. tax code.

Americans abroad have pleaded for relief for over a decade, with no meaningful response from Congress. Democrats Abroad and virtually every other organization representing Americans abroad agree that implementing the above reforms would:

- Substantially improve the well-being of Americans abroad;
- Improve the administrability of the Internal Revenue Code and facilitate greater tax compliance;
- Reduce strain on an Internal Revenue Service that has expressed that the burden associated with servicing Americans abroad is disproportionate to the minuscule tax revenue raised.

The uniquely American definition of "tax residency" includes the obligation to report worldwide (including non-U.S. source) income even of Americans who are tax residents of other countries. This requires the IRS to do the impossible: to administer both a domestic tax system for U.S. residents (including source taxation for nonresident aliens) and also an extraterritorial system interacting uniquely with the tax codes of other countries.

Problems facing Americans abroad include (1) understanding what is required, (2) complying while also maintaining tax compliance in their country of residence, (3) communicating with the IRS, and (4) paying the IRS when U.S. tax is owed, or receiving refunds from overpayments/credits.

Administering this extraterritorial tax system has become an overwhelming task, both procedurally and substantively. The IRS cannot remotely serve Americans in the more than 100 foreign countries where they live, let alone in the languages they speak. Nor can the IRS know how U.S. laws apply to the local financial services, small business structures, and retirement savings plans that are common in those countries.

The IRS has itself identified "international taxpayers" as an underserved community.[5] Although IRS Publication 54, "Tax Guide for U.S. Citizens and Resident Aliens Abroad," is helpful, it does not adequately enable non-resident filers to understand their U.S. obligations in the context of the financial system of the country where they live. They often then require professional tax preparers which can be prohibitively expensive even if no tax is actually owed.

The level of service currently provided by the IRS to Americans inside and outside the country is highly unequal. For those abroad, IRS agents are insufficiently trained to respond to the common issues faced. In addition, there is no in-person assistance; toll-free telephone services are not available; access to online portals is severely limited; postal mail delivery is often delayed; and there is limited documentation in languages other than English. Moreover, it is often time-consuming, complicated, and costly for non-residents to make payments to the IRS, and it can be difficult to deposit any refund or stimulus check received from the IRS.

The IRS's inability to provide non-resident filers with essential services violates several aspects of the Taxpayer Bill of Rights,[6] including:

- The right to be clearly informed about tax laws, including knowing how to comply;
- The right to prompt quality service, including clear and easily understandable communications from the IRS;

[5] IRS. (2021, January). Taxpayer First Act Report to Congress. Retrieved February 16, 2022, from *https://www.irs.gov/pub/irs-pdf/p5426.pdf?mc_cid=95523e3176&mc_eid=[942e2d2064].*

[6] IRS. (2021, December 21). Taxpayer Bill of Rights. Retrieved February 16, 2022, from *https://www.irs.gov/taxpayer-bill-of-rights.*

- The right to pay no more than the correct amount of tax, including having the IRS properly apply all tax payments; and
- The right to a fair and just tax system, including consideration of facts and circumstances that affect filers' liabilities and ability to provide timely information

Despite an increase in the number of Americans abroad, the IRS has significantly reduced its targeted taxpayer services while continuing to impose filing obligations. Services have been strained by the termination of tax help at consulates and online. There were over a dozen IRS offices abroad in 1993, but now none, and the Electronic Tax Law Assistance Program has also been terminated, as has R-mail, which allowed customer service representatives to refer questions to employees with specific expertise.

Telephone and correspondence service for filers abroad is also inadequate. Self-service options cannot fully replace personal service, whether by phone, face-to-face, or online chat. Callers from abroad may face significant expense, then not be able to reach an IRS representative.

We also ask the committee to ensure that as the IRS transitions away from using third-party identity verification services, that Americans abroad receive continued access and sign-up availability for online IRS accounts.

It is time for Congress to cease the imposition of filing requirements for non-U.S.-source income of non-residents. Cost/benefit analysis of such a transition from citizenship-based to residence-based taxation should include consideration of what would be required for the IRS to provide fair and equitable support to non-resident filers under the current system.

We urge the Senate Finance Committee to hold an additional hearing to specifically consider the tax-filing and financial-access problems faced by Americans abroad as a result of the current system of extraterritorial taxation of non-resident U.S. citizens. We would also welcome engagement with individual Members of the Senate Finance Committee to discuss opportunities to introduce such reforms.

Democrats Abroad plans to release updated research on Americans abroad and their tax situations this summer. We will share our results and analysis with the Committee and encourage you to review it then.

Thank you for the opportunity to provide this testimony.

Please do not hesitate to contact Rebecca Lammers of our Taxation Task Force on taxadvocacy@democratsabroad.org with any questions about the information and recommendations provided.

Sincerely,

Candice Kerestan
International Chair
chair@democratsabroad.org

Rebecca Lammers
Chair, Taxation Task Force
taxadvocacy@democratsabroad.org

LETTER SUBMITTED BY MARLENE DENTE

U.S. Senate
Committee on Finance
Dirksen Senate Office Bldg.
Washington, DC 20510–6200

Distinguished Ladies and Gentlemen,

As one of the nearly 9 million Americans living abroad, I have been subject to filing and paying U.S. taxes the entire time I have lived abroad. This extraterritorial reach of taxation to be an unfair burden on U.S. citizens.

As is the case for all residents living in Switzerland, we file and pay taxes to the Swiss government on all of our income—regardless of its source. This includes income and capital gains or inheritance if applicable. We pay federal, cantonal, and local (city) taxes. This is not insignificant in Switzerland. Further, the cost of living in this country is high compared to the U.S., which further reduces our disposable income for savings, housing, food, schooling, and generally, living costs.

We are a normal, middle class working family.

It is an incredible overreach of the U.S. Government, to impose its own taxes on our income, which has nothing to do with the U.S. in any way and which is taxed where it is earned. What does the U.S. do with our tax money and why does the U.S. Government feel entitled to levy a tax on our income earned on a foreign territory?

Where do U.S. federal tax monies go?
We do not draw on the resources of American schools.
We do not use public infrastructure in America.
We will not be drawing on social security, Medicaid or Medicare.
We do not require the U.S. military to defend us while we live on foreign territory.

Supporting these services is necessary and important for resident citizens of a country. These are goods and services that a government should provide its resident citizens.

We, as non-resident citizens, should not be double-taxed to support these services that do not benefit us.

Taxing U.S. citizens abroad places an undue and unnecessary burden upon them.

For example, we cannot save enough to purchase a house in the country where we live in. The amount we would be able to put away for a down payment on a house is sent directly to the U.S. Government. We spend 20–30% of our income for U.S. taxes, on top of the Swiss taxes we already pay. In addition to the actual tax payments, we also pay a tax preparer to help us wade through the documents and requirements to file correctly from abroad, including the FBAR. This is absurd.

According to a CNBC article in May 2021, 4 of 10 people who renounce their U.S. citizenship do so due to the burden of filing U.S. taxes. 25% of expats polled abroad say they are seriously considering dumping their U.S. citizenship due to the U.S. tax filing requirement.[1]

I find that telling: U.S. citizens are so upset about unfair taxation that they consider or actually do renounce citizenship.

The United States Congress should follow through on previous discussions to switch to a residency-based taxation system. It would be more fair and more democratic.

Sincerely,

Marlene Dente

EZERC LLC
2550 N. Federal Hwy, Suite 201
Fort Lauderdale, FL 33305

February 16, 2022

U.S. Senate
Committee on Finance
Dirksen Senate Office Bldg.
Washington, DC 20510–6200

Dear Members of the Committee on Finance,

Considering the operational challenges already faced by the IRS, we respectfully ask that Congress and the IRS strongly consider offering certain "small employers" a safe harbor election that will permit cash-basis treatment of the receipt of Employee Retention Credit ("ERC") refunds. At the time the CARES Act was drafted, it could not have been anticipated that the preponderance of ERC claims would be made through amended filing procedures, which in turn would require corollary amendments to ERC beneficiaries' Federal income tax returns under the strict application of Section 280C. It is our view that this additional requirement imposes a significant unanticipated administrative and financial burden to both ERC recipients and the Internal Revenue Service and may possibly discourage small and medium-sized business owners under financial hardships from pursuing the stimulus program.

Considering the retroactive nature of the Consolidated Appropriations Act (released December 27, 2020) and the prolonged guidance from the IRS on the application of

[1] 2021, Dore, K., and CFP®. (n.d.). The top reason why Americans abroad want to dump their U.S. citizenship. CNBC. *https://www.cnbc.com/2021/05/18/the-top-reason-why-americans-abroad-want-to-dump-their-citizenship.html.*

the ERC's *"Interaction with Paycheck Protection Program (PPP) Loans"* in Notice 2021–20 (released March 1, 2020), the vast majority of employers wishing to take advantage of the ERC were not afforded adequate time and resources to have made an ERC claim in advance of filing their 2020 income tax return. Further, many closely held business owners were unsure of how to interpret the application of the "related party rules" to majority owner wages until the release of Notice 2021–49 on August 4, 2021, well after the original due date for 2020 income tax returns.

Based on the above and due to the overall disjointed and confusing IRS guidance over the life of the program,[1] it has been nearly impossible for most employers to have filed a timely filed Form 941 or Form 7200 to claim the ERC. Furthermore, it could not have been contemplated by Congress that this government stimulus program, intended to aid and reward businesses in a timely manner, would take over 6 months (and in many cases more than 12 months) to process and monetize.

As we approach the 2021 tax filing season, it will be imminent that any ERC claim will require any new applicants to also file an amended income tax return. This imposes an unwarranted administrative and financial burden on these new applicants, and without doubt, an unwelcomed, additional administrative and financial burden on the Internal Revenue Service in terms of an increased volume of amended income tax returns to review and process.

Further compounding the administrative burden to both employers and the IRS, it is our recent experience with the IRS that an automatic late-payment penalty would be administered due any amended income tax return presenting a greater income tax liability (*i.e.,* due to the unfavorable 280C adjustment), regardless of any explanatory statements that have been attached to the return to explain the reasonable-cause-basis for the increased liability. As a result of the IRS's current inability to comprehensively evaluate reasonable cause at the time of filing the amended returns, the automatic penalty procedures further result in an additional administrative, financial, and often emotional burden, of having to address and seek abatement for such penalties.

The IRS admittedly has been operating in a "critical mission" state since the beginning of the COVID–19 pandemic through the current day. With reports of many letters, notices, and other correspondence taking upwards of 24 months to receive the IRS's attention, the outlook for employers looking to take advantage of the ERC at this juncture is overwhelmed with additional time, cost, and stress. Many, if not most, of these business owners are small and medium-sized business owners that may not be able to bear the current financial burden to be supported by an external CPA or other advisor, leaving them ill-equipped to address the significant unanticipated and unintended consequences of pursuing an ERC claim through the amended return process.

To remedy these aforementioned burdens that have been unintentionally imposed on employers and the IRS, we believe that it is appropriate for Congress and the IRS to devise a solution to allow for small employers to elect cash-basis treatment (*i.e.,* a 280C adjustment in the year of receipt). Such election should be made by reflecting the 280C adjustment in the year the ERC was received. Of course, we acknowledge that in order for this treatment to be equitable from the perspective of the U.S. Treasury, any interest paid on an ERC should be immediately repayable by the recipient back to the IRS.

We appreciate the opportunity to provide our views on this matter and look forward to your comments. Please do not hesitate to contact me at (954) 461–7852 or kenneth@ez-erc.com.

Respectfully,

Kenneth Dettman
CEO and Managing Director

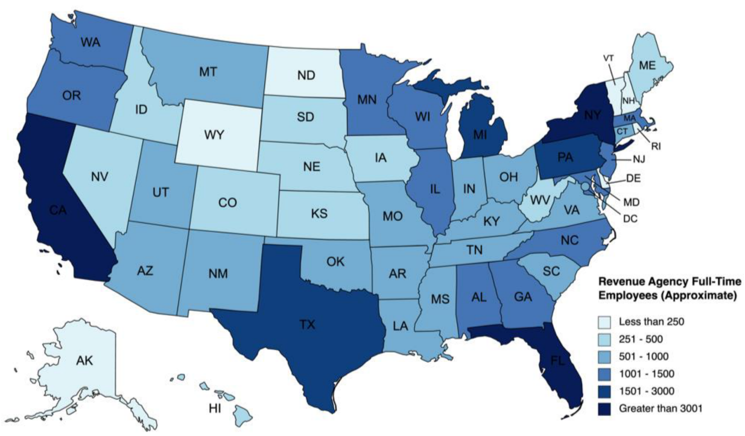
[1] In fact, the IRS continues to maintain an outdated FAQ page that has many small business owners under the belief that they are ineligible for the ERC as a result of taking a PPP loan *(See: https://www.irs.gov/newsroom/covid-19-related-employee-retention-credits-interaction-with-other-credit-and-relief-provisions-faqs).*

FEDERATION OF TAX ADMINISTRATORS

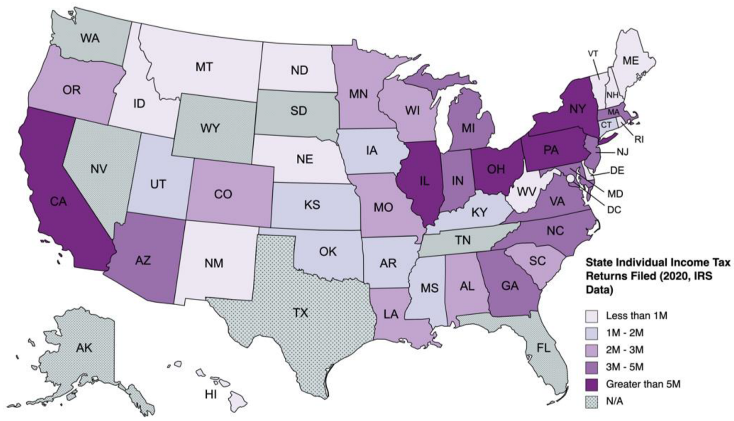
Introduction

The Federation of Tax Administrators (FTA) appreciates the opportunity to submit a statement on the current state of this year's filing season. We also want to thank the U.S. Senate Committee on Finance for examining these key issues facing tax administration both at the federal and state levels. FTA is eager to work with the Committee during the 117th Congress and beyond to identify ways to improve taxpayer experience, strengthen revenue collection, and increase voluntary tax compliance within our nation's departments of tax and revenue.

Founded in 1937, FTA is an association of principal tax administration agencies in all fifty states, the District of Columbia, Philadelphia, and New York City. Collectively, FTA members include more than 57,000 employees across our state and city departments of revenue. Our purpose is to improve the techniques and standards of tax administration through a program of research, information exchange, training, intergovernmental and interstate coordination, and representing the interests of state tax administration before Congress and the Administration. Through these efforts, FTA works as a bipartisan organization to ensure that states' interests are effectively represented, and that consideration is given to the impact federal tax law changes have on state tax administration.



State tax agencies play a vital role in each filing season with taxpayers across the country filing annually an estimated 120 million state individual income tax returns. These taxpayers rely on the state tax agencies to administer the tax system effectively and efficiently, and we take that responsibility seriously. The tax system is based on the premise of voluntary compliance, and with each filing season, we must work to ensure taxpayers have the information and tools they need to meet their tax filing obligations while balancing the preservation and integrity of the revenue system.



Although state tax agencies meet the challenges facing them each new filing season, external factors frequently impact the efficiency in which we are do our work. This statement documents some of the challenges the departments face, like our sister agency, the Internal Revenue Service (IRS) and outlines opportunities for addressing these issues. We also respectfully request the Committee to carefully consider the impact potential federal tax measures may have on state and local income tax systems.

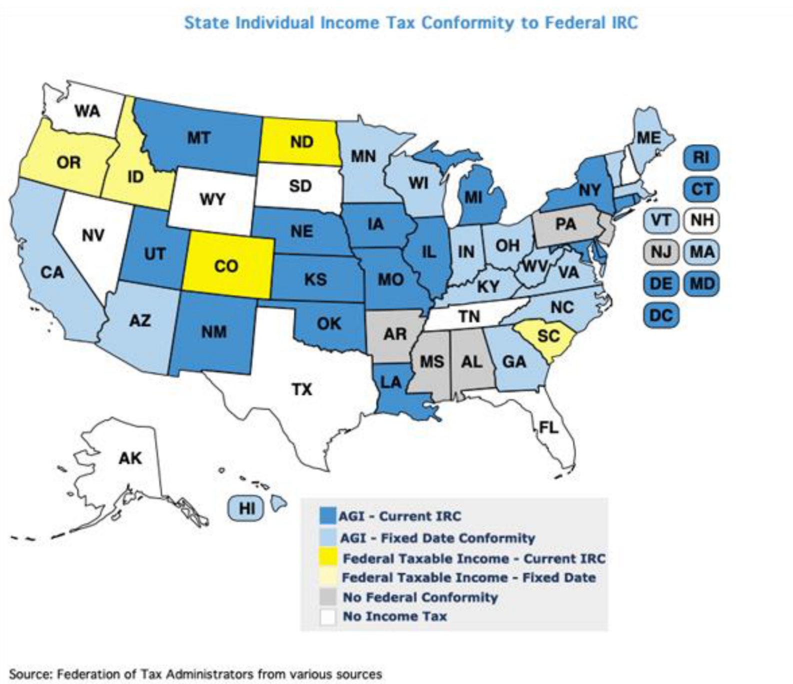
Revenue Collection Across the States

In total, 41 states and the District of Columbia have broad-based individual income taxes similar to the federal income tax. Overall, state individual income taxes were the largest revenue source accounting for 36 percent of total state tax revenue collected in 2020, and it was the largest source of tax collection in 30 states. States collected $388 billion from individual income taxes in fiscal year (FY) 2020.[1]

Of the 41 state income taxes, all but five conform to the federal Internal Revenue Code (IRC) by starting their state income calculations with the federal definition of income.[2] In addition, the five nonconforming states tie their state income to specific provisions of the federal code. This conformity to the IRC helps to simplify compliance for individual taxpayers by creating common definitions and rules within state and federal tax administration. Conformity also facilitates joint administrations with the IRS, *i.e.,* federal-state electronic filing and collaborative compliance programs.

[1] Source for 2020 data was the Census Bureau. The National Association of State Budget Officers' (NASBO) Fiscal Survey of the States—Fall 2021 reports preliminary revenue of $463 billion. Note, some states reported above normal payments due to a shift in final payments from the previous fiscal year.

[2] State Individual Tax Conformity to Federal IRC Graph.



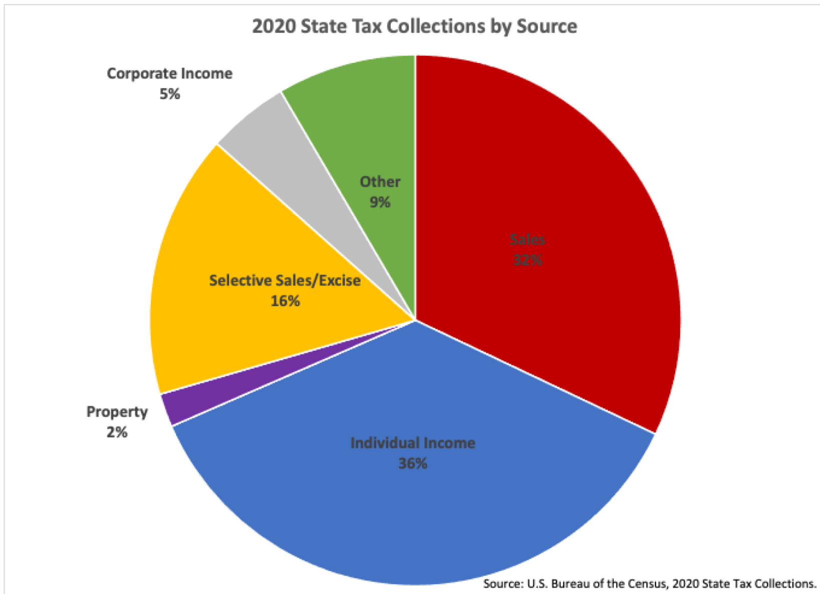
While conformity can be beneficial, it can also cause complications for states and taxpayers when there are federal legislative and administrative changes that impact the definition of taxable income. Any federal change that affects taxpayers' Adjusted Gross Income (AGI) or Taxable Income will automatically flow through to the states that conform to the current IRC. States with a fixed date conformity would need state legislative action to conform. These federal legislative changes frequently impact state revenues, and recently, these changes have been enacted during tax filing seasons, legislative sessions, and state fiscal years.

This was seen recently when the federal government extended the tax filing date for the 2020 tax processing year. While most states have their own laws for individual income tax filing deadlines, they typically follow the federal filing date.[3] However, with state taxes coupled to the federal definition of income, taxpayers must compute their federal income to be used when calculating their state income. The date change influenced states to conform with the federal date change which in turn required many states to shift income from FY20 to FY21. While most states had sufficient reserves to handle the cash flow and managed this budget situation, the revenue shift provides an example of federal changes impacting state revenues and their long-term fiscal planning.

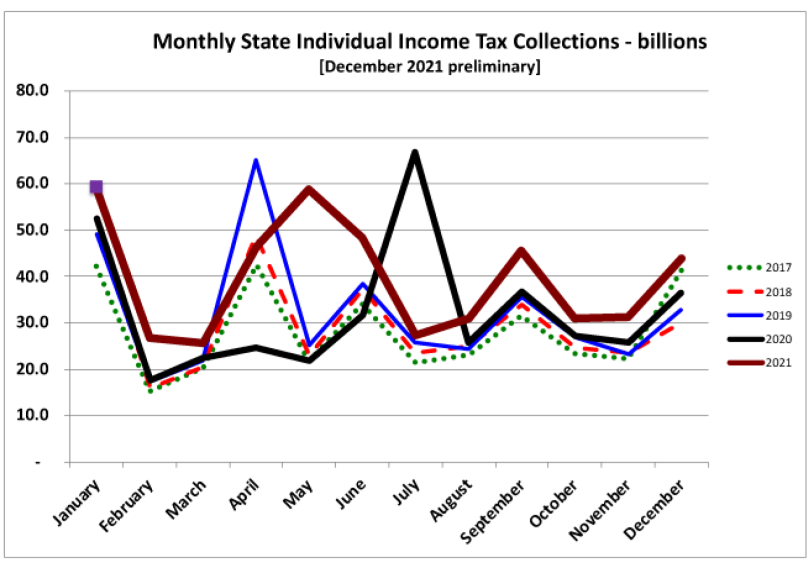
As depicted in "2020 State Tax Collections by Source,"[4] income tax receipts are a major source of state tax revenue. Accounting for more than a third of states' tax collection, it is important for state budgets that income taxes remain a stable revenue source.

[3] Five states have filing deadlines other than April 15th. Hawaii returns are due April 20th; Delaware, Iowa, and Virginia are due May 1st; and Louisiana returns are due May 15th.

[4] U.S. Bureau of the Census, State Tax Collections 2020.



The chart titled "Monthly State Individual Income Tax Collections," plots monthly state income tax receipts for calendar year (CY) 2017 through 2021. Beginning in March 2020, there was a sharp decline on state individual income tax collections due to the COVID-19 pandemic [black line]. After March, collected revenue remained below CY19 collections until July, when income tax estimated and final payments were received. The July 2020 revenue peak did not recover the losses from the four previous months. For the remainder of CY20, income tax revenue was flat and at the same level as CY19.



Thanks to the unprecedented fiscal stimulus, CY21 revenues quickly rebounded as the economy recovered and inflationary effects began to take effect.

FY22 revenue estimates are currently expected to decline by nearly 3 percent from the previous year. It is largely due to an inflated FY21 revenue base as the tax filing deadlines changes, and federal stimulus payments boosted revenues last year.[5]

Priorities for State Tax Administration

Each filing season presents new challenges and opportunities. FTA continues to work with our federal and corporate partners to advance tax administration. Some of these priorities include:

Combating Fraud

In 2020, the Federal Bureau of Investigation's (FBI) Internet Crime Report reflected a 69-percent increase in Internet enabled fraud with a reported loss of $4.1 billion and numbers increasing exponentially as criminals use automated methods in attempts to steal and use more data. States play a key role in fraud detection and prevention, and while they do not publicly disclose fraud detection and prevention strategies, states deploy diverse fraud strategies that utilize intelligence, technology, and people to detect and prevent fraud. States are also a member of the Identity Theft Tax Refund Fraud Information and Analysis Center (ISAC), and states are proud to share that they are major contributors of fraud alerts and data used by the IRS and other tax partners to identify and prevent identity theft tax refund fraud. The ISAC plays a significant role in the global tax fraud detection and prevention efforts, and the states want to thank you for your continued support of the ISAC as it is making a difference in this important fight.

Increasing Voluntary Tax Compliance

One of the best ways to increase voluntary tax compliance is through customer service. Ensuring taxpayers have the information and tools they need to comply with their tax responsibilities is a priority for states. States continue to innovate as they find new and creative ways to engage taxpayers, deliver information and resources, and provide customer service. Their engagement and service strategies facilitate the filing of timely and accurate tax returns. Their innovation covers a broad spectrum ranging from plain language initiatives designed to make it easier for taxpayers to understand how to comply to increasing access to tax credits through robust communication initiatives. State tax agencies work to increase current and future voluntary tax compliance by providing staff professional development and training, participating in tax practitioner educational programs, implementing self-service options and customer relationship management solutions on agency websites, with the use of chatbots, data analytics and other technology solutions. These strategies also allow the states to better understand the communities they serve by engaging in diversity and inclusion efforts within the agency and the community and increase voluntary compliance while improving constituent relations.

Addressing Staffing Challenges

State tax agencies are not immune to the significant staffing challenges facing the private and public sectors. Like the IRS, many states have experienced high attrition during the pandemic and continue to identify innovative ways to recruit and retain talented tax administrators. Staffing challenges create knowledge gaps and can disrupt the tax administration cycle. Impacts may include, but are not limited to processing delays, customer service issues, and challenges achieving voluntary compliance. States are optimistic that the human capital, continuous improvement, and technology investments made over the past several years will temper some of the negative consequences of staffing shortages during the filing season.

Modernizing Technology

The states are a lead investor in technology that facilitate tax administration. They recognize the critical importance of investing in technology that supports the filing season and beyond. Many states have implemented Commercial Off the Shelf Technology (COTS) which makes it easier to maintain, modernize, and advance tax administration. They continue to invest in cyber and data security strategies designed to protect the integrity of their systems and the taxpayers they serve. Lastly, they have implemented Voice Over Internet Protocol (VOIP) technology to support remote work and deployed self-service technology allowing taxpayers to meet their filing requirements in a timely manner, increasing efficiency and improving the taxpayer experience.

[5] NASBO, Fiscal Survey of the States—Fall 2021.

Administering Retroactive and Late Tax Law Changes

FTA would be remiss in neglecting to share the challenges state agencies face as it relates to retroactive tax laws and tax law changes that occur late in the tax filing season. As mentioned previously, most states conform with federal tax laws and their state tax return begins with information from the federal tax return. Federal tax law changes can result in issues that require most states to seek state tax laws changes to conform to federal law. In addition, there are typically system changes, current year return processing, payment processing, amended return and other account adjustments, while trying to manage an active filing season. Late tax law changes especially create a significant risk of error and vulnerability because technology changes cannot be fully tested due to time constraints and system limitations. Retroactive and late law changes impacting state tax administration, such as the Unemployment Income exclusion and Payroll Protection Program loan forgiveness exclusion create taxpayer and tax practitioner confusion, contribute to processing backlogs, and can promote fraud—all causing potential delays in processing returns and issuing refunds. By understanding organizational effectiveness and managing human and technological resources, states have led through the pandemic and met the challenges presented by the retroactive and late tax law changes.

Conclusion

State tax agencies are very empathetic to the challenges facing the IRS, and these challenges have a direct impact on state tax administration. As laboratories for innovation, many state tax agencies have successfully modernized their tax processing systems and have implemented other emerging technology to enhance the taxpayer experience. As a result, state tax agencies have well-established best practices the IRS can leverage, and FTA stands ready to liaise with the IRS and state tax authorities for the purpose of identifying proven solutions to address the challenges raised.

FTA thanks the Committee for holding this important hearing on this year's filing season. We appreciate you giving state tax administrators the opportunity to express our contribution to the filing season experience. As the Committee continues its work in a bi-partisan manner on this important issue, FTA and our membership look forward to being a resource for you and your staff. Through FTA's continued work to improve the techniques and standards of tax administration through research, information exchange, intergovernmental and interstate coordination, and communicating interests, we look forward to ensuring that the federal and state governments work closely together to provide a superior taxpayer experience for the advancement of tax administration and in support of the communities we serve.

STATEMENT SUBMITTED BY DEAN JEROME MCINTYRE

Chairman Wyden, Ranking Member Crapo, and Members of the Committee:

Reaching an Internal Revenue Service customer service representative by calling the special telephone number for callers out of the country, 001–267–941–1000, is seriously dysfunctional. Frequently the response is "IRS not available" or "try your call later" and the one time I got through there was a long wait.

Please properly fund the Internal Revenue Service for effective customer service.

PROFESSIONAL MANAGERS ASSOCIATION

700 12th St., NW, Suite 700, PMB 95968
Washington, DC 20005
e: general@promanager.org
w: www.ProManager.org
o: 202–793–6262
f: 888–396–6975

March 2, 2022

Hon. Ron Wyden Chairman U.S. Senate Committee on Finance 219 Dirksen Senate Office Bldg. Washington, DC 20510	Hon. Mike Crapo Ranking Member U.S. Senate Committee on Finance 219 Dirksen Senate Office Bldg. Washington, DC 20510

Re: Written Comments for Feb. 17, 2022, Hearing on "Spotlighting IRS Customer Service Challenges"

Dear Chair Wyden and Ranking Member Crapo:

On behalf of the Professional Managers Association (PMA)—the non-profit professional association that has, since 1981, represented professional managers, management officials, and non-bargaining unit employees at the Internal Revenue Service (IRS)—I write to provide additional information for your February 17, 2022, Hearing on "Spotlighting IRS Customer Service Challenges."

Thank you for hosting this hearing. We understand many Members of Congress are frustrated by the high volume of constituent complaints regarding the IRS. Our members are also deeply frustrated by the problems at the IRS and genuinely wish they could be doing more for the taxpayers they serve. With this written testimony, PMA provides additional insight on issues raised by the Committee.

1. Funding IT Modernization in a Consistent and Stable Manner

Technology modernization was a central concern of both the hearing panelists and lawmakers. We understand lawmakers' dissatisfaction with the current state of IRS technology and frustration that funding, particularly the $1 billion allocated in the American Rescue Plan Act (ARPA), has not yet been spent in full. As the National Taxpayer Advocate Erin Collins explained, this discrepancy boils down to the consistency of funding. Each time Congress fails to pass appropriations and teeters between continuing resolutions and shutdowns, the IRS must cautiously allocate what little funding it has to ensure it can continue functioning should additional funding not materialize. Congress's inability to pass consistent and timely appropriations makes long-term planning, and execution of those plans, impossible.

For example, when Congress passed ARPA, it passed IRC Section 6428B. The provision says: "$1,464,500,000 to remain available until September 30, 2023 for necessary expenses for the Internal Revenue Service for the administration of the advance payments, the provision of taxpayer assistance, and the furtherance of integrated, modernized, and secure Internal Revenue Service systems, of which up to $20,000,000 is available for premium pay for services related to the development of information technology as determined by the Commissioner of the Internal Revenue occurring between January 1, 2020 and December 31, 2022, and all of which shall supplement and not supplant any other appropriations that may be available for this purpose."

In prior years, the IRS had to raid its personnel budget to fund IT overages, and it seems likely the IRS is spending these funds cautiously because other modernization dollars might not materialize and, if they do not, the IRS will need the $1 billion for "the furtherance of integrated, modernized, and secure Internal Revenue Service systems" which, again, they have all the way until 2023 to spend. In our view, the IRS is being responsible—it spent a third or so in FY21, perhaps it will spend a third or so this year rather than raid personnel budgets and leave the balance for FY23. The IRS is not hiding this money in a rainy-day fund—Congress specifically authorized the agency to hold the money.

PMA has urged Congress to provide dedicated, multi-year funding for IRS IT modernization. In the absence of such consistency and stability, the IRS is hamstrung from enacting its longstanding modernization plan.

2. Addressing the Backlog Through Surge Team Efforts

Many members raised concerns regarding the IRS processing backlog. The IRS has responded by launching Inventory Surge Teams. Through this plan, the IRS has moved personnel who previously worked in Accounts Management (AM) back to AM to work on reducing the backlog.

PMA understands the pressing need to allocate additional personnel and resources to AM. The surge team represents an innovative "all-hands-on-deck" approach to mitigating the backlog impacting taxpayers. However, the IRS's lack of engagement with relevant stakeholders raises serious concerns about the implementation of this plan.

PMA was informed of the Inventory Surge Team creation a little more than an hour before the rest of the IRS workforce and was not provided an opportunity to relay questions or feedback regarding implementation. As the nation looks to the IRS during the 2022 Filing Season with many concerns and frustrations, it is imperative the IRS use every resource at its disposal to ensure its decisions are effective and do not create embarrassing situations for the Service or unforeseen consequences for our members or the taxpayers they serve. PMA is one of those resources. Unfortunately, only after issuing a letter [1] to Commissioner Rettig raising concerns about the lack of forenotice and questions regarding the implementation of this plan, was PMA afforded a meeting with IRS leadership to discuss the Surge Teams.

Additionally, reports now indicate the IRS did not consult NTEU about this plan either. The IRS cannot conduct such a novel and unprecedented effort to reallocate employees in a vacuum without discussion with either employee or management representatives. This will not improve service delivery and will increase confusion and delay while sowing discord among the workforce.

PMA is appreciative that, since expressing our concerns, the IRS has begun working with PMA to ensure the proper implementation of the Surge Team efforts. We raise this issue to Congress to emphasize the need for oversight to confirm the IRS is working with stakeholders, particularly stakeholders with legal agreements [2] in place mandating a cooperative relationship to improve mission delivery.

Further, we must level-set expectations. There is a sentiment that once the Surge Team timeline ends in September this year, the backlog issue will be resolved. It will not be. The situation at the IRS is dire and the backlog is historic. Surge Team employees can answer, on average, 20,400 calls per day or reply to 14,400 correspondence cases per day. Over 6 months—if zero employees called out sick or took any leave—the Surge Team could answer 2.6 million total calls or answer 1.9 million correspondence cases. The current backlog of cases is over 9 million, inclusive of amended returns. Congress must prepare for the reality that the Surge Team, doing their absolute best, will make a dent in the backlog but the size of the impact may be marginal. This issue will exist after September 30, 2022.

Long-term solutions aimed at restoring the capacity of the IRS are essential. The IRS is under-resourced and understaffed across the Service and shuffling personnel from one area to another will only exacerbate problems elsewhere in the absence of long-term investment and improvement.

3. Reforming IRS Hiring to Ensure a Competitive Workforce

Senator Grassley and Senator Lankford rightly dedicated time in their questioning to addressing hiring issues at the IRS. While the conversation focused on direct hiring authorities, the Committee must realize that the issue far surpasses "a long-drawn out hiring process." The IRS is not a competitive employer, and even with a direct hiring authority, if people do not want to work at the IRS, the IRS will have no one for whom to use this hiring authority.

Hiring is a real and substantial challenge for the IRS, as it is in many areas of the federal government due to archaic and convoluted hiring procedures. However, the problem at the IRS is exacerbated by insufficient engagement with partners and stakeholders. In prior years, PMA's Kansas City Chapter helped attract student interns at the GS–2 level. This year, the agency did not respond to our Chapter President's offers of similar support. Overall, it is not clear the IRS is using the full extent of tools in their toolbox to attract new talent.

PMA also feels the IRS could offer external workshops on how to navigate USAJobs for candidates who may be interested. Or they could develop content and/or presentations that groups like the National Treasury Employees Union (NTEU) and PMA could use in our own outreach to partner organizations. Stakeholders like PMA could also attend job fairs on the agency's behalf.

Unfortunately, these are palliative measures. Congress needs to modernize the General Schedule pay system so federal agencies can actually compete for talent in a modern market. "We believe there is a need to consider major legislative reforms of the white-collar federal pay system," wrote the Secretary of Labor, Director of the Office of Personnel Management, and the Acting Director of the Office of Management and Budget in the December 2021 report from the President's Pay Agent.[3]

The unemployment rates in Austin, Ogden, and Kansas City (where the largest IRS processing facilities are housed) are all below 3 percent. The IRS does not control wages and benefits so it cannot tweak them to be competitive in those markets. We need Congress to think about this seriously. Should anyone involved in the handling

[1] *https://www.promanager.org/hot-topics/pma-letter-to-irs-commissioner-on-surge-team.*

[2] *https://uploads-ssl.webflow.com/609c42731ab0dcaa4e6cfed2/615b6afdbdc94954affec208_PMA%20Agreement%20-%20signed.pdf.*

[3] *https://www.opm.gov/policy-data-oversight/pay-leave/pay-systems/general-schedule/pay-agent-reports/2020report.pdf.*

of tax information earn less than someone at an Amazon warehouse or fast-food restaurant? The recent change to a $15/hr. minimum wage was through an Executive Order—not an action taken by Congress to update the Civil Service and make it more competitive. Still, $15/hr. is too low for a civil servant. Civil servants have a mandatory retirement contribution of 4.4 percent if hired after 2014 so already that minimum pay is reduced to $14.34/hr. Amazon is paying a $3,000 sign-on bonus in Austin, Ogden, and Kansas City and their entry-level warehouse workers can earn $17.80/hr. Additionally Amazon offers flexible schedules and shifts each week which the IRS does not.

Further, the antiquated technology at the IRS pushes young people away from public service. PMA members cannot even access our association's website on their work devices' default web browsers because their devices operate on outdated technology. Finding people who can operate IRS technology is a challenge.

We cannot compete with private-sector organizations using a pay system and technology from another era. We can barely compete with fast-food chains with what the IRS has to offer.

4. Halting Mid-Year Tax Changes to Prevent Further Delay

Senators must realize that mid-year tax changes devastate the IRS. We understand the pressing need to alleviate problems for taxpayers, but when Congress enacts mid-year tax changes, the burden on the IRS and taxpayers grows.

When Congress passed ARPA on March 11, 2021, it included a provision that reduced taxable unemployment compensation by $10,200 per individual. This was undoubtedly critical relief for many taxpayers. Unfortunately, many of those taxpayers already filed their returns. The IRS had to pivot mid-filing season, the busiest time of year, to reprogram its obsolete databases and retrain its personnel. As a result, the IRS had to amend nearly 12 million returns. The IRS still has about 1 million to go.

IRS employees are not the only ones confused and overwhelmed by mid-year tax changes. When Congress enacts a well-intentioned retroactive, mid-year tax change, taxpayers and tax practitioners are confused as well. When Congress enacted ARPA, calls flooded IRS facilities. As most lawmakers know, in 2021, a human answered only 11 percent of calls to the IRS. But in the weeks following ARPA—in the middle of the tax season—a human answered barely 4 percent of calls. Everyone was confused. Everyone had questions. No one could provide answers. This is the real impact of mid-year tax changes.

Congress must stop retroactive, mid-year tax changes. Current IRS infrastructure simply cannot handle them.

5. Reconsidering the Mission of the IRS, and Funding that Mission Appropriately

As Chairman Wyden noted, "The monthly child tax credit payments and several financial relief programs has created an unprecedented imbalance between the IRS's workload and their resources." These financial relief programs, among other programs, have spread the IRS mission far past traditional tax administration. As PMA has previously highlighted to appropriators,[4] the IRS has transformed from a tax administration agency into a benefits agency and an emergency relief agency.

This phenomenon did not originate during the pandemic. Since 1993, the Congressional mandates falling on the IRS, outside the traditional filing season and tax administration roles, have dramatically increased. The IRS has been called upon to manage healthcare expansions and alternative energy credits. During the 2008 economic crisis, the Congress called on the IRS to stabilize the housing market but did not provide tools for the IRS to independently research land deeds and titles resulting in widespread burden falling on taxpayers to provide documentation. Unlike the Department of Housing and Urban Development (HUD), the IRS is not equipped to interpret deed and title recording practices varying from county to county, or town to town.

To administer the Individual Taxpayer Identification Number program, which provides Social Security-type numbers to non-citizen taxpayers, the IRS needed to learn how to examine foreign passports, foreign medical records, and foreign birth certificates, among others. Unlike Immigration and Customs Enforcement (ICE), IRS employees are not forensic examiners for foreign documents.

[4] *https://uploads-ssl.webflow.com/609c42731ab0dcaa4e6cfed2/61e2049e77c6d8a10a895293_PMA%20FY22%20Approps%20Testimony.pdf.*

To administer generous, refundable tax credits for families, the IRS must determine legal parentage and navigate complex custody issues. There is no centralized database the IRS can rely upon to independently verify custody. As a result, taxpayers must provide extensive documentation demonstrating legal custody. Because 50/50 custody arrangements are common in state family courts, this can become an absurd exercise where the IRS must ask parents for calendars marking each night their child slept in their home.

Congress needs to understand how difficult it is to administer these types of credits and programs. Despite expanding mandates, the IRS has not seen a commensurate increase in funding. In 2019 the National Taxpayer Advocate [5] highlighted this conflict, noting the IRS is neither funded nor staffed to serve as a benefits agency. This hinders the IRS's ability to perform critical functions such as collecting $3.5 trillion in revenue, processing 253 million tax returns, and issuing $452 billion in tax refunds.

The IRS cannot continue serving expanded, novel missions with limited funding and archaic infrastructure. Congress must decide the type of agency it wants to the IRS to be and fund that appropriately.

The IRS is the largest revenue source for the federal government—we fund freedom. It must function effectively for the entire rest of the federal government to function effectively. At minimum, it must be able to serve the American people who call looking for answers. PMA appreciates the bipartisan interest in improving the IRS, and we hope we can work together to address the issues outlined above.

Thank you for your consideration of PMA's perspective. Please contact PMA Washington Representative Natalia Castro (ncastro@shawbransford.com) if we can be of further assistance on these matters or provide addition insights on the issues facing the IRS.

Sincerely,

Chad Hooper
Executive Director

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Washington, DC 20003
(202) 588–1000
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U.S. Senate
Committee on Finance
Dirksen Senate Office Bldg., Rm. SD–219
Washington, DC 20510–6200

Re: "Spotlighting IRS Customer Service Challenges" Hearing on 02/17/22

Dear Chair Wyden, Ranking Member Crapo, and honorable Committee Members:

On behalf of Public Citizen's more than 500,000 members and supporters nationwide, we thank you for holding this hearing to shine a light on the difficulties facing the Internal Revenue Service (IRS) at a time when it has been starved for resources and is struggling to provide the timely customer service American taxpayers deserve.

Attached, as a statement for the record, you will find a letter from 35 groups dedicated to social, racial, gender, worker, and economic justice urging the U.S. Department of Treasury to use existing authority to implement changes to simplify tax filing for everyday Americans. The letter argues that those with uncomplicated taxes should have the option of return-free filing—where a taxpayer's wage and data is pre-filled by the IRS—since U.S. taxpayers spend an average of 11 hours doing their taxes and often pay $200 or more for paid filing services. Return-free filing would not only save Americans money, it would free up the IRS from having to process returns that contain simple, avoidable mistakes made by well-meaning taxpayers. The groups also called on the IRS to terminate the corporate-run Free File partnerships, which are ripe for self-dealing and confusing for taxpayers to navigate. In-

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[5] *https://www.irs.gov/newsroom/national-taxpayer-advocate-nina-olson-releases-comprehensive-report-intended-to-improve-eitc-administration-publishes-subway-map-of-taxpayers-journey-through-the-tax-system.*

stead, they urged a publicly run free filing system that could be the leading edge of the agency's efforts to modernize its outdated technology.

The letter also notes our groups' call to Congress to increase IRS's annual appropriations and to pass the Build Back Better Act that would provide $80 billion for the IRS to modernize its technology, improve taxpayers' customer service, and strengthen enforcement against wealthy tax cheats and large corporations.

The IRS has the data it needs to take away the headache of tax filing for Americans with simple returns and it should be building the technology to make tax filing free and easy for everyone. We urge this Committee to investigate these tax simplification reforms as you investigate the problem of taxpayer frustration with the agency. Thank you again for your focus on maximizing the customer experience at the IRS.

Sincerely,

Susan E. Harley, J.D.
Managing Director
Public Citizen's Congress Watch division
sharley@citizen.org

Thirty-Five Organizations Urge Biden Administration to Simplify Tax Filing to Help Taxpaying Families

Dear President Biden, Vice President Harris, Secretary Yellen, and Commissioner Rettig:

As groups dedicated to social, racial, gender, worker, and economic justice, we are writing to urge you to use your existing statutory authority to implement reforms that would improve customer service and simplify the process by which Americans file their tax returns.

As you know, the Internal Revenue Service's (IRS) budget has been reduced by about 20% (in real dollars) since 2010, and staff is down by almost a quarter over that same period.[1] The combined effect has been to permit too many wealthy people to evade or aggressively avoid paying the taxes they owe while making it increasingly difficult for millions of ordinary taxpayers to reach the IRS when they need help filing their taxes.[2, 3] As a result, the current system disadvantages low-income individuals—disproportionately Black and Brown households and other households of color—who lack the resources to navigate unnecessarily complicated systems or spend weeks trying to get a resolution to their questions.[4] We can and must better equip the IRS to reduce the estimated annual $600 billion tax gap in unpaid taxes, disproportionately owed by the wealthy,[5] by bolstering enforcement while also funding top-notch customer service to facilitate the process of paying taxes.

That is why our organizations advocate increasing IRS's annual appropriations and providing the $80 billion in additional funding in the House-passed Build Back Better Act that would enable the IRS to modernize its IT systems, enhance customer service, and strengthen tax enforcement with an emphasis on high-income taxpayers and large corporations.

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[1] Chuck Marr, Samantha Jacoby, et al., Center on Budget and Policy Priorities, "Congress Needs to Take Two Steps to Fund the IRS for the Short and Long Term" (February 1, 2022), *https://www.cbpp.org/research/federal-tax/congress-needs-to-take-two-steps-to-fund-the-irs-for-the-short-and-long-term.*

[2] Russ Buettner, Susanne Craig and Mike McIntire, "Long-concealed Records Show Trump's Chronic Losses and Years of Tax Avoidance," *New York Times* (September 27, 2020), *https://www.nytimes.com/interactive/2020/09/27/us/donald-trump-taxes.html;* Clare Duffy, "Software CEO Robert Brockman charged in $2 billion tax evasion case," CNN (October 17, 2020), *https://www.cnn.com/2020/10/17/business/robert-brockman-tax-evasion-charges/index.html;* Sharon LaFraniere, "Paul Manafort, Trump's Former Campaign Chairman, Guilty of 8 Counts," *New York Times* (August 21, 2018), *https://www.nytimes.com/2018/08/21/us/politics/paul-manafort-trial-verdict.html.*

[3] "Backlog and severe understaffing at IRS portends delays this tax season: 'It's a huge headache,'" CBS News (January 31, 2022), *https://www.cbsnews.com/news/tax-season-irs-backlog-understaffing-delays-refunds/.*

[4] Kori Hale, "Why Taxes Continue to be a Sunken Place for African Americans," *Forbes* (July 15, 2020), *https://www.forbes.com/sites/korihale/2020/07/15/why-taxes-continue-to-be-a-sunken-place-for-african-americans/?sh=6eb21efd3752.*

[5] The IRS's most recent estimate of the "tax gap" is $381 billion annually over 2011–2013, which extrapolates to $574 billion in 2019 assuming the same compliance rate. *See* Charles O. Rossotti and Fred L. Forman, "Recover $1.6 Trillion, Modernize Tax Compliance and Assistance: The How-To," *Tax Notes* (September 29, 2020).

But while we push for increased funding through Congress, we urge you to take steps now to implement simple, common-sense reforms that would immediately improve taxpayers' experiences interacting with the IRS. As taxpayers are warned to brace for significant delays this tax filing season, there is no excuse for failing to use your existing authority until Congress acts.[6] These steps would also lay the groundwork for a state-of-the-art process that allows ordinary taxpayers to easily file and fully pay their federal taxes in the future without having to spend money on paid preparers or software.

First, using the powers granted to the IRS by a Republican Congress in the Internal Revenue Service Restructuring and Reform Act of 1998, the IRS can and should immediately implement the same return-free filing option already enjoyed by taxpayers in other countries. It is indefensible that ordinary American taxpayers spend an average of 11 hours doing their taxes and often pay $200 or more for paid filing services[7] when the government already has the data needed for most taxpayers with simple returns.

Providing taxpayers with preliminary tax returns pre-populated with wage and other data already collected by the IRS through information reporting would not only reduce the burden on families who are struggling to make ends meet, it would reduce the errors and other problems that collectively add to the IRS's backlog and to the demand for live customer support. What better way to easily fix minor problems before they become major problems than providing ordinary taxpayers with their own data and doing the math for them?

Second, the IRS should terminate the confusing and poorly implemented corporate Free File partnerships. This effort has been plagued with problems from the start and subject to sabotage from corporate partners that sought to divert taxpayers to their paid alternatives.[8] A publicly run free filing system should be a cornerstone of the effort to modernize the IRS's antiquated technology.

We recognize that Treasury and the IRS have gone to extraordinary lengths to meet new challenges during the COVID–19 pandemic, including implementing systems to dispense Economic Impact Payments and monthly Child Tax Credit payments and implementing non-filer portals for COVID relief. We also commend the Biden Administration for recent efforts such as creating *ChildTaxCredit.gov* and better publicizing free tax filing partnerships and tools. It is with these achievements and your commitment to the public in mind that we urge you to act boldly under your existing authority to help American taxpayers while eliminating unnecessary burdens on the IRS's resources.

Sincerely,

Americans for Tax Fairness
Center for American Progress
Public Citizen
American-Arab Anti-Discrimination Committee (ADC)
American Federation of Government Employees
Americans for Democratic Action (ADA)
Americans for Financial Reform
Blue Future
Campaign for America's Future
Chicago Political Economy Group
Church WORLD SERVICE
Coalition on Human Needs
Consumer Action
Economic Policy Institute
Economic Security Project Action
Faith in Public Life
Friends Committee on National Legislation
ICNA Council for Social Justice
Institute on Taxation and Economic Policy

[6] "It's Likely to be a Frustrating Tax Season, Deputy Treasury Secretary Says," NPR (January 26, 2022), *https://www.npr.org/transcripts/1075717058.*

[7] Press Release, Sen. Warren Leads Colleagues in Reintroducing Legislation to Simplify and Decrease the Costs of Tax Preparation and Filing (April 12, 2019), *https://www.warren.senate.gov/newsroom/press-releases/senator-warren-leads-colleagues-in-reintroducing-legislation-to-simplify-and-decrease-the-costs-of-tax-preparation-and-filing.*

[8] *See, e.g.,* Rachel Sandler, "FTC Probes Intuit Over Suspicions It Diverted TurboTax Users From Free Filing," *Forbes* (September 8, 2020), *https://bit.ly/3eyT1Kd.*

Jobs With Justice
Missionary Oblates of Mary Immaculate—U.S. Province
National Advocacy Center of the Sisters of the Good Shepherd
National Consumer Law Center (on behalf of its low-income clients)
Network Lobby for Catholic Social Justice
Our Revolution
Oxfam America
Public Good Law Center
Responsible Wealth
RESULTS
Revolving Door Project
RootsAction.org
Take on Wall Street
Transparency Task Force
Unitarian Universalists for Social Justice
United for a Fair Economy

LETTER SUBMITTED BY AMY PURCELL

U.S. Senate
Committee on Finance
219 Dirksen Senate Office Building

Thursday, February 17, 2022

To whom it may concern,

I am writing to you as a USA citizen abroad as I am concerned about some issues.

While I appreciate that USA government and IRS are focused on catching international tax cheats, citizen taxation causes many issues for citizens abroad. Citizens abroad have had to pay tax on non USA-income and non-USA assets. This includes capital gains tax on their home in their resident country as well as retirement savings. I feel this is unfair because these items belong to the country of residence and not to USA. Additionally, USA government does not provide the same services to citizens abroad as it does to homeland USA citizens. Accordingly, citizens abroad should not be required to pay tax to USA government, unless the tax is applied to USA sourced income.

USA tax filing procedures from abroad are complex and not easily understood by an average person. It is often necessary to hire the services of a tax agent who specializes in the tax practice of both USA and the country of residence. This service is often quite a burden on an average person.

FATCA has caused great difficulty to citizens abroad. Many citizens abroad are unable to access banking services in their country of residence because the banks in these countries are unwilling to fulfill the FATCA reporting requirements. Such banks refuse service to USA citizens. Since the majority of citizens abroad are not sophisticated tax cheats, it is worthwhile removing FATCA as the disruption and distress caused to these innocent people outweighs the legitimate tax recovered via FATCA.

The FBAR is another problem for USA citizens abroad. I see no benefit to the IRS to knowing how much money we have in our bank accounts. The FBAR does not show how we acquired the money or how we spend it. It only shows the amount of money in the accounts. The penalties for a missed FBAR or an incorrect FBAR are outrageous. Fines start at USD$10,000 and may be as high as half the value of the account. This is unconscionable as the majority of citizens abroad are honest people who already report their income to their country of residence for tax purposes.

Solutions such as citizen taxation, FATCA and FBAR are punitive and hurt innocent people. The majority of USA citizens abroad are on average incomes earned only in our countries of residence. Of course, should we relocate to USA, we would immediately start filing tax in USA anyway. There is no point in punishing the small people in a bid to trap sophisticated tax cheats.

A large number of citizens abroad actually are dual citizens, such as myself. There are also people who were born in USA and moved overseas as children. We have no incentive to cheat USA and do not wish to have any trouble with IRS. We just want to live normal lives in our resident countries.

I request you to please replace citizen taxation with resident-based taxation. Please also remove FATCA reporting and FBAR.

Regards,

Amy Purcell

LETTER SUBMITTED BY JEFFREY STEINER

February 18, 2022

U.S. Senate
Committee on Finance
Dirksen Senate Office Bldg.
Washington, DC 20510–6200

Re: "Spotlighting IRS Customer Service Challenges"

Dear Senate Committee on Finance:

As a longtime American living outside the United States, I urge the committee and the National Taxpayer Advocate to do more to alleviate the filing requirements I face yearly. These include FBAR submissions and filing of a more and more complicated tax return.

In my over 20 years of living outside the United States I have never had to pay taxes to the IRS, but I have had, and will I'm sure continue to pay a tax professional to help with my yearly tax returns.

Also thanks to FATCA, I face the real possibility of having banks accounts closed, like many other overseas Americans. I don't see the point of making my life difficult when in fact as an American overseas I, as are all overseas American citizens, am an ambassador.

I urge the repeal of FATCA and the implantation of a tax code based on residency and not citizenship.

Sincerely,

Jeffrey Steiner

LETTER SUBMITTED BY DENISE C. YELVINGTON
CPA, SHEFFIELD ADVISORS

U.S. Senate
Committee on Finance

National Tax Day (April 15th) has not been modified since 1955. In 1955, the federal tax code was 929 pages. Today, the federal tax code is more than 6,600 pages, yet Tax Day has not changed.

Accuracy matters. The proper calculation of tax liabilities is important for both Treasury and taxpayers.

Often, individual taxpayers are receiving and gathering tax documents until mid-March. Tax practitioners end up with the bulk of their work falling into those last four weeks of tax season. The complexities of various COVID–19 relief programs add to the time needed to accurately prepare a tax return. Partnerships and S-Corporations have a tax deadline of March 15th so that the individual partners/shareholders have the information necessary to complete their individual tax returns by April 15th. Adding to the complexity of these business returns is the new requirement to include Schedules K–2 and K–3 for the 2021 tax year. However, at this time, the IRS website states the availability to electronically submit these forms will be March 20, 2022, for partnerships, and mid-June for S-Corporations, both of which are after the March 15th deadline. This necessitates filing extension requests for these business entities, which then impacts the ability of the individual partners/shareholders to timely file by April 15th.

When an individual taxpayer files an extension request with the IRS, it only grants additional time to file the tax return. It does not extend the time to pay. Therefore, taxpayers must pay their tax liability by April 15th or face interest and penalties on any unpaid liability. Taxpayers may or may not have all of the information available to properly calculate their tax by the April 15th date. Taxpayers and tax practitioners seeking assistance from the IRS may not have their calls answered. Penalizing the taxpayer for making an effort to comply, but not perfectly covering their tax liability for the year, is an unfair burden to place on the American people.

What are possible solutions? An easy solution is to allow extensions to not only extend the time to file but also the time to pay. Start the penalty assessment after the extended deadline rather than the original deadline. If that's not feasible, permanently move Tax Day to a later date, like May 15th, June 15th or July 15th. The IRS opened this tax season on January 24, 2022. Why not consider a tax season of February 15th to May 15th? There are many ways to improve the tax filing season.

Accuracy matters. We need additional time to ensure the taxpayers are paying the proper amount of tax without risk of penalty. As tax complexity increases, more taxpayers seek the assistance of a professional tax preparer. April 15th is no longer practical. We only strain the profession, the taxpayers, and an already-burdened IRS by retaining this deadline. Please consider some kind of permanent change. It is long overdue.

I would also like the Senate Finance Committee to place priority consideration on Senate Bill 2936, introduced by Mr. Cassidy. This Bill would fix a burdensome reference in the CARES Act to Internal Revenue Code Section 267(c). Small business owners did not have clear guidance from the IRS about whether owner's wages could be included in the calculation of the Employee Retention Credit until August 2021, long after many of them had claimed the credit and received the payroll tax refund. Businesses are still suffering through a pandemic, and we cannot ask them to return money that they received while IRS guidance was unclear. Eliminate the reference to IRS 267(c) and allow small business owners the relief of having to pay back money that they have already used to keep their businesses afloat during the pandemic. Businesses that have closed or dissolved also have no way of paying this back to the IRS. This Bill should be passed expeditiously as it affects the current filing season and 2021 business tax returns. Please consider passing this Bill and providing relief to these business owners that provided a great service by keeping their employees paid during the COVID–19 pandemic.

Thank you for your consideration.

Denise C. Yelvington