



Electronic Tax Administration Advisory Committee

# ANNUAL REPORT

## TO CONGRESS

June 2023



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## **ETAAC Members 2022-2023**

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This report is the culmination of many months of work by the members of this year's Internal Revenue Service (IRS) Electronic Tax Administration Advisory Committee (ETAAC). ETAAC members spent countless hours researching, discussing, and developing the report's recommendations. The 2023 contributing members of ETAAC are:

<b>Jared Ballew (Chair)</b>	<b>Sherice McCarthy-Hill</b>
<b>Peter Barca</b>	<b>Argi O'Leary</b>
<b>Vernon Barnett (Vice Chair)</b>	<b>James Paille</b>
<b>Austin Emeagwai</b>	<b>Hallie Parchman</b>
<b>Jerry Gaddis</b>	<b>Andrew Phillips</b>
<b>Robert Gettemy</b>	<b>RaeAnn Pilarski</b>
<b>Mark Godfrey</b>	<b>Keith Richardson</b>
<b>Eric Inkrott</b>	<b>Terri Steenblock</b>
<b>Jihan Jude</b>	<b>Timur Taluy (Vice Chair)</b>
<b>Carlos Lopez</b>	<b>Lindsey West</b>
<b>Jonathan Lunardini</b>	

Biographies of the Committee members are set forth in [Appendix A](#). The Committee members also recognize and thank the IRS staff and leadership for their assistance in this report's development. We appreciate the time spent and their responsiveness to numerous meetings and data requests.

## LETTER FROM THE CHAIR AND VICE-CHAIRS

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On behalf of the Electronic Tax Administration Advisory Committee, we are delighted to present the 2023 Annual Report to Congress. As the Chairs of this esteemed committee, we would like to express our gratitude for the opportunity to share our findings and recommendations.

Throughout this year, our committee pursued the goal of creating a comprehensive and well-balanced report. Recognizing the significance of the taxpayer's journey, we took great care to place ourselves in their shoes. This approach allowed us to gain valuable insights and identify areas where Congressional and Internal Revenue Service (IRS) improvements can optimize the taxpayer experience while fostering voluntary compliance.

We commend the IRS for the significant strides they have made in enhancing the taxpayer experience over the past year. However, it is essential that we stress the importance of continuing to promote IRS accountability for the Inflation Reduction Act funding it received and associated project prioritization. Congress has made a substantial investment in the IRS, and with that investment, it is crucial to ensure ongoing accountability in the appropriate utilization of funds. It is imperative that the taxpayer's journey remains one that encourages voluntary compliance, instills trust, provides high levels of service, and inspires confidence in our nation's tax system.

Furthermore, it is crucial to emphasize that the IRS should not be used as an extension of any political arm, including Congress, the White House, and Treasury. Utilizing tax administration for political agendas threatens the delicate balance of the system and erodes taxpayer trust. The tax system relies on impartiality, fairness, and consistency to maintain its integrity. When tax administration decisions are driven solely by political motivations, it undermines the fundamental principles that uphold the tax system. To preserve the trust and confidence of taxpayers, it is imperative that tax administration remains independent and insulated from partisan influence, allowing it to operate in a manner that promotes the best interests of the taxpayers and the nation as a whole.

Within the 2023 Annual Report, you will find a comprehensive analysis of our committee's findings, including recommendations for improving the taxpayer experience and reinforcing IRS accountability. We believe that these recommendations, if implemented, will contribute to a more streamlined, efficient, and taxpayer-centric tax system. We encourage you to review the report in detail and consider the proposed enhancements as you engage in discussions and decision-making processes concerning tax administration and legislation.

The Electronic Tax Administration Advisory Committee is committed to serving as a valuable resource for Congress and the IRS. We would be delighted to engage in further discussions or provide additional testimonies and information on any aspects of the report. Once again, we express our sincerest appreciation for your continued support and the opportunity to contribute to improving our nation's tax system. We

remain committed to our mission and look forward to continuing our collaboration with Congress and the IRS as an advisory committee finding new ways to improve electronic tax administration in the pursuit of a better taxpayer journey.

Respectfully submitted,

Jared Ballew  
ETAAC Chairman

Vernon Barnett  
ETAAC Vice Chairman

Timur Talay  
ETAAC Vice Chairman

## HOW TO READ THE 2023 ETAAC REPORT

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This report provides brief critical insights through both a high-level overview, and deeper context in our full-length analysis. ETAAC organized this report into two focus areas that are consistent with the committee's charter.

1. Recommendations for Congress & IRS focused on Electronic Tax Administration
2. Recommendations for the IRS focused on Security.

The journey of a taxpayer typically begins when they start earning income and file their first return. As they progress through their career, they may experience various changes to their financial posture, such as a job change or loss, medical expenses, and various unexpected life events. These changes can impact their ability to pay taxes and maintain their financial obligations, often leading them to require assistance from tax administration stakeholders.

The journey of a taxpayer is filled with opportunities and challenges, and their experiences can have significant implications for the policies and programs enacted by Congress and implemented by Tax Administrators. This report takes you on the taxpayer journey and identifies ways to enhance the taxpayer experience and voluntary compliance.

For a **high-level overview of recommendations**, review the

- Summary List of ETAAC 2023 Recommendations

To gain **deeper context** for our 2023 recommendations, review the full report, which includes:

- Preamble
- Understanding Tax Administration & Stakeholders – Transforming Tax Policy to Voluntary Compliance
  - The Taxpayer Trust Model
- The Taxpayer Journey Parts I, II, III
  - Detailed Support for ETAAC 2023 Recommendations
- Appendix
- Open Prior Year Recommendations

## ETAAC 2023 RECOMMENDATION SUMMARY

Below are ETAAC's 2023 recommendations, organized based on the intended recipient: Congress and the IRS. Our detailed analysis and explanation of each recommendation are in the section called "Full ETAAC Report 2023 Recommendations," starting page 7.

Number	Recommendation Description	Congress	IRS
<u>1</u>	ETAAC recommends that Congress pass timely tax legislation and engage the IRS and appropriate stakeholders prior to passing legislation.	✓	
<u>2</u>	ETAAC recommends the IRS prioritize and allocate funding to IRS.gov modernization and search engine optimization.		✓
<u>3</u>	ETAAC recommends the IRS prioritize the Online Account toolset expansion.		✓
<u>4</u>	ETAAC recommends the IRS provide properly authenticated third parties the ability to "Pull" information return data on demand.		✓
<u>5</u>	ETAAC recommends the IRS provide Form 1099-NEC data to States on an expedited basis.		✓
<u>6</u>	ETAAC recommends the IRS prioritize e-filing of 94X returns and enhancing duplicate 94X processing.		✓
<u>7</u>	ETAAC recommends IRS enable online user access control for large business taxpayers.		✓
<u>8</u>	ETAAC recommends the IRS update Form 1099-K and educational materials to enable easy compliance.		✓
<u>9</u>	ETAAC recommends the IRS educate taxpayers and payers on their information reporting filing obligations to increase compliance and aid enforcement.		✓
<u>10</u>	ETAAC recommend the IRS prioritize educating payers on Nonresident Alien (NRA) withholding and 1042-S filing obligations.		✓
<u>11</u>	ETAAC recommends the IRS should continue to reduce Identity Theft Fraud by increasing transparency between information return stakeholders and the IRS.		✓
<u>12</u>	ETAAC recommends the IRS make tax information documents digitally available in real-time, empowering taxpayers to easily export their tax data into third party tax software.		✓
<u>13</u>	ETAAC recommends increasing electronic filing rates and enhancing paper processing.		✓

Number	Recommendation Description	Congress	IRS
<u>14</u>	ETAAC recommends the IRS enhance transparency in tax return processing and tax issue resolution.		✓
<u>15</u>	ETAAC recommends the IRS deploy a public-facing dashboard with key customer service and processing metrics.		✓
<u>16</u>	ETAAC recommends the IRS revisit the duration of third-party designee authority and enable taxpayers to complete powers of attorney and tax information authorizations as part of the electronic filing process.		✓
<u>17</u>	ETAAC recommends the IRS and Congress do more to regulate paid tax return preparers and take steps to address issues related to incompetent and unscrupulous conduct.	✓	✓
<u>18</u>	ETAAC recommends the IRS and Congress evaluate making improvements in the communication, marketing, and accessibility of existing free tax filing programs before investing in the development and implementation of an IRS Direct eFile platform.	✓	✓
<u>19</u>	ETAAC recommends that if a Direct File option is implemented, Congress and IRS should ensure that it adheres to security standards implemented by the current Free File program.	✓	✓
<u>20</u>	ETAAC recommends the IRS consider funding two additional VITA/TCE new grant programs.		✓
<u>21</u>	ETAAC recommends Congress maintain stable, consistent, multi-year funding authorized through the Inflation Reduction Act, provide the IRS with adequate discretionary annual appropriations, and enable greater flexibility to align funding between IRS appropriations to meet mission needs.	✓	
<u>22</u>	ETAAC recommends technology modernizations that are not a “lift and shift” and leverage commercial off-the-shelf solutions whenever possible.		✓
<u>23</u>	ETAAC recommends system modernizations and General Master File legacy system retirement while leveraging key stakeholder feedback and experience.		✓
<u>24</u>	ETAAC recommends the IRS consider new human capital strategies to compensate for higher attrition and customer service demands.		✓
<u>25</u>	ETAAC recommends the IRS develop key metrics to be used internally and externally to measure customer service, taxpayer experience and promote transparency.		✓
<u>26</u>	ETAAC recommends the IRS provide timely legal guidance on federal and state laws that impact tax administration.		✓



# FULL ETAAC REPORT 2023 RECOMMENDATIONS

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## Preamble

The Electronic Tax Administration Advisory Committee (ETAAC) was established by Congress in 1988 to provide continuing public input into the development and implementation of the IRS organizational strategy for electronic tax administration. ETAAC researches, analyzes, considers, and makes recommendations on a wide range of electronic tax administration issues, such as taxpayer experience, identity theft, and refund fraud. ETAAC also contributes to the development of the IRS strategic plan.

For tax year 2021, the IRS processed more than 235 million individual and business returns, assisted more than 58 billion callers and walk-in taxpayers, and issued more than \$359 billion dollars in refunds<sup>1</sup>. This is no easy feat, and the IRS should be recognized for their accomplishments. ETAAC and stakeholders surveyed by this committee praised the IRS for its efforts in communication and engagement, preparing for and executing the 2023 filing season, and implementing new technology solutions.

While we recognize and celebrate the IRS for their efforts, we would be remiss if we didn't also acknowledge the significant investment made by Congress. Congress has shifted the paradigm by investing nearly \$80 billion in the Service over the next ten years. It is imperative for the IRS to utilize those funds to improve taxpayer experience, enforcement, and technology infrastructure. You will find recommendations in this report that align with this investment and hold the IRS accountable for quickly and effectively deploying new resources.

The recommendations in this report are built on the premise of developing and implementing a tax system that better meets the needs of American Taxpayers. We also appreciate that recommendations made without consideration of existing strategy are, at best, difficult to implement and, at worst, unproductive or impact the taxpayer negatively. This report is written to align with the IRS mission and proposes actionable recommendations that align with the Inflation Reduction Act (IRA) Strategic Operating Plan. References to this plan will be found throughout the report. The focus areas are summarized below.

- Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.
- Quickly resolve taxpayer issues when they arise.
- Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap.
- Deliver cutting-edge technology data and analytics to operate more effectively.
- Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

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<sup>1</sup> Provided by IRS Wage and Investment

We have worked hard to consider the voices of those who interact with the IRS and would like to thank Congress, the IRS, the National Taxpayer Advocate, Taxpayers, Tax Professionals, the Tax Software Industry, and State/Local tax agencies for their feedback and input that was considered and incorporated into this report.

Congress has presented the Internal Revenue Service with an unprecedented opportunity. It is our honor to provide public input into the Service's strategy to capitalize on such an opportunity.

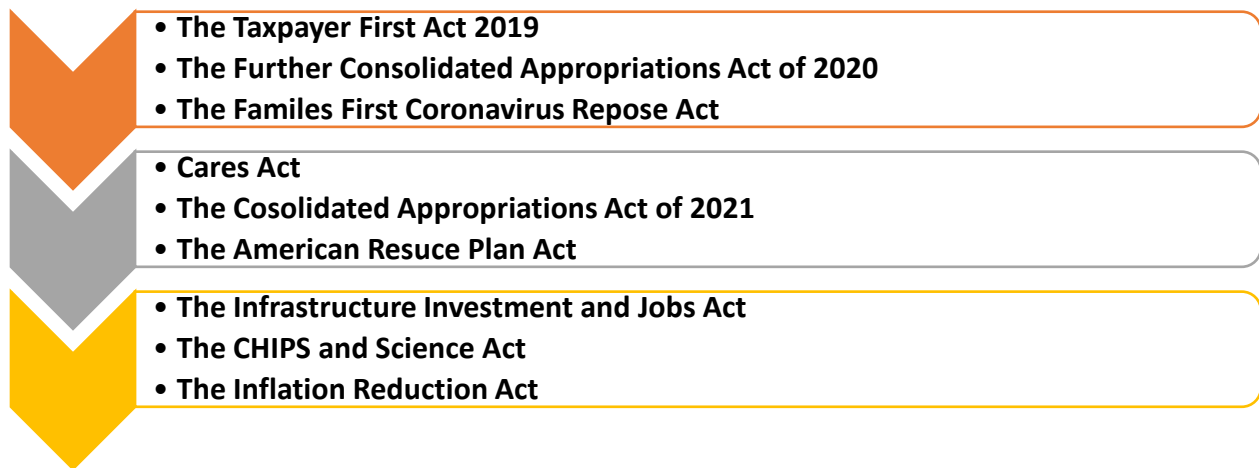
## UNDERSTANDING TAX ADMINISTRATION & STAKEHOLDERS

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### Transforming Tax Policy into Voluntary Tax Compliance - There is no magic wand

If you want to improve the intricate U.S. tax system, you must first understand who the tax administration stakeholders are and what tools are critical to delivering a successful filing season. Turning the tax policy pumpkin into an ornate carriage and the taxpayer into the “Belle of the Ball,” ready for the big dance (filing season), does not happen magically each year. Tax administrators and their many stakeholders are responsible for this significant annual transformation, which we will refer to in this report as the Taxpayer Journey.

### Congress Bears Significant Responsibility for Complexity

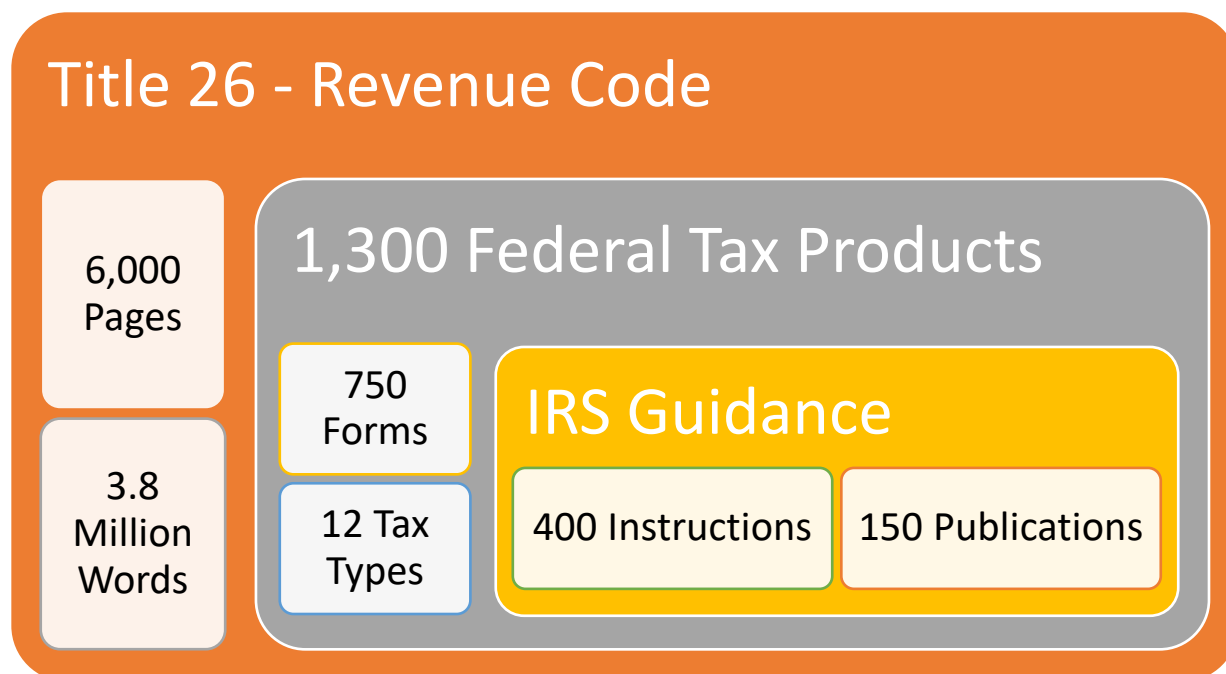


The complexity of the federal tax law rests significantly on Congress’s shoulders. The chart above highlights just a few of the major laws that have changed since 2019 that had a major impact on the tax code and the tax administration<sup>2</sup>.

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<sup>2</sup> Andrew Lautz, Senior Policy Analyst, Economic Policy, Bipartisan Policy Center BPC Slide 6  
<https://taxfoundation.org/events/review-2023-tax-filing-season/>

While Congress is responsible for writing the tax law, tax administrators are tasked with implementation. Tax administrators must currently decipher over 6000 pages and roughly 3.8 million words in the Internal Revenue Code, known as Title 26, and distill it into understandable forms, publications, and applications, which is no small feat<sup>3</sup>.



The distilled products that come from this code are managed by the IRS Tax Forms & Publications Division, which is responsible for over 1,300 tax products, including multiple languages, that are revised annually. For every tax year, they manage more than 750 tax forms, 400 separate instructions, and 150 tax publications.<sup>4</sup> Before a new tax form is created or existing forms are revised, the forms travel through multiple feedback loops, which take the time and resources of the entire tax administrative ecosystem. These include but are not limited to:

- Tax law and Chief Counsel official guidance and comments
- Processing and procedural changes
- Input from Stakeholders, States, Software Industry
- Input from taxpayers, tax practitioners, and IRS employees
- Recommendations by TIGTA, GAO, TAS, and TAP
- Simplification, focus group, and burden-reduction efforts
- Operating Division and its compliance objectives

<sup>3</sup> Scott Greenberg Oct 8 2015 The Tax Foundation. [https://taxfoundation.org/federal-tax-laws-and-regulations-are-now-over-10-million-words-long/#:~:text=To%20arrive%20at%202015%20figures,\(about%2014.7%20million%20words\)](https://taxfoundation.org/federal-tax-laws-and-regulations-are-now-over-10-million-words-long/#:~:text=To%20arrive%20at%202015%20figures,(about%2014.7%20million%20words).).

<sup>4</sup> Tax Forms & Publications (TF&P) Wage and Investment, Media & Publications (M&P). 08-25-2022. The Tax Form Story... [PowerPoint Side 4,5]

The IRS Tax Forms & Pubs Division is an example of a foundational resource or starting point relied upon to administer the United States Tax Code, which impacts both paper and electronically filed returns. These documents serve as the tax system's foundational guides and rule books, allowing taxpayers to understand and comply with their filing obligations and receive the benefits they are entitled to. In addition to this massive yearly undertaking performed by the IRS and its stakeholders to create the foundation of the filing system, we still have not accounted for any technology components, service components, security, educational materials, website maintenance, online tools, communications, or state returns and their independent yet equal requirements. Simply put, there is no magic wand to make tax season happen. However, we believe there are ways to improve service, technology, and processes that often cause taxpayer journey disruptions, leading to frustrated and underserved taxpayers that can erode voluntary compliance.

### **Emotional Words - Tax Policy & Tax Compliance, and why taxpayers “Care”**

It's easy for ETAAC, tax professionals, and Members of Congress to get lost in the tax lingo, debating the best way to close the tax gap, increase voluntary compliance, and improve return filing statistics. However, if we step back and look at things from the taxpayer's perspective, the real question is, why do taxpayers care about filing a return? In a voluntary tax compliance system, tax administrators must consider why and how taxpayers choose to interact and cooperate with their government to file accurate and timely returns. Interacting with the government to file a return can be scary, daunting, boring, confusing, and frustrating. Simply put, human emotions are directly connected to filing tax returns, and as tax experts, we must consider those emotions to achieve the primary goals of voluntary compliance and ensure taxpayers receive the benefits they are entitled to.

*“The ‘slippery slope’ framework is an alternative approach for research in tax compliance that suggests two key variables to obtain taxpayers’ compliance: trust and power. Furthermore, two forms of compliance are distinguished. It is hypothesized that voluntary compliance depends primarily on trust in authorities, whereas enforced compliance is a function of the power attributed to authorities.”<sup>5</sup>*

ETAAC adopts the premise that taxpayer trust and confidence in the tax administration system is the core of voluntary tax compliance for the U.S tax system. Trust is also universally understood as being earned and not given. ETAAC has established the Taxpayer Trust Model (TTM) in an effort to standardize, build and maintain high levels of trust in the tax system and to increase compliance. We believe the TTM framework can serve legislators, tax administrators, and stakeholders in their decision-making processes.

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<sup>5</sup> Muehlbacher, S., Kirchler, E. & Schwarzenberger, H. Voluntary versus enforced tax compliance: empirical evidence for the “slippery slope” framework. *Eur J Law Econ* **32**, 89–97 (2011). <https://doi.org/10.1007/s10657-011-9236-9>



## **The Taxpayer Trust Model is the Foundation of the Taxpayer Journey**

### **Delivering A Map & Navigational Tools that Foster Tax Compliance**

The road map of tax compliance for taxpayers must start with three essential components that allow for navigational orientation before the journey begins. Both stakeholders and taxpayers must know ahead of time how the tax code applies to each specific situation. Built on the bedrock of tax policy, timely and dependable guidance, communication, and education will enable tax administrators to set up the delivery of a successful tax season for the taxpayer.

## **Guidance**

The lack of timely guidance erodes taxpayers' confidence along their filing journey, causing confusion, incorrect interpretations, increased and unnecessary friction, and can contribute to the tax gap. Tax guidance is an essential part of tax administration that empowers individual and business taxpayers. Guidance promotes voluntary tax participation by helping taxpayers understand the available tax incentives and deductions, which can reduce their tax liabilities, ensure they receive the benefits they are entitled to, and helps them to plan their finances more effectively. In addition, tax guidance can help individuals and businesses navigate their interactions with the IRS and other tax authorities. This can include providing information on the appeals process, resolving disputes, and helping to avoid audits and other legal issues. A foundation of strong guidance practices provides a valuable resource for individuals and businesses and promotes an environment of transparency and clarity. Investing in strong guidance practices is one of the most cost-effective ways to administer the tax system and achieve voluntary compliance while ensuring taxpayers receive the benefits they are entitled to.

## **Communication**

The value of taxpayer services must be measured through the eyes of the taxpayer, and that understanding should drive efforts to ensure the IRS honors the diversity in our nation and strives to serve all taxpayers. Effective communication is critical for the IRS to fulfill its mission of administering the nation's tax laws fairly, efficiently, and as prescribed in law. The IRS needs to communicate with taxpayers, tax professionals, and other stakeholders in a clear, accurate, and timely manner to ensure they understand their tax obligations, rights, and options. Effective communication is also essential for the IRS to identify and resolve issues related to tax compliance, fraud, and enforcement. By communicating effectively with taxpayers and stakeholders, the IRS can build trust and confidence in the tax system, promote voluntary compliance, and reduce the burden of tax administration for everyone involved. The need for effective and timely communication is paramount for the IRS to fulfill its responsibilities and achieve its goals.

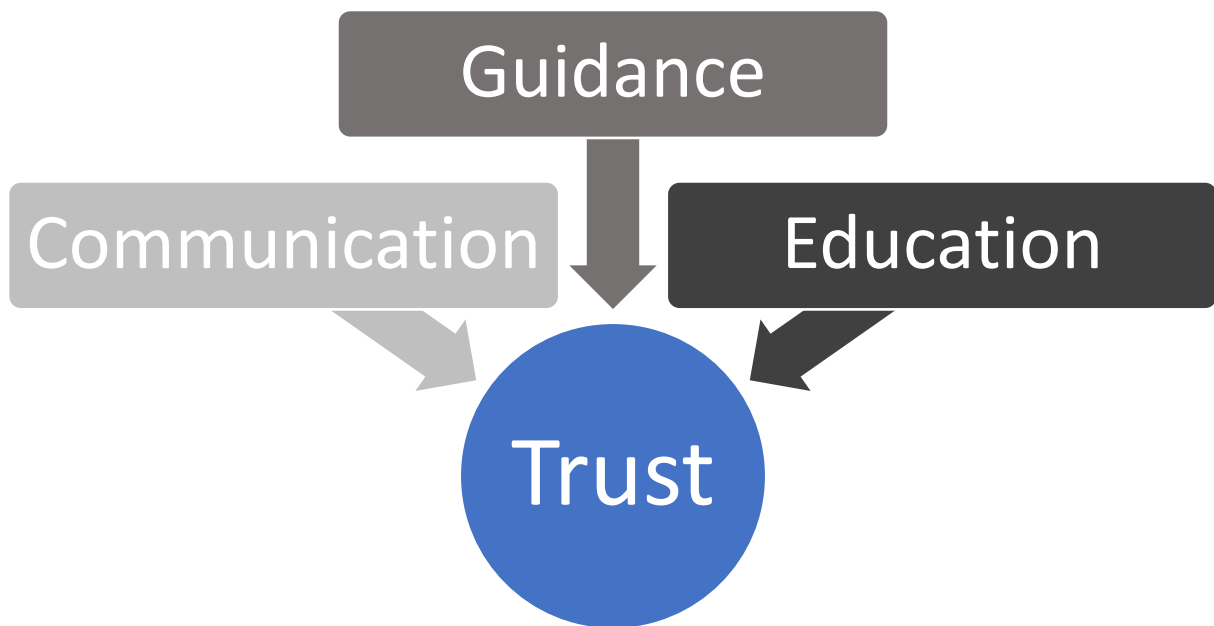
## **Education**

The need for proactive tax education arises from the complex nature of tax laws and regulations, which can be difficult for individuals and businesses to understand and comply with. Tax education helps individuals and businesses to:

- Better understand their tax obligations and responsibilities, which can avoid errors and potential legal issues.
- Make informed decisions about tax planning and compliance, resulting in accurate tax returns, lower tax liabilities, and improved financial outcomes.
- Stay informed about changes to tax laws and regulations, which can affect their tax obligations and financial planning strategies.
- Understand what benefits are available through the tax system and ensure they are receiving the benefits they are entitled to.

In addition, a critical component of tax education is helping individuals and businesses understand their rights and responsibilities when interacting with the Internal Revenue Service (IRS) and other tax authorities. Overall, tax education plays a crucial role in promoting compliance, fairness, and efficiency in the tax system. It helps to ensure that individuals and businesses have the knowledge and skills they need to meet their tax obligations and receive the benefits they are entitled to.

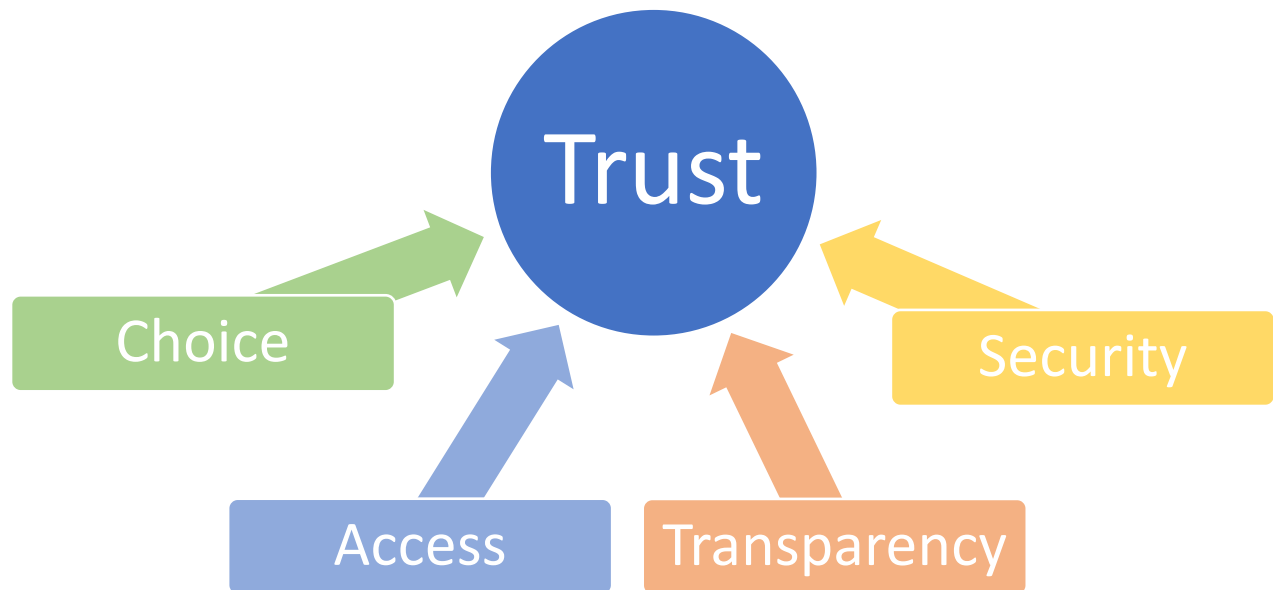
### **Timely Guidance, Communication & Education Create a Foundation That Fosters Trust**



No one would use a map with an outdated, or unreliable source because doing so results in one's failure to reach their destination. The ability of tax administrators to deliver timely guidance, communication, and education to taxpayers and stakeholders directly affects the level of trust taxpayers have in fulfilling their tax responsibilities. Much like an individual's relationship with their physician, preparing and filing tax returns requires a deep level of trust from relationships built through years of experience or even referrals from close friends and family. Taxpayers' opinions of the Internal Revenue Service (IRS) vary. Some taxpayers may view the IRS as a necessary component of the government, responsible for collecting taxes to fund public services. Others may have negative experiences with the IRS, such as unanswered service requests, delayed refunds, or disputes over tax obligations, leading to frustration and distrust.

## The Pillars That Support Trust

To achieve and maintain elevated levels of trust and confidence in the tax system, tax administrators must provide high levels of security, service, and interactive application options that allow taxpayers to customize their journey preferences, thereby increasing their confidence during their journey preparation. These options can be categorized into four primary pillars: Access, Choice, Transparency, and Security. Throughout this report, we will often refer to these four pillars as they are the foundational support that aligns with taxpayers' expectations. If any one of these four pillars is ignored or violated, taxpayer trust is eroded, and the risk of noncompliance and failure to provide benefits to taxpayers for which they are entitled becomes a reality.





## The Key Stakeholders Who Deliver the Taxpayer Journey



### **Congress**

Congress may have the most significant impact on the taxpayer's journey. The decisions they make and the laws they pass have a direct impact on the entire tax administration ecosystem and the taxpayer compliance journey. The laws, guidance, and oversight that legislators provide are the bedrock of tax administration. This critical role comes with significant responsibility, as each decision has a measurable impact on the taxpayer. In certain situations, the way in which legislation is passed may negatively impact or frustrate intended policy outcomes. For example, legislation passed late or retroactively may hinder the effective administration of an intended benefit (such as a tax benefit passed after most taxpayers have already filed) and can erode taxpayers' trust in the IRS and the federal government.

### **Tax Administration**

Tax administration in the United States has many critical stakeholders who work collaboratively to ensure that access, choice, transparency, and security are maintained throughout the tax ecosystem. The American tax process system does not operate in a silo but relies upon its many interworking parts to effectively deliver an efficient tax system that taxpayers expect and deserve. Tax administrators must provide accountability and transparency to drive taxpayers' trust and balance that with cross-functional collaboration to ensure legislators' policies are accomplished. Below, we explore each of the stakeholders that contribute to the overall tax compliance framework.

## **Internal Revenue Service**

The IRS is one of the world's largest tax administrators. The agency's mission is to provide America's taxpayers with top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all. Guidance, education, and communication are their core functions as they support the Taxpayer Bill of Rights.<sup>6</sup>

## **State & Local Government**

In addition to Federal returns, many taxpayers must file a state and/or local return. State and local revenue agencies play a pivotal role in tax administration. State and Local tax agencies are sovereign entities and independently determine how their taxes are administered. It is important to note that federal tax laws and policies can have a significant impact on state and local tax agencies, and it is critical that they have a collaborative working relationship with the IRS.

## **Software Providers**

Software providers are an integral piece of tax administration. Over 90% of individual taxpayers now e-file their returns. Software providers bridge the gap between complex federal and state/local, and tax compliance. Developing tax and accounting software requires intricate collaboration and communication between federal and state governments as advocates for their users.

## **Tax Professionals**

Tax professionals are individuals who represent and account for roughly 55% of returns electronically filed. They provide services related to tax preparation, planning, and compliance for individuals, businesses, and other organizations. Tax professionals may include certified public accountants (CPAs), enrolled agents (EAs), tax attorneys, and tax preparers. Tax professionals play a vital role in reaching the diverse multitudes of social, economic, and ethnic groups in America.

## **Financial Institutions**

Financial institutions play an integral role in tax administration, touching all aspects of money movement, taxpayer experience, and fraud prevention. In 2022, over 110 million tax refunds were released by the Bureau of Fiscal Services, with 91% of those being direct deposited into a taxpayer's bank account. Financial institutions must constantly balance the need to provide their customers with tax refunds in a timely and secure manner while fighting the ongoing battle of stolen identity theft tax refund fraud.

## **The Security Summit**

There is no better example of how tax administration should work in this country than the IRS Security Summit. The IRS Security Summit is the "The Three (Five) Musketeers" of tax administration and a true demonstration of healthy collaboration for the sole benefit and protection of the American tax system- "All for One, One for All".

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<sup>6</sup> <https://www.irs.gov/taxpayer-bill-of-rights>

Founded in 2015 at the request of IRS Commissioner John Koskinen, the Security Summit consists of the five key tax administration stakeholders: IRS, state tax agencies, software developers, tax professional organizations, and financial institutions. Total membership includes 42 state agencies and 20 industry offices in addition to the IRS, all stakeholders aligned to come together and work collaboratively to protect taxpayers from identity theft refund fraud.

ETAAC organized the initial meeting of the Security Summit in 2015 and amended its charter in 2016. This assisted in expanding its scope to include researching, studying, and making recommendations regarding the prevention of identity theft tax refund fraud (IDTTRF). ETAAC's role with respect to the Security Summit was further reinforced in 2019 by Section 2002 of the Taxpayer First Act, formalizing the changes made to the ETAAC charter.

As a main component of the Security Summit, the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (the IDTTRF-ISAC or simply, the ISAC) was formed in January 2017, governed in equal partnership by the IRS, industry, and states. The ISAC partnership includes 73 organizations – 48 States, 15 industry partners, 4 financial services companies, the IRS, and 5 endorsing organizations. The platform serves as the centralized information-sharing vehicle and includes controls to ensure that sharing occurs in a manner that is consistent with applicable laws.

## **Foundational Recommendations for The Taxpayer Journey**

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**Recommendation #1: ETAAC recommends that Congress pass timely tax legislation and engage the IRS and appropriate stakeholders prior to passing legislation.**



As with any other policy arena, tax policy often begins as a proposed solution to a problem. Pandemic-era tax credits are a notable example of this. However, when engagement across the tax ecosystem is not up to par, legislators can come away with unrealistic expectations about policy implementation leaving taxpayers confused and frustrated. Therefore, ETAAC recommends Congress engage with IRS and other stakeholders before legislation is passed to ensure the intended policy outcomes will be achieved.

In addition, late legislation often disrupts the taxpayer's experience and financial situation and can have significant negative impacts on the IRS, States, businesses, and the economy. Late legislation can create uncertainty and confusion, delay refunds, reduce economic growth, increase complexity, and create compliance challenges for the IRS. Congress should ensure systems will be available to handle the new law before implementation dates are set. ETAAC believes in the need for timely and predictable tax legislation to ensure that taxpayers can plan and prepare for their tax obligations effectively and efficiently, which promotes economic growth and stability.

Tax legislation passed late in the year or after the tax season begins, has various negative impacts on taxpayers. It is important to have timely legislation to facilitate a predictable and understandable tax filing season. Failure to do this results in:

***Uncertainty and Confusion:*** Last-minute changes to tax rules and regulations can make it difficult to understand tax obligations and plan for future tax liabilities. The outcome results in returns filed with errors and omissions, potentially leading to additional costs to the IRS and the taxpayer. In addition, state and local tax returns have a starting point of Federal Adjust Gross Income (FAGI) or Taxable Income. The passage of late or untimely federal laws can cause problems with the taxpayer being able to file a timely and accurate state or local return, further magnifying the confusion and taxpayer uncertainty.

***Delayed Refunds:*** Delays in the processing of tax returns and refunds, which can cause financial hardship for taxpayers who rely on their refund to pay bills, make purchases, or invest in their businesses. It may also lead to reduced consumer spending and business investment, negatively impacting economic growth.

***Reduced Economic Growth:*** Economic impacts by reducing consumer spending, decreasing business investment, and slowing economic growth. This can have a ripple effect on jobs, wages, and government revenues, creating long-term negative impacts on the economy.

***Increased Complexity:*** Last-minute changes can make the tax code more complex and require additional guidance and interpretation. This can lead to confusion and errors for taxpayers and tax professionals and increase the risk of non-compliance and audits.

***Compliance Challenges:*** Increased compliance challenges for the IRS, which may struggle to implement new rules and procedures effectively and efficiently. This can result in delays, errors, and inefficiencies in tax administration, which can lead to additional costs and penalties for taxpayers.

***Risk of Diminished Security:*** Security challenges can become more prevalent because of the last-minute nature of implementing changes. This can result in delays in taxpayer's refunds and put taxpayer data and U.S. Treasury funds at risk. Proactive engagement with stakeholders is crucial to ensure their safety.

In summary, late tax legislation can have multiple negative impacts on taxpayers, businesses, and the economy. To avoid these negative impacts, it is essential for Congress to pass timely and predictable tax legislation, providing taxpayers and tax professionals with the guidance, clarity, and certainty they need to plan and prepare for their tax obligations effectively and efficiently. By doing so, you can promote economic growth, stability, and increased trust in the American tax system.

**Recommendation #2: ETAAC recommends the IRS prioritize and allocate funding to IRS.gov modernization and search engine optimization.**



The IRS website is a key resource that empowers stakeholders to independently find the information they need. ETAAC recommends the IRS invest resources in improving the content on their website and ensure the navigation aligns with end-user website design techniques. Website enhancements should include end-user usability testing to ensure the enhancements meet end-user needs and empower users to independently gather the information they need to be compliant.

Website advertising and marketing dollars are critical pieces of the puzzle when we talk about a modern and functional IRS. It is ETAAC's understanding that very limited resources are allocated to these types of service needs each year. The tools available on IRS.gov should be bound by accuracy, reinforcing guidance, communication, and education by providing Access, Choice, Transparency, and Security.

Regardless of how good the information is on the IRS website, if taxpayers are not aware of informational resources or cannot quickly find the information that they are looking for, it is all for nothing. Some of the critical questions that need to be analyzed to better understand areas of opportunity for IRS.gov are:

1. What are the most common questions taxpayers have? What information are they looking for, and what problems are they trying to solve?
2. If a search is done via the internet, is the IRS website one of the top search results? Would further search engine optimization (SEO) strategies and content structured to respond to Large Language Models (LLM) and Generative Chat increase the user's ability to quickly find the information they need on IRS.gov and search engines like Google, Bing and Yahoo?
3. Are taxpayers able to gain the information they need to answer their questions or solve their problems, or do they still need to call an agent?
4. How can the IRS leverage research data and site behavior to understand why taxpayers choose not to go to the website? What concerns or beliefs do taxpayers have regarding accessing government websites?
5. What are the industry best practices, such as in search optimizations, accessibility, and findability methodologies, that ensure that not only the right changes are prioritized, but the product actually meets user needs?

The answers to these questions and more must be sought out to better understand taxpayer behavior. More importantly, the IRS must identify common reasons people visit IRS.gov and proactively address the root causes to potentially avoid an interaction altogether.

According to analytics.usa.gov, taxpayers care most about the status of their mailed packages, medical questions, taxes, and the weather. The following graphic was taken on April 19<sup>th</sup>, 2023, to show the top ten visited government websites over the last 30 days coming out of tax season.

### Top Domains

Now	7 Days	30 Days
<i>Visits over the last month to <b>domains</b>, including traffic to all pages within that domain. We only count pages with at least 1,000 visits in the last month. <a href="#">Download the full dataset.</a></i>		
tools.usps.com		215,736,239
ncbi.nlm.nih.gov		158,175,714
pubmed.ncbi.nlm.nih.gov		109,701,695
irs.gov		101,217,340
reg.usps.com		74,626,880
usps.com		73,247,178
cdc.gov		61,016,109
medlineplus.gov		55,070,551
forecast.weather.gov		47,824,854
informeddelivery.usps.com		40,714,777

IRS.gov is one of the top government-visited sites but suffers from severe mismanagement, organization, optimization, and end taxpayer usability. Lack of allocated funding and automation tools to properly govern, study, structure, test, and manage the website to meet the users' needs on a consistent basis are major contributing factors. Within IRS.gov, there is an abundance of information available to the taxpayer and tax professional that is valuable during the filing journey. ETAAC has selected the primary tools below that we believe should become the focus of enhancement and optimization from the Inflation Reduction Act funding.

**Tax Forms and Publications:** The website provides access to all the forms and publications needed for filing federal tax returns, including Form 1040 and its variations, as well as publications on tax topics such as deductions and credits.

**Taxpayer Education:** The website provides a range of educational resources for taxpayers, including videos, interactive tools, and articles on various tax topics. Taxpayers often get lost in the IRS.gov maze of forms, FAQs, and instructions.

**Free File:** The IRS partners with private-sector tax software companies to offer free tax filing services to 70% of taxpayers.<sup>7</sup> This service is available through the Free File program, which can be accessed through the IRS.gov website. Improvement to the website, educational advertising campaigns, and documents by the IRS is needed to increase program awareness.

<sup>7</sup> Free File: About the Free File Alliance <https://www.irs.gov/e-file-providers/about-the-free-file-alliance>

**Taxpayer Assistance Center:** The website provides a searchable directory of Taxpayer Assistance Centers, which are IRS offices located throughout the United States where taxpayers can get in-person help with tax-related questions and issues.

**Taxpayer Advocate Service:** The website also provides information about the Taxpayer Advocate Service, an independent organization within the IRS that helps taxpayers resolve tax problems and assists with issues related to the IRS.

**Online Tools:** The IRS.gov website provides a variety of online tools to help taxpayers, including the ability to check the status of a refund, make payments, set up payment agreements, and get tax transcripts. These tools are often hard to access, understand, and tend to leave more questions than they answer.

**Expand chatbots to their information return content:** The website utilizes chatbots for some service opportunities. Collection voice bots use voice recognition technology that offer self-help options such as information about making payments, responses to frequently asked questions and the ability to authenticate and set up a payment plan as opposed to holding for a Collection representative to answer. The IRS has successfully implemented the use of chatbots and should leverage the technology and learnings to deploy for informational returns as well.

**Recommendation #3: ETAAC recommends the IRS prioritize the Online Account toolset expansion.**



Online accounts are the ultimate tool to deliver digital-by-default tax administration. While online accounts do reside within IRS.gov ETAAC believes the online account is one of the more significant improvements in technology the IRS has made through the pandemic and can and will become one of the best tools to serve taxpayers along their journey each year moving forward. The IRS addresses the need for an online account into three separate types of users: Individual Taxpayer, Tax Professional, and Business.

### **Individual Taxpayer Accounts**

IRS taxpayer online accounts allow taxpayers to access information including their balance, payments, tax records, and more. Taxpayers can view key data from their most recently filed tax returns, including prior year AGI which some tax filing programs require for e-filing purposes. Information about Economic Impact Payments, Child Tax Credit payments, and notices from the IRS can also be viewed through the online account. Additionally, taxpayers can make payments, create payment plans, and manage communication preferences in an online account. The National Taxpayer Advocate states that the most used function within Online Account is viewing an account transcript.<sup>8</sup>

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<sup>8</sup> National Taxpayer Advocate ARC Full Report (pg93) <https://www.taxpayeradvocate.irs.gov/reports/2022-annual-report-to-congress/>

Effective June 2, 2023, the IRS discontinued their internal credential service provider, Secure Access, meaning taxpayers can only access their online account by creating an ID.me account. Although the absence of a second Credential Service Provider (CSP) reduces choice for taxpayers, ETAAC does not support adding additional CSPs if it compromises minimum-security requirements for the sake of choice or access.

**Areas for improvement:** The ID.me process, while necessary for identity verification purposes, is confusing for those with lower technical literacy, and many may be wary of providing personal information to a private third party. Many taxpayers would benefit from a thorough explanation and walk-through of the identity verification process. In an IRS response to a Taxpayer Advocate Service (TAS) information request, twenty-one percent of would-be IRS online services users could not complete identity proofing and were denied access, ultimately being directed to the non-digital service delivery channels, which presented additional challenges. The TAS suggests an in-person option for taxpayers who are unable or unwilling to verify their identity online, which the IRS is currently assessing through a limited pilot study.

### **Tax Professionals Accounts**

Currently, the main purpose of the Tax Pro Account is to automate the submission of powers of attorney to authorize tax practitioners to represent individual taxpayers and tax information authorizations to view those taxpayers' accounts. Tax professionals who wish to submit powers of attorney must have a Centralized Authorization File (CAF) number in good standing assigned to them as an individual; an address in the 50 United States or the District of Columbia; authority to practice before the IRS as an attorney, CPA, EA, enrolled actuary, or enrolled retirement plan agent; and a license to practice in the 50 United States or the District of Columbia as an attorney or CPA. To initiate a representation authorization, tax professionals must have an active Tax Pro Account and receive approval from a taxpayer with an active Online Account. The IRS processes representation authorizations initiated in Tax Pro Accounts much faster than any other submission method.

In 2021, there were over 783,000 individuals authorized to prepare tax returns. From July 2021 through December 1, 2022, there were 284,013 sessions where a representative logged into a Tax Pro Account and over 18,930 power of attorney requests were completed. Despite the fast processing of representation authorizations through Tax Pro Accounts, tax professionals granted representation cannot access information available in their clients' Online Accounts. The most useful function at the present time for Tax Pro Accounts is direct access to Transcript Deliver System (TDS) to retrieve transcripts of taxpayer accounts.

The IRS must reimagine the taxpayers' experience, meeting the taxpayer where they are by respecting the third parties they choose to work with, and create features that will drive tax pro adoption allowing taxpayers to seamlessly share account information with authorized third parties in a scalable and secure manner.



ETAAC believes elevating the focus and functionality of the Tax Pro Account to similar levels available to taxpayers will create the highest return on investment by generating higher compliance levels and increased taxpayer satisfaction. By prioritizing Tax Pro Accounts, the IRS leverages a larger audience who routinely interact with the IRS and their systems and submits roughly 55% of the electronic return volume.

## **Business Accounts**

The IRS has not yet enabled Business Online Accounts via its online portal. The IRS expects to launch a minimum viable product early in the Fall of 2023. We commend the IRS on their commitment to increase access for business customers. We also encourage the IRS to collaborate with stakeholders on their implementation of business account features and security.

## **The Taxpayer Journey**

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ETAAC's 2023 recommendations and accompanying analysis on the taxpayer journey are crucial for understanding the context and elaboration behind each suggestion. The report emphasizes identifying disruptions during the taxpayer journey and addressing them through enhanced service, collaboration, security, and modernization efforts.

## **Part I - Information Reporting**

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Each year the taxpayer journey begins when taxpayers receive their W-2s and 1099s. These informational documents are often the first indicator to a taxpayer that they must file a tax return.

The hope is that the IRS's efforts at educating the public about their tax filing obligations will ensure the receipt of information returns is not a surprise and that taxpayers know how to report this information on a tax return.

As the IRS continues to make progress in enhancing the taxpayer experience, ETAAC acknowledges the steps implemented to improve the taxpayer's journey relating to information returns. We recognize the time and effort expended by the IRS to roll out the 1099 Portal, Information Returns Intake System ("IRIS"), which allows filers to electronically file any Form 1099 for free. As part of the Taxpayer First Act (TFA), Congress mandated the IRS to provide a web-based Form 1099 portal with functionality like the Social Security Administration's W-2 portal.<sup>9</sup> The IRS delivered a platform that modernized features taxpayers expected when conducting business online. In its initial release, IRIS automatically detects filing errors and provides alerts for missing information as well as allowing filers to carry over issuer information from year-to-year, which results in greater convenience and fewer errors.<sup>10</sup>

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<sup>9</sup> Section 2102 of the Taxpayer First Act, Public Law 116- 25, codified at 26 USC 6011).

<sup>10</sup> IR-2023-14, Jan. 25, 2023

We expect this new platform will ease the filing process for the tens of millions of small businesses filing information returns, and we look forward to the IRS working with stakeholders to develop a strategy for retiring the Filing Information Returns Electronically (FIRE) platform and releasing new functionality, including an Application-to-Application solution (A2A), which will allow for more efficiency for large filers. As the IRS works on the retirement of FIRE and future phases of IRIS development, we encourage them to collaborate and engage with stakeholders and end-users.

In this section, the Electronic Tax Administration Advisory Committee will provide recommendations to the Internal Revenue Service focused on improving the taxpayer's experience related to information reporting, including the following:

1. Real-time data sharing.
2. Modernization, including expanding customer service and digitizing summary returns.
3. Information reporting improvements and education aimed at enforcement.
4. Fraud prevention to protect all parties: tax filers, tax providers, and tax preparers.

## Real-time data sharing with all stakeholders

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**Recommendation #4: ETAAC recommends the IRS provide properly authenticated third parties the ability to “Pull” information return data on demand.**



Information returns are the foundational documents taxpayers need to file accurate tax returns. Improving access to information return data for all stakeholders will serve to enhance the taxpayer experience, improve fraud and error detection, ensure timely return processing, and reduce the burdens of compliance.

It is important to enable authorized parties to retrieve information return data, including state departments of revenue, other IRS branches such as the business or taxpayer portals, and other government agencies to help facilitate the accurate filing of the tax return and timely processing and refund distribution. The information return data should be retrievable via Application Programming Interface (“API”) pull on demand by the authorized user rather than being incumbent upon an IRS “push” schedule or a flow-through process that allows states and other authorized users to retrieve their data in real-time, like what happens with the electronic income tax return retrieval. This would allow authorized parties to schedule and retrieve filed information returns and associated data in a real-time fashion, dramatically enhancing taxpayer experience, return processing, and refund distribution.

A perennial issue for state tax agency partners in receiving information reporting data is the timeliness of that data. The IRS recognizes the utility of information reporting data for purposes of identifying: taxpayers underreporting their income; excess deductions; employers who are withholding but not remitting to states; and resident and non-resident non-filers. However, the volume of data received results in extremely large files, i.e., the Information Return Master File or “IRMF,” and the IRS takes at least 18 to 36 months to create this data.<sup>11</sup> The current process for the IRS providing these files includes multiple handoffs and manual work. Implementing this recommendation could eliminate current programs such as the Combined Federal and State (“CFS”) program and the need for IRS employees in multiple areas of the organization to manually produce the CFS files multiple times a year.

Providing state tax agency partners access to the information return data as a “pull” or real-time flow-through for retrieval allows states to be in the same position as the IRS in identifying erroneous and fraudulent returns early in the filing season. This results in a process that is better at protecting the taxpayers, eliminating redundancies for informational return processors who currently must use one system to submit IRS informational returns and one system for every state in which they file informational returns. ETAAC recommends the IRS work in partnership with state and industry stakeholders to create a roadmap for future functionality and make enhancements to the system that reduce burden and enhance taxpayer experience. Also, to the extent the IRS can share the results of its validation of the data reported against third-party sources or other identity theft/refund fraud indicators or analysis, this information is critical to state tax agency partners, who also have an interest in identifying and stopping potentially fraudulent or erroneous income tax returns.

**Recommendation #5: ETAAC recommends the IRS provide Form 1099-NEC data to States on an expedited basis.**



If the IRS were not able to deliver all information reporting data to state tax agency partners in near real-time, state tax agency partners would benefit greatly from receiving Form 1099-NEC data that was filed electronically in real-time during the filing season, similar to the process used for states to retrieve electronic income tax returns in real-time. This would ensure the states receive the information at the same time the IRS does by the January 31 due date and would eliminate taxpayer burden, expedite return processing, and eliminate manual IRS processes that entail gathering the information and sending the files to the states after the filing season. Anecdotal discussions with state representatives confirmed the importance of receiving the Form 1099-NEC in as near-real-time as possible. In 2021, the IRS received nearly 70 million Form 1099-

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<sup>11</sup> 11.4.2 Data Exchange Program | Internal Revenue Service (irs.gov) at Section 11.4.2.7.11

NECs.<sup>12</sup> The recipient and IRS copy of Form 1099-NEC are both due on January 31 of the year following the tax year at issue. ETAAC recommends the IRS work with state and industry stakeholders to build a process that reduces taxpayer burden and enhances tax compliance.

## Modernize/Digitize/Standardize the Information Reporting Lifecycle

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**Recommendation #6: ETAAC recommends the IRS prioritize e-filing of all 94X returns and enhancing duplicate 94X processing.**<sup>13</sup>



The IRS has a significant backlog of 941-X returns (961,000 as of April 12, 2023).<sup>14</sup> The goal of the IRS is to reduce or eliminate all paper filings. ETAAC agrees with this goal as it will streamline and accelerate the processing of all taxpayer returns. ETAAC commends the IRS for reducing the electronic filing threshold to 10 forms for most information returns (including W-2's 1095's, 1099 series) effective for all returns filed after December 31, 2023.<sup>15</sup> ETAAC recommends that Congress introduce a similar regulation for 94X returns, and specifically Form 941, to increase electronic filings and reduce the processing backlog. ETAAC is pleased to see IRS Tax Tip 2023-72 that includes a mobile-friendly way to file 940, 941, and 944 returns. ETAAC is happy to provide feedback or participate in user-testing for this new capability.

The IRS specifically stated that 94X series returns have the highest percentage of paper filings. The IRS provided the following statistics: 940 - 47.2% are paper filed (2021); 941 - 49.7% are paper filed (2021).<sup>16</sup> Today the only way to file an electronic 941 is directly from software to the Modernized eFile (MeF) IRS server system in XML format. This limits the possibility for many businesses to file electronically.

Today, for all practical purposes, amended 941's cannot be filed electronically. Taxpayers must mail and the IRS manually processes these 941-X's. In practice, it takes the IRS on average six months to process amended returns. ETAAC recommends having an electronic option. This would speed up processing and problem resolution.

1. ETAAC recommends the IRS provide a portal for filers to upload original and amended 94X returns electronically starting January 1, 2024.

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<sup>12</sup> Research, Applied Analytics and Statistics (RAAS). E-mail attachment (IRMF\_Counts (Draft- 2023\_01\_24) from RAAS to ETAAC Subgroup on Information Reporting (January 31, 2023).

<sup>13</sup> This includes all returns in the employment tax series (e.g. 940, 941, 943, 944, etc.)

<sup>14</sup> <https://tax.thomsonreuters.com/news/irs-issues-2023-draft-form-941-x-with-minor-changes-as-backlog-continues-to-grow/>

<sup>15</sup> 88 F.R. 11754, 2-23-23

<sup>16</sup> Research, Applied Analytics and Statistics (RAAS). E-filed rate table in e-mail from RAAS to ETAAC Subgroup on Information Reporting (February 24, 2023).

2. ETAAC suggests that the IRS create a line-by-line input like the current W-2 line-by-line input (BSO website) and authenticate filers using TCC.<sup>17</sup>
3. Alternatively, ETAAC suggests the IRS create a way to download and automatically upload a 941 image (i.e., pdf) to the IRS system.

## Enhance Duplicate 94X Processing

ETAAC recommends the IRS enhance and automate its current mechanism for determining which return to process when duplicate quarterly 941 forms are submitted.

For example, when a taxpayer files two returns for the same quarter due to a client terminating their payroll processor mid-quarter, both processors file 941 returns for the amounts reported which could lead to the overstatement of deposits and liabilities. ETAAC understands the IRS has a process to review duplicate submissions to determine taxpayer intent and accordingly updates the taxpayer's account. However, the IRS might be able to eliminate human intervention by implementing automated business rules to determine which return to process. In cases where the system is not able to determine which return to process, the IRS can reach out to the taxpayer via their online account to specify which return to process. ETAAC suggests the IRS create a history record table to show each filing, filing date, and the user that filed each return, creating a unique record locator with a linked image of the filing which will help the taxpayer easily and quickly determine the correct return.

### **Recommendation #7: ETAAC recommends IRS enable online user access control for large business taxpayers.**



Large businesses find it increasingly difficult to manage user access with existing tools, especially as tax departments grow (companies with over \$6 billion in revenue employed on average 63 employees in their corporate tax department in 2022) and the workforce becomes increasingly agile.<sup>18</sup> ETAAC commends the IRS for enabling taxpayers to upload and submit Forms 2848 and 8821 online. However, these forms must be completed at the taxpayer/entity level, meaning a large multi-national will have to submit hundreds (if not thousands) of these forms and update them as authorized users leave the company or switch roles. This is not efficient for the IRS or large taxpayers. ETAAC recommends the IRS create a secure user access utility within the Business Online Account for authenticated super users to grant and revoke role-based access to specific types of taxes (income tax, payroll, information returns, etc.) by taxpayer/entity without the need to upload a form and without requiring a signature. To ensure online accounts are up to date with current authorized users, the IRS can

<sup>17</sup> <https://www.ssa.gov/bsowelcome.htm>

<sup>18</sup> <https://www.thomsonreuters.com/en/reports/2022-state-of-corporate-tax-department.html>

include a mandatory quarterly (or annual) review, whereby super users must log in and review access permissions to confirm authorized users.

## Information Return Enforcement

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**Recommendation #8: ETAAC recommends the IRS update Form 1099-K and educational materials to enable easy compliance.**



We know that most taxpayers want to comply with the tax rules set forth by the IRS and the IRS certainly aims to close the tax gap by enforcing compliance.

Information returns are a mechanism to aid in compliance and enforcement but taxpayers' understanding and ability to use information returns to accurately file their taxes varies widely by type of information return and their underlying instructions.

ETAAC applauds the Social Security Administration's (SSA) efforts in W-2 compliance. The W-2 has many boxes and codes to indicate the type of income, and the W-2 instructions are explicit as to where to report it on the return. This has enabled software providers to largely automate the ingestion of W-2 tax information as well as translate those amounts to the appropriate sections on the return.

With the transition to online marketplaces and payments, the IRS recognized certain payments were going unreported and sought to correct this with the introduction of Form 1099-K.

Form 1099-K came into existence as part of the 2008 Housing and Economic Recovery Act to ensure that individuals and businesses report all of their income for tax purposes and improve voluntary tax compliance. Starting Tax Year 2011, payment settlement entities (PSEs) and third-party settlement organizations (TPSO's) reported payment card and third-party network transactions, which included transactions from selling on eBay to electronic payments through platforms such as PayPal and Venmo. What's more – the form requires PSEs and TPSO's to report unadjusted gross sales without regard to any adjustments for credits, cash equivalents, discount amounts, fees, refunded amounts, or any other amounts, which means it is the taxpayer's job to understand the amounts therein and back out amounts that do not constitute income on their return.

The original thresholds only required payers to report transactions where gross payments exceeded \$20,000 and there were more than 200 transactions. Given the (relatively) high thresholds in comparison to other information returns, amounts normally reportable on Form 1099-K have gone unreported, which led Congress to lower the thresholds to \$600 with no transaction limit with the American Rescue Plan Act of 2021,

beginning with Tax Year 2022. However, on December 23, 2022, the IRS announced a one-year delay in the threshold reduction to enable payers and the IRS to prepare for the increase in 1099-K volumes to be filed and processed.<sup>19</sup>

The 1099-K threshold reduction will improve the mechanism for enforcement. According to the Joint Committee on Taxation's February 26, 2021, report to the House of Representatives (JCX-12-21), the projected revenue associated with the reporting of third-party network transactions of \$1.081 billion for 2023 after considering the lower thresholds which is a drastic increase from the \$146 million projection for 2022 under the original thresholds.<sup>20</sup>

However, the threshold reduction will significantly increase the administrative burden on the IRS in executing that enforcement as it will be difficult to reconcile amounts reported versus the income on the return. Additionally, because the 1099-K does not detail what is included in the amounts nor provide specific instructions on how to report amounts on the taxpayers' return, this will further increase administration and result in increased taxpayer notices, interest, and penalties.

We applaud the IRS for publishing 1099-K FAQs to cover a variety of examples of the type of income reported on the 1099-K and how to report on a return.<sup>21</sup> However, the FAQs still require taxpayers to educate themselves and understand how to report their income, which is hopeful at best. And while it is the taxpayer's responsibility to keep their own books and records to file their tax returns rather than solely rely on the information return received, many taxpayers heavily rely on information returns when preparing tax returns, particularly if they are individuals.

With little more than a year to prepare, if the 1099-K is going to continue to be a catch-all, ETAAC proposes the IRS update Form 1099-K and its instructions in advance of the 2023 tax filing season to pre-empt and prevent the exacerbation of current reporting and enforcement issues in advance of the new thresholds taking effect as follows: add codes to the 1099-K to accurately reflect the amount reported as unadjusted gross sales much like the W-2 has codes in Box 12 to indicate type of income such as elective deferrals, Roth contributions, etc. Examples might include A: Online marketplace sales of goods or services, B: Fees paid in relation to online marketplace sales of goods or services, C: Refunds paid in relationship to online marketplace sales of goods and services, D: Reimbursements, etc. Additionally, for each code, the IRS can provide explicit instructions to taxpayers on where to report this information on their return.

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<sup>19</sup> Payers of income reportable on an information return.

<sup>20</sup> <https://www.jct.gov/getattachment/10534b10-06bf-40d0-be41-36343c5ff64e/x-12-21.pdf>

<sup>21</sup> <https://www.irs.gov/pub/taxpros/fs-2023-06.pdf>

To reduce complexity for taxpayers, the IRS might consider removing the monthly amounts on the recipient copies of the 1099-K, given these amounts do not aid taxpayers in reporting amounts on their return.

Taxpayers will understand how to report 1099-K amounts on their income tax return, resulting in higher rates of compliance and preventing underpayment notices, interest and penalties.

Software providers and practitioners will be able to automate the ingestion of the 1099-K and population of the amounts in the correct area of the return.

More taxpayers will accurately report their income, and the IRS will be able to automate reconciling 1099-Ks to income tax returns, reducing the tax gap and cutting down on the human capital costs of processing notices as well as reducing paper.

**Recommendation #9: ETAAC recommends the IRS educate taxpayers and payers on their information reporting filing obligations to increase compliance and aid enforcement.**



We recognize the U.S. workforce landscape has changed dramatically over the last 20 years and have accordingly seen a shift from W-2-receiving wage income workers to those earning money in the gig economy receiving money from one or more third party platforms. U.S. independent contractors receiving 1099s are not subject to income tax withholding like their employee counterparts. This puts the onus on the taxpayer to determine and pay their tax liability and accurately file their tax returns.

### **Educate U.S. Taxpayers on their Filing Obligations**

Taxpayers receiving Form 1099-K may need to report a lower amount than shown on the Form 1099-K on their tax return, or not report the income at all. There is a myriad of situations where a taxpayer receiving Form 1099-K may not have reportable income for the amount stated, if at all, including for example:

- 1) someone who receives a Form 1099-K for a non-taxable event, or
- 2) someone who receives a Form 1099-K for selling personal property at a loss, or
- 3) a hairdresser who collects all her business income via a payment service. She doesn't know to create a personal account for personal activities and instead uses her business account to sell her couch at a loss and receives the funds from that transaction via the same payment service for the convenience of her and the buyer. She also pays for some meals for her friends who reimburse her. Her Form 1099-K will include amounts earned as a hairdresser, the amounts received for the couch, and might even include the amounts received from her friends, if not properly marked as personal transactions. Since the amounts received from her friends are



not gross income, the amount reported on Schedule C may be less than the amount shown on Form 1099-K. In turn, this might trigger a computer-prepared or Computer Paragraph (CP) notice from the automated under reporter AUR system.

ETAAC anticipates the complexities associated with Form 1099-K will lead to an increased number of CP notices to taxpayers and unnecessary taxpayer burden that are likely to disproportionately impact low-income taxpayers.

The IRS sends CP notices from the AUR system to taxpayers on paper, often more than a year after the tax filing occurs and requires the taxpayer to respond on paper. ETAAC believes that CP notices generated via the IRS Automated Under Reporter System (“AUR”) related to 1099-K will undermine the public trust in e-file in addition to the paper burden placed on the IRS to generate and respond to taxpayer correspondence, and will erode confidence in the electronic tax system, jeopardize voluntary compliance, and create a negative taxpayer experience, all of which leads to additional IRS burden.

ETAAC recognizes major change to Form 1099-K may not be possible for Tax Year 2023 and therefore, ETAAC offers some simple recommendations to Congress, Treasury, and the IRS. IRS should expand and make more clear, comprehensive guidance for all scenarios to report all income shown on Forms 1099-K and a method to back out those amounts not included in gross income, including the specific schedule and line number for both paper and e-filed returns.

Even if guidance is comprehensive and clear, it may still be difficult for the average taxpayer to navigate. ETAAC suggests the IRS encourage e-file, highlighting its ease, particularly for taxpayers with one or more 1099-K. By using these existing fields on electronically filed tax forms, the IRS will receive the information needed as part of the e-file instead of paper or paper equivalent attachments to a tax return. Having the information electronically best positions the IRS to use existing anti-fraud tools, and also process the information more efficiently with all the cost savings, benefits, and tax return accuracy enhancements e-file provides.

This guidance should be clear enough for software programs, tax professionals, and taxpayers alike to understand and be available in multiple languages. The IRS also should provide this updated draft guidance to the tax professional, software preparation industry, and states as soon as possible so that there is a clear understanding by all within the tax ecosystem and procedures, communication materials, and appropriate systems can accurately program for the tax filing season. The IRS should then modify

the instructions, post the guidance to IRS.gov and invest in a robust communication strategy to promote and educate on this new requirement.<sup>22</sup>

**Recommendation 10: ETAAC recommend the IRS prioritize educating payers on Nonresident Alien (NRA) withholding and 1042-S filing obligations.**



Similarly, the international business landscape has changed significantly as well. According to the World Trade Organization, the world export of commercial services increased from 1,179 billion to 4,872 billion from 1995-2014.<sup>23</sup> Additionally, many of the third-party platforms available to gig economy workers are available to non-residents as well. This increases both taxpayers' and payers' international filing obligations alike. In the U.S., Form 1042-S reports a foreign person's U.S. source income subject to withholding. The IRS projects an 47% increase in 1042-S filings in the next 10 years.<sup>24</sup>

Most U.S. payers are aware of their 1099 filing obligations to U.S. payees. However, many are unaware of their 1042-S filing obligations to non-U.S. payees, the requirement to withhold U.S. source payments to non-U.S. payees, and most importantly the need to collect IRS W-8 series forms (including Form 8233) from all non-U.S. payees. Most non-U.S. payees do not file U.S. income tax returns. This results in a tax gap and lack of a mechanism for enforcement.

To prevent issues like this, ETAAC recommends the IRS broaden and continue its campaign to identify 1042-S filers, inform them of their obligation, eventually targeting enforcement through a 1042 audit.<sup>25</sup> One way to identify such filers is to identify payers that filed a large number of 1099s but did not file 1042-S forms, as those organizations are more likely to be engaging in international business. Additionally, ETAAC recommends the IRS add these educational materials to the small business pages on the IRS website.

This informs payers of their obligations, enabling compliance and preventing a 1042 audit, and associated interest and penalties. This will enable the IRS to identify underpayment in order to issue notices and/or initiate Information Document Requests ("IDRs"), which will reduce the tax gap. This will enable foreign taxpayers receiving foreign source income to have a record of foreign source income which they can use to claim a foreign tax credit in their country of residence or file a U.S. income tax return to receive a refund.

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<sup>22</sup> For additional context on 1099-K recommendations see Appendix B: "1099K Real-Time Feedback" submitted by ETAAC to the IRS March 7, 2023.

<sup>23</sup> [https://www.wto.org/english/res\\_e/statis\\_e/its2015\\_e/its15\\_highlights\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2015_e/its15_highlights_e.pdf)

<sup>24</sup> <https://www.irs.gov/pub/irs-pdf/p6961.pdf>

<sup>25</sup> <https://www.irs.gov/businesses/corporations/lbi-active-campaigns>

## Information Return Fraud

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**Recommendation #11: ETAAC recommends the IRS should continue to reduce Identity Theft Fraud by increasing transparency between information return stakeholders and the IRS.**



Many taxpayers are unaware of their stolen identity until they receive a CP notice from the IRS, often a result of an information return filed under their name/Tax ID for amounts they did not earn. The identity theft process currently excludes payers, and instead relies exclusively on taxpayers filing IRS Form 14039 to report the identity theft and the IRS performing administrative procedures to verify the taxpayer's claim. In the interim, penalties and interest accrue on underpaid amounts. If the taxpayer is successful in making their claim, it is unlikely anyone will claim the amounts reported on the information return on an income tax return.

What's worse is fraudsters can continuously use the taxpayer's information as there is no mechanism for payers to indicate one of their accounts has an identity theft claim for activity that occurred on their platform/within their business.

To prevent and reduce the proliferation of identity theft, ETAAC recommends:

1. Enable bilateral communication and notification of identity theft between payers and the IRS by enhancing the free IRS TIN matching service (API and one-time) to include an identity theft flag on Name/TIN combinations to enable payers to stop the proliferation of fraud before it starts.
2. The IRS to specify additional KYC procedures for payers to implement at vendor onboarding when a Name/TIN combination has a flag for identity theft such as the collection of additional substantiating documentation proving identity.

ETAAC echoes the Taxpayer Advocate Service's ("TAS") recommendation in their 2022 Annual Report to Congress to enable electronic submission of the Form 14039 to reduce the time it takes the IRS to process Identity Theft Claims.<sup>26</sup> TAS recommended electronic submission through the Document Upload Tool (DUT) but ETAAC recommends enabling electronic submission of Form 14039, skipping the DUT enhancement altogether. While the Federal Trade Commission (FTC) allows taxpayers to submit a Form 14039 electronically through their IdentityTheft.gov questionnaire and the FTC transfers this information electronically to the IRS, taxpayers may not know where to find it, and hence ETAAC recommends the IRS enable electronic submission directly on their site. As of February 2023, the IRS is quoting on average 430-day

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<sup>26</sup> <https://www.taxpayeradvocate.irs.gov/reports/2022-annual-report-to-congress/full-report/>

resolution time, up 258% from the typical 120-day turnaround time.<sup>27</sup> Enabling electronic submission could pave the way for electronic processing, minimizing human intervention and speeding up processing time.

This will minimize the risk of identity theft from being a multi-year problem, reduce the tax gap, and improve the identity theft process, reducing necessary investments.

## **Part II - Filing an Income Tax Return**

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Today, American taxpayers have more real-time access to information and digital options than ever before. This new age of online access has fundamentally changed taxpayer expectations. Instant service is expected and patience for friction is at an all-time low. Tax administration is no exception. Taxpayers have a heightened expectation for the IRS, and the IRS needs to prioritize investing in enhancements that meet or exceed taxpayer expectations for how they wish to prepare their tax return and engage with the IRS, including in situations where they enlist DIY tax software or tax professionals to assist in the process.

The steps that go into preparing and submitting a tax return may be the most challenging aspect of filing taxes in the United States. This is where the discussions around changes to tax law, tax policy, tax administration, and technology all become very real for the average taxpayer. The successes, failures, delightful experiences, and frustrating moments that occur during the filing experience shape most taxpayers' attitudes towards the IRS. This section of the report recognizes where the IRS is performing well and should continue their efforts and identifies recommendations where the IRS must improve or modernize to provide a more seamless and transparent taxpayer journey when filing and income tax return.

**Recommendation #12: ETAAC recommends the IRS make tax information documents digitally available in real-time, empowering taxpayers to easily export their tax data into third party tax software.**



In screen printing, several colors can be overlaid to create a single image. If even one layer is askew, the entire image is muddled. Alignment is crucial. The same can be said for processes within the IRS. A strong example of this can be seen in the timing of IRS transcript updates. At present, W2s and 1099s are not updated to the taxpayer's transcript until May or later. This time delay is not acceptable, as both paper and electronic W-2s are required to be submitted to the Social Security Administration by the end of January.<sup>28</sup> The due dates for the different forms in the 1099 series vary, but

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<sup>27</sup> <https://www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue>

<sup>28</sup> Deadline Dates to File W-2s, at: <https://www.ssa.gov/employer/filingDeadlines.htm>

millions are received before the May timeframe when IRS loads them to taxpayer's transcripts. As a result of this delay, taxpayers are unable to use information the IRS has to complete a timely and accurate tax return.

This inconvenience is felt most directly by taxpayers who cannot access their original tax documents (e.g., a W-2 or Form 1099) and must rely on the information the IRS has on file for them to complete their tax return. Additionally, this mismatched timing also precludes future enhancements to the tax filing process. As real-time access to tax data is integral to streamlining the tax filing process, the architecting and building of a centralized data platform should be a top priority. The IRS should focus on system enhancements that allow the IRS to effectively utilize and share data received through their intake processes.

Once the IRS makes tax information documents available in real-time, the IRS can leverage its current technology – particularly Online Accounts, SADI, and the Transcript Delivery System – and future modernization plans to allow for the direct import of tax data into third-party tax prep software. This recommendation echoes the Taxpayer Advocate's recommendation that the IRS work toward providing taxpayers with access to their Form W-2 and 1099 information, including state and local information, early in the filing season via their Online Account.<sup>29</sup> The benefits of this strategy extend to the IRS, tax professionals, and taxpayers alike and include increased accuracy, streamlined processing, reduced paperwork, improved e-file rates, increased compliance, a higher degree of confidence in the tax return, and decreased customer service requests. In addition, to providing the information to third-party tax software, the IRS should provide Form W-2 and 1099 information to State Revenue Agencies on an expedited basis to accelerate state tax return processing. The benefits of this solution include, but are not limited to:

- **Increased Accuracy:** Empowering taxpayers to import their tax data substantially reduces the risk of manual data entry errors. In 2022, the IRS sent approximately 12 million math error notices, nearly 2 million Automated Underreporter ("AUR") 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 information reporting document), and nearly 3 million notices and letters relating to completeness or discrepancies of income, credits, or deductions.<sup>30</sup>
- **Streamlined Processing:** Using data reported to the IRS may allow the IRS to process and issue refunds more quickly, with fewer returns falling into manual review or a notice stream.
- **Improved E-file Rates:** Streamlining and simplifying the electronic tax preparation process may encourage electronic filing.
- **Higher Confidence in Tax Return:** If IRS can validate that certain inputs on a tax return were exported from a taxpayer's online IRS account, the IRS can be

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<sup>29</sup> 2022 Annual Report Congress (ARC), Publication 2104, page 112, at: <https://www.taxpayeradvocate.irs.gov/reports/2022-annual-report-to-congress/full-report/>

<sup>30</sup> IRS provided these figures in writing to on ETAAC March 2<sup>nd</sup>, 2023.

more confident that the returns submitted by taxpayers are not from criminals committing identity theft tax refund fraud.

- **Decreased Customer Service Requests:** Taxpayers will have the information they need and won't have to call the IRS, allowing the Service to assist more callers who have technical tax questions. This may result in improved customer experience and voluntary compliance.

By importing information return data and making the data available for tax return filing, the IRS will likely significantly improve the taxpayer experience, increase accuracy, and reduce time requirements, which may result in a higher degree of taxpayer confidence and a more effective and efficient tax administration system.

**Recommendation #13: ETAAC recommends increasing electronic filing rates and enhancing paper processing.**



Electronic filing is the most efficient method to submit a tax return to the IRS. Electronic filing helps ensure error free returns at submission, and the processing of the tax return (and release of refund if requested) is quicker. Returns with higher accuracy that can be processed quicker result in a better and more efficient taxpayer experience. In addition, increasing electronic filing rates will result in a more effective use of IRS resources. According to the most recent Taxpayer Advocate's Annual Report to Congress, "not only does e-filing result in quicker and better service from a taxpayer perspective, but it also saves the IRS resources." A paper-filed return may need to be handled by multiple employees during processing, whereas the IRS processes an e-filed return using automation and only requires human intervention if the return has an issue. According to the IRS, a paper-filed Form 1040 costs \$7.33 to process, whereas an equivalent e-filed return costs only \$0.28.<sup>31</sup>

According to public facing IRS stats through the 2023 tax filing season, over 95% of individual taxpayers electronically submitted their returns to the IRS.<sup>32</sup> While the overall electronic filing rate may go down as we proceed through extension filings, the numbers still show that the vast majority of individuals can successfully file electronically with the IRS. However, there are still situations in which a legitimate taxpayer wishes to file electronically and is prevented from doing so due to a condition with their tax return. As IRS enhances the information accessible in Online Accounts and creates a user-friendly capability to export that information into third-party software, the reduction of certain e-file reject errors (and other return errors) may further increase the e-filing rate and result

<sup>31</sup> 2022 Annual Report Congress (ARC), Publication 2104, Most Serious Problem #6, page 105, at: [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22\\_MSP\\_06\\_FilingDelays.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_06_FilingDelays.pdf)

<sup>32</sup> IRS Filing Season Statistics, 2023 Filing Season Statistics, as of April 28, 2023, at: <https://www.irs.gov/newsroom/filing-season-statistics-by-year>.

in more accurate returns being filed. However, there will still be paper filings with the IRS and there are opportunities to enhance how IRS processes those submissions. Thus, ETAAC recommends the IRS continue to:

- Identify the most common barriers to electronic filing and collaborate with all stakeholders to develop alternative options that allow taxpayers to securely file their return electronically, and
- Invest in scanning technology and partner with the tax software industry and state tax agencies to identify opportunities to enhance the way paper submissions to the IRS are processed.

In addition to identifying opportunities to enhance return processing for individuals, there also remains substantial opportunity to increase e-filing rates for business returns, including business entity income tax returns, information returns and payroll filings. IRS should prioritize opportunities to reduce barriers to electronic filing for business entities as well.

**Recommendation #14 ETAAC recommends the IRS enhance transparency in tax return processing and tax issue resolution.**



While the IRS has made strides in recent years to provide more transparency through self-service tools to taxpayers, there are still gaps where the process (or processing) remains a mystery to the taxpayer. The lack of transparency extends to authorized third parties, such as tax professionals and tax software providers, who have even less access via self-service tools to learn about a taxpayer's return and what steps are required by the taxpayer before the return will be processed and the tax refund (if requested) released. In many cases, a taxpayer or their duly authorized third-party representative must still call the IRS and spend extensive time trying to get this information.

As recently noted by the Taxpayer Advocate, this lack of transparency causes problems for taxpayers in many areas, including difficulty accessing specific information about their tax refunds, return processing delays, and, further down the processing line, their IRS notice, letter or case before the IRS.<sup>33</sup> This lack of transparency frustrates taxpayers and, in some cases, erodes taxpayer trust and confidence in the IRS which undermines voluntary compliance with their federal tax obligations.<sup>34</sup>

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<sup>33</sup> The Taxpayer Advocate's 2022 Annual Report to Congress, Most Serious Problem #7, page 117, at: [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22\\_MSP\\_07\\_Transparency.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_07_Transparency.pdf).

<sup>34</sup> Ibid, page 117.

ETAAC recommends the IRS enhance transparency in three specific ways:

1. The IRS should enhance its self-service tools (e.g., Where's My Refund, IRS Online Accounts) to improve the transparency of tax return processing statuses for taxpayers with a refund, balance due, or refund offset.
2. The IRS should expand digital notices and the Document Upload Tool pilot to modernize and enhance transparency in the post-filing compliance process.
3. The IRS should develop and deploy a public facing dashboard that is regularly updated with expected wait times for customer support lines, estimated processing timelines for individual and business tax returns and estimated timelines for taxpayers to receive their tax refund.

### **Provide greater transparency into return processing.**

Millions of calls are generated to the IRS, State Departments of Revenue, software service providers, tax practitioners, the National Taxpayer Advocate, and even Congressional offices every year just to ask the question, "Where's My Return?".<sup>35</sup> This is a topic ETAAC has written on for the last several years, and taxpayers continue to struggle to obtain detailed information on the processing of their tax return, the release of their refund and any post-filing issues they may have with the IRS. This lack of transparency is less impactful when a taxpayer follows the happy path. The process that exists today works just fine for a taxpayer who successfully files a return electronically, experiences no hiccups in processing, and has their refund, if one is requested, deposited into their account within 21 days (about 3 weeks) of filing. The primary existing tool a taxpayer in this scenario would use to check status, the Where's My Refund tool, likely provides them ample information to track the process to a sufficient level of detail. However, if a taxpayer's return encounters a hiccup in processing, Where's My Refund often falls short. This is particularly the case in situations where the taxpayer must take some action before their return will be fully processed.

The information currently available through the IRS WMR tools includes:

- High-level processing status,
- Refund date,
- High-level offset and math error information,
- Contact information for further questions, and
- Helpful links for additional information.

The IRS recently enhanced the information available within the Where's My Refund tool to include information for the current tax year and two previous tax years and has made some modifications to information related to certain math errors.<sup>36</sup> However, there is insufficient information available through this self-service tool in situations where further action may be needed by the taxpayer. In fact, the Where's My Refund tool now specifically tells taxpayers in these instances that they may be able to receive additional

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<sup>35</sup> ETAAC's 2022 Annual Report to Congress, page 16, at: <https://www.irs.gov/pub/irs-pdf/p3415.pdf>.

<sup>36</sup> IRS Information on Where's My Refund, at: <https://www.irs.gov/refunds/about-wheres-my-refund>.



information by calling the IRS.<sup>37</sup> This undercuts the utility and cost savings of this self-service platform, results in additional, and costly, call volume to IRS's already strapped call center agents, and fails to empower the taxpayer to independently receive the information they need without jumping through hoops. To make matters worse, when the taxpayer calls the IRS, the IRS agent is not able to provide any further information beyond what is available through Where's My Refund.

ETAAC recommends that the IRS prioritize the development and release of a more holistic and detailed return tracking tool for taxpayers, including those who have a balance due. The Where's My Refund suite of tools gives easy access to basic return status information, and many taxpayers use it as a first step. However, if a return has any deviation from standard processing, the taxpayer does not have sufficient insight into what is happening without calling the IRS. ETAAC also recommends that this enhanced return tracking tool provide information for taxpayers who have a balance due.

***Harness community of partners to expand this tool to authorized third parties***

Taxpayers looking for more information on their tax return often do not start or finish with the IRS. More often, taxpayers contact their state revenue agency, tax professional, tax software provider or their financial institution. In most cases, these credible organizations do not have the information necessary to assist the taxpayer. Instead, they are left to refer the taxpayer to contact the IRS, thus leaving the taxpayer in an endless support loop without resolution.<sup>38</sup>

The IRS should enable a process by which taxpayers can authorize secure sharing of this same tax return processing data to specific third parties, including the taxpayer's tax software and their tax professional. By leveraging third parties that nearly all taxpayers choose to work with for their tax preparation journey, the IRS will amplify the ability for taxpayers to have the information they need as these third parties will be able to proactively communicate status updates to taxpayers through a channel that may be more likely to use. To put it bluntly, taxpayers do not often engage with direct outreach from the IRS. At best, they seek assistance from a credible third party. At worst, they fully disregard it.

ETAAC recommends sharing third-party data in a manner that provides the third-party with the information needed to assist the taxpayer while ensuring it's properly utilized and protected. To ensure this information can be securely communicated to authorized third parties in a scalable and secure manner, the IRS should work with stakeholders to consider the development of an application programming interface (API) to allow third parties to pull the information from the IRS in a secure and automated fashion once taxpayer consent has been obtained. In addition, the IRS should include this authorization process in the e-filing record, so taxpayers can grant this consent during the filing experience.

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<sup>37</sup> Tax Topic 152 – Refund Information, at: <https://www.irs.gov/taxtopics/tc152>.

<sup>38</sup> ETAAC's 2021 Annual Report to Congress, page 49, at: <https://www.irs.gov/pub/irs-prior/p3415--2021.pdf>.

### ***Provide Greater Transparency into Tax Notice and other Account Issue Resolution***

When a taxpayer receives correspondence from the IRS that requires a response, traditionally the taxpayer, their tax professional or other third-party assistant need to paper mail any response and supporting documentation back to the IRS. In this situation, taxpayers are often left wondering whether their response was even received by the IRS or if more action was necessary on their part. While this still happens for certain notice streams, ETAAC commends the IRS for two recent initiatives that have modernized post-filing compliance for taxpayers:

- Uploading select notices and correspondence to the Taxpayer Online Account,<sup>39</sup> and
- Releasing the Document Upload Tool (DUT), which enables digital correspondence with the taxpayer by providing a URL and a time-limited unique access code to a specific taxpayer so they can upload their response and supporting documentation to the IRS in response to specific notices.<sup>40</sup>

These two initiatives greatly enhance the ability of taxpayers to engage with the IRS digitally, reducing the cost and time delay associated with paper mailing. In the future, ETAAC recommends that the IRS:

- Expand the digital correspondence program to all notice and letter types and enable taxpayers with an authorization on file to receive these same notices in their Tax Pro Account.
- Expand the digital upload functionality to all notice types, specifically allowing taxpayers to respond to all notices digitally without having to use traditional mail channels. To get the full benefit of the financial investments that must be made to stand up this capability for all IRS notices, the IRS must expand this capability to tax professionals to upload responses and documentation on behalf of their clients.

ETAAC has held exciting discussions with IRS on plans to expand the usage of both digital notices and the DUT. To fully realize the benefits of these two innovations, ETAAC recommends that the IRS make immediate investments to further include tax professionals in this process. Over half of U.S. taxpayers rely upon a tax professional to handle their tax filings and any related IRS compliance efforts. The IRS must respect this taxpayer preference and extend these same capabilities to tax professionals to meet taxpayer's expectations and needs.

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<sup>39</sup> IRS Tax Tip 2022-105, July 12, 2022, at: <https://www.irs.gov/newsroom/irs-online-account-makes-it-easy-for-taxpayers-to-view-their-tax-info-anytime>

<sup>40</sup> IRS Fact Sheet 2023-05, February 2023, at: <https://www.irs.gov/newsroom/irs-expands-secure-digital-correspondence-for-taxpayers>

**Recommendation #15: ETAAC recommends the IRS deploy a public-facing dashboard with key customer service and processing metrics.**



ETAAC recommends the IRS develop and deploy a public-facing dashboard that is regularly updated and contains expected wait times for customer support lines and estimated processing timelines for tax returns and tax refunds. This should be broken down into the most common return types for individuals and business entities and should indicate the details on where the IRS is at in the process. For example, the dashboard may say ‘IRS has 150,000 amended individual tax returns (Form 1040X) in inventory and is currently working amendments received in October 2022 and later.’

In addition, ETAAC reiterates the Taxpayer Advocate’s recommendation that the IRS include weekly updates with key statistics, including the number of returns in inventory by return type.<sup>41</sup> ETAAC also recommends the IRS dashboard include the number of returns held in special processing, specifying the number of returns held for mistakes (i.e., errors and unpostables) and returns held for suspected identity theft (Taxpayer Protection Program selections). For returns that fall into a special processing stream, the dashboard should indicate an estimate of how long returns in that special processing status are taking to clear.

ETAAC commends the IRS for publishing the ‘IRS Operations During COVID-19: Status of Mission Critical Functions’ during the pandemic.<sup>42</sup> This page is a great start and will be greatly enhanced with the addition of more specific information as laid out above. The California Franchise Tax Board provides a dashboard that should be used as a prototype for this as well, containing key information on customer support hold times by support channel (phone, chat, mail, tax practitioner hotline), tax return processing times by return type (individual or business) and tax refund timelines.<sup>43</sup> ETAAC recommends the IRS use California’s dashboard as a model as they roll out their own version.

**Recommendation #16: ETAAC recommends the IRS revisit the duration of third-party designee authority and enable taxpayers to complete powers of attorney and tax information authorizations as part of the electronic filing process.**



As previously mentioned in this report, tax professionals and software providers play a vital role in helping individuals and businesses navigate the complex world of taxation. In addition, prioritizing technological advancements aimed at these parties will further enhance taxpayer engagement and IRS reach. Taxpayers rely heavily on third parties to provide them with education and assistance in filing their tax return and in situations where there are questions or road bumps in the process, the taxpayer reaches out to

<sup>41</sup> The Taxpayer Advocate’s 2022 Annual Report to Congress, Most Serious Problem #7, page 119, at: [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22\\_MSP\\_07\\_Transparency.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_07_Transparency.pdf)

<sup>42</sup> <https://www.irs.gov/newsroom/irs-operations-status-of-mission-critical-functions>

<sup>43</sup> California Franchise Tax Board, Wait Times Dashboard, at: <https://www.ftb.ca.gov/help/time-frames/>

the experts they are used to interacting with first. Unfortunately, many times, the people they have chosen to assist them are unable to or are limited in their ability due to a lack of proper authorization. While authorization processes exist today, they are currently either incomplete (third-party designee authority) or too disconnected from the filing process (power of attorney and tax information authorization).

There are three ways a taxpayer can authorize a third party to either receive information or take action on their behalf. First, a taxpayer may grant third-party designee authority during the tax filing process by completing the section for this purpose on page 2 of Form 1040. When the third-party designee section is completed in this manner, the designated third party (which can be an individual or an entity) can assist the taxpayer with certain tasks, including:

- Giving the IRS information that is missing from the return,
- Calling the IRS for information about the processing of the return,
- Calling the IRS about the status of a refund or tax payment,
- Receiving copies of notices and transcripts upon request, and
- Responding to certain IRS notices about math errors, offsets, and return preparation.

The third-party designee is not authorized to represent the taxpayer before the IRS. If the taxpayer wishes to authorize representation, a [Form 2848](#), *Power of Attorney (POA)*, must be executed.<sup>44</sup>

ETAAC recommends the IRS reexamine the duration of the authority granted through this process. Per IRS guidance, third party designee, also called checkbox authority, expires one year from the due date of the return regardless of any extension dates.<sup>45</sup> However, this authorization is limited to matters concerning the processing of the tax return containing the completed Third Party Designee section.<sup>46</sup> The IRS has provided feedback that having a uniform expiration date for third-party designee authority is important to consistent application by their assistors. ETAAC understands the need for a uniform expiration date. However, in practice, IRS assistors stop honoring this authority at a point before one year and do so in a way that prevents these designees from helping with a number of issues that taxpayers consider to be part of the tax filing process. Thus, the IRS needs to review their policy and definition for what is considered to be part of the processing of the tax return. The IRS should extend the authority to allow the tax preparer to resolve all issues that arise before a return is fully processed from the taxpayer's perspective, including certain issues related to post-filing compliance. For instance, if a taxpayer receives a CP2000 for a missing Form W-2, the third-party designee authority does not permit that tax pro to speak with the IRS on the taxpayer's behalf without a power of attorney (Form 2848) on file because the IRS

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<sup>44</sup> See IRS Publication 4019, Third Party Authorization, Levels of Authority, at: <https://www.irs.gov/pub/irs-pdf/p4019.pdf>

<sup>45</sup> Power of Attorney and Other Authorizations, at: <https://www.irs.gov/businesses/small-businesses-self-employed/power-of-attorney-and-other-authorizations>

<sup>46</sup> Topic No. 312, Disclosure Authorizations, at: <https://www.irs.gov/taxtopics/tc312>

considers the return processed before that point in time. While we recognize there are other existing authorization mechanisms, they are disconnected from the filing process and rarely used proactively. Thus, the third-party designee's ability to assist is unnecessarily limited by an IRS policy that needs to be updated. ETAAC recommends IRS review this policy and expand the third-party designee authority to include certain post-filing compliance situations related to the return.

### ***Incorporate the Ability to Complete Power of Attorney (Form 2848) and Tax Information Authorization (Form 8821) into Electronic Filing Process***

ETAAC recommends the IRS integrate Form 8821 (Tax Information Authorization) and Form 2848 (Power of Attorney and Declaration of Representative) into the electronic filing process through the MeF platform. Form 8821 authorizes any individual, corporation, firm, organization, or partnership the taxpayer designates to inspect and/or receive confidential information verbally or in writing for the type of tax and the years or periods you list on Form 8821. Alternatively, Form 2848 expands on that authority to authorize an individual to represent the taxpayer before the IRS. While these forms are great tools to assist the taxpayer, they need to be either mailed, faxed or submitted through an online account separate from the tax return, creating a disconnect between the grant of authority and the return filing process which limits the taxpayer's ability to proactively complete these forms.

**Recommendation #17: ETAAC recommends the IRS and Congress do more to regulate paid tax return preparers and take steps to address issues related to incompetent and unscrupulous conduct.**

According to IRS Commissioner Daniel Werfel in his recent testimony to the House Ways and Means Committee, paid tax return preparers have an important role in tax administration because they assist taxpayers in complying with their obligations under the tax laws."<sup>47</sup> Incompetent and unscrupulous paid tax preparers cause financial, legal, and other harm to millions of taxpayers during each filing season. Annually, over half of individual income tax returns are prepared by a paid preparer, meaning slightly over half of individual taxpayers and many more business owners rely on the training, competency, and legitimacy of a paid tax preparer to handle their IRS compliance each year.<sup>48</sup> However, the IRS does not currently have statutory authority to issue and mandate tax preparer standards. In fact, as recently reported by the Taxpayer Advocate "anyone can hold themselves out to be a return preparer ... and return preparers without credentials are not required to pass any competency tests or take any

<sup>47</sup> Written Testimony of Daniel Werfel Before the House Ways and Means Committee (April 27, 2023), page 9, at: <https://www.finance.senate.gov/download/0419-werfel-testimony>

<sup>48</sup> IRS Filing season stats, available at: <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-april-28-2023>

educational courses on tax return preparation, and they are not subject to any ethical rules.”<sup>49</sup>

Without the legal authority to mandate tax preparer standards, the IRS is reliant upon tax preparers to voluntarily obtain a Circular 230 designation (attorney, certified public accountant, or enrolled agent) or, at least, maintain a sufficient amount of annual continuing education on the topics relevant to their client base. Unfortunately, while many tax professionals may complete sufficient annual training, a very low percentage have obtained and maintained a Circular 230 designation which subjects them to required annual training, competency and integrity-based oversight. There were just over 752,000 active Preparer Tax Identification Number (PTIN) holders for 2023; however, only about 38% of active PTIN holders have a Circular 230 professional designation related to tax preparation and another 8% completed the 2023 IRS Annual Filing Season Program (which requires 18 hours of approved CE but does not otherwise include a competency requirement).<sup>50</sup> This means over half of paid return preparers fall under the radar and may not even be completing 18 hours of continuing education each year.<sup>51</sup>

As a sign of the lack of oversight in this space, the availability of analytical data on the harm unlicensed and unaffiliated paid tax preparers inflict on taxpayers is limited. However, according to the Taxpayer Advocate, “about 92% (in terms of dollars) of audit adjustments made on 2020 returns claiming the Earned Income Tax Credit (EITC) occurred on returns prepared by non-credentialed return preparers. Those errors harm our most vulnerable taxpayers.” To mitigate some of the harm caused by unlicensed and unscrupulous tax return preparers, ETAAC recommends that Congress grant the IRS legal authority to regulate all paid tax preparers, including by establishing mandatory minimum competency standards. These standards should include the following:

- Required training to become a tax preparer and an annual continuing education requirement.
- A mechanism to ensure sufficient competency to become a tax preparer (e.g., a competency exam for each tax return type – individual, entity, etc.).
- Mandatory tax office security standards (to ensure systems and practices are in place to protect highly sensitive taxpayer data) and mandatory training on cybersecurity best practices.

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<sup>49</sup> The Taxpayer Advocate’s 2022 Annual Report to Congress, Most Serious Problem #8, page 128, at: [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22\\_MSP\\_08\\_RtnPrepOversight.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_08_RtnPrepOversight.pdf)

<sup>50</sup> IRS Return Preparer Office Federal Tax Return Preparer Statistics, at: <https://www.irs.gov/tax-professionals/return-preparer-office-federal-tax-return-preparer-statistics>

<sup>51</sup> This does not account for unlicensed tax preparers that may fall subject to a state-level registration requirement.

- The streamlined ability for the IRS to revoke the PTIN of tax preparers that commit particularly egregious violations.

In addition to this Congressional recommendation, ETAAC recommends the IRS review their existing operations and existing legal authority to identify opportunities to effectively detect incompetent or unscrupulous tax return preparers and punish them for the harm they inflict on taxpayers, including:

- Reviewing whether IRS's disjointed placement of different aspects of tax preparer oversight in a variety of functions, lends itself to clarity and well-defined accountability and expectations for the team(s) responsible for monitoring the registration of tax preparers and other tax practitioners and for punishing bad behavior by tax preparers. This should also include reviewing whether the Return Preparer Office and the Office of Professional Responsibility should remain separate organizations.
- The IRS is limited in the steps they can take to punish dishonest return preparers. In addition to their practice of penalizing tax preparers when they file tax returns that are materially inaccurate or fraudulent, the IRS should review whether they could more effectively harness the ability to revoke PTINs and Electronic Filing Identification Numbers (EFINs) for return preparers that commit particularly egregious violations. In addition, the IRS should begin revoking electronic returns submitted by a tax professional that has an expired or invalid PTIN (something they do not do today).

ETAAC strongly believes both Congress and the IRS could take steps that would immediately mitigate some of the harm caused by incompetent and disreputable tax return preparers.

## DIY Free Return Options – Free File & The IRS Direct File Program

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**Recommendation #18: ETAAC recommends the IRS and Congress evaluate making improvements in the communication, marketing, and accessibility of existing free tax filing programs before investing in the development and implementation of an IRS Direct eFile platform.**



The Inflation Reduction Act (IRA) included a provision requiring the IRS to explore providing taxpayers the option to file certain tax returns directly with the IRS online. Specifically, the IRS received \$15 million to fund a task force to study the feasibility and cost of designing and building such a system and to conduct a survey to better understand taxpayer attitudes and level of trust towards a free direct file program. The IRS released their report detailing findings on May 16, 2023.

Before touching on this Congressionally mandated study, ETAAC would like to provide a bit of background on free options for taxpayers to file that already exists and a specific recommendation to enhance the adoption of existing free options.

### **Existing Options to File Federal (and State) Tax Returns for Free**

Three commonly utilized free tax filing programs are the Free File Alliance, the Volunteer Income Tax Assistance (VITA) program, and the Tax Counseling for the Elderly (TCE) program. These three programs exist in addition to the tens of millions of free tax returns that are filed each year through tax software companies outside of the Free File program. While the VITA and TCE programs provide crucial taxpayer services, they both offer assisted tax preparation by trained professionals. These services are marketed differently than what most envision with a direct file program. Thus, the remainder of this section will focus on the existing Free File program, which much more closely resembles what is envisioned with the direct file section of the Inflation Reduction Act.

The Free File Alliance is a nonprofit coalition of industry-leading tax software companies that have partnered with the IRS to help millions of Americans prepare and e-file their federal tax returns for free.<sup>52</sup> The Free File program gives taxpayers the ability to file directly to the IRS by selecting a trusted partner that offers guided, question-based, tax preparation software. The IRS maintains a written agreement with the trusted providers of this service that ensures mobile-friendly features, provides safeguards for taxpayer data, and requires the collection of taxpayer opinions and feedback on their preparation experience (based on surveys). This agreement also ensures that IRS Free File is free for all users, regardless of complexity level, and requires trusted partners to participate in independent audits to confirm adherence to the agreement.

The Free File program is available to taxpayers under a certain income level, which is indexed for inflation each year. The goal is that the program is available to at least 70% of taxpayers each year.<sup>53</sup> For tax year 2022, the program was available to all taxpayers with adjusted gross income (AGI) of \$73,000 or less.<sup>54</sup> The current Free File program offers the ability for taxpayers in a variety of different tax scenarios, ranging from the very complex to the simplest of tax returns, to file for free. For example, taxpayers who received a Form 1099-K or participated in the gig economy can use IRS Free File. In addition, taxpayers who own an interest in an S-Corporation or Partnership are able to use Free File to report their distributive share of income and other items from that business entity on their personal returns. The Free File program also offers customer support to taxpayers who need help while completing their tax return or for issues that arise after their return has been successfully filed. Alternatively, taxpayers whose

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<sup>52</sup> About the Free File Alliance, at: <https://freefilealliance.org/>

<sup>53</sup> Do Your Federal Taxes For Free, at: [https://www.irs.gov/pub/irs-utl/How%20to%20Free%20File%20Infographic\\_508%20FINAL.pdf](https://www.irs.gov/pub/irs-utl/How%20to%20Free%20File%20Infographic_508%20FINAL.pdf)

<sup>54</sup> IRS Free File: Do your Taxes for Free, at: <https://www.irs.gov/filing/free-file-do-your-federal-taxes-for-free>



income is too high to use Free File may choose to complete their tax return for free using fillable forms available on the IRS's website.

In addition to helping taxpayers file their federal returns, the Free File program supports all state tax returns. As ETAAC has reported in the past and communicated to Professor Jurow Kleiman in a Chair and Vice Chair interview during the direct file study, allowing taxpayers to file their state return using any Free File program enhances the user experience, reduces unintentional state non-compliance and improves tax return processing at the IRS and state levels.<sup>55</sup>

### **Opportunities to Enhance the Free File Program**

An independent assessment of the current Free File program noted that participation rates are low relative to the population of taxpayers eligible to use the program.<sup>56</sup> For example, in 2018, less than 3 million out of nearly 104 million eligible taxpayers used a Free File product to file their 2017 federal income tax returns.<sup>57</sup> This statistic is what ETAAC has observed being most frequently used by policymakers and in the press. However, we are concerned that stopping at this statistic alone does not paint an accurate picture of the actual taxpayer population and their choice of interaction methods. After accounting for taxpayer preference, MITRE concluded the actual pool of Free File candidates for 2017 was approximately 30 million.<sup>58</sup> A subsequent MITRE study shows that there are a variety of reasons why taxpayers do not use Free File (including a conscious choice to use a different method), but one common reason taxpayers do not utilize the Free File program is a lack of awareness. Although MITRE acknowledged the IRS's inability to control taxpayer preference, it concluded that opportunities exist to promote increased awareness of the program and encouraged IRS and Congress to explore opportunities to increase funding for marketing and awareness campaigns related to Free File.<sup>59</sup>

ETAAC reiterates MITRE's conclusion and joins in the recommendation that Congress appropriate funds to increase awareness of existing free filing options and encourages the IRS to make use of free electronic filing resources already at its disposal to promote greater adoption of Free File.

ETAAC further recommends that the IRS work with the Free File Alliance and other software industry associations to continue enhancing the Free File program. This could include expanding eligibility (in terms of adjusted gross income) and communication and marketing opportunities for the program.

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<sup>55</sup> See Appendix B – Chair and Vice Chair - Direct File - Real-Time Feedback

<sup>56</sup> Independent Assessment of the Free File Program, performed by Mitre Corporation, October 3, 2019, at: <https://www.irs.gov/pub/newsroom/exec-summary-free-file-program-assessment-100319.pdf>

<sup>57</sup> . Id. at page 9.

<sup>58</sup> Id. at page 10.

<sup>59</sup> Understanding Taxpayer Motivation for Filing Method Selection to Improve Customer Service, MITRE Independent Research Project, January 2022, Page 7.

## Avoiding Unnecessary Spending

A new Direct eFile program will cost millions to develop and maintain annually. As illustrated in the IRS-run Direct e-File Tax Return System report to Congress, “Under varying scenarios relating to the scope and usage of Direct File, the study estimates that annual costs of Direct File may range from \$64 million (assuming 5 million users and a narrow scope of covered tax situations) to \$249 million (assuming 25 million users and a broad scope of covered tax situations). Customer support accounts for more than half of the cost in all scenarios, and 84% of the cost in the 25 million users broad scope scenario”. With the Inflation Reduction Act (IRA), the IRS finally has a proper allocation of funds to upgrade its technology platforms, improve the taxpayer experience and provide servicing that all Americans expect. ETAAC believes that the IRS should focus and execute successfully on their strategic plan with the IRA funds, while promoting the existing free options that already exist for taxpayers.

Table 1. Cost estimates for a potential Direct File option

	Annual Cost (Narrow Scope)	Percent of Total Cost	Annual Cost (Broader Scope)	Percent of Total Cost
<b>5 million taxpayers</b>				
Technology & Product	\$23.7m	36.9%	\$33.8m	43.4%
Customer Support	\$40.6m	63.1%	\$44.1m	56.6%
<b>Total</b>	<b>\$64.3m</b>		<b>\$77.9m</b>	
<b>10 million taxpayers</b>				
Technology & Product	\$25.5m	24.6%	\$35.5m	29.4%
Customer Support	\$78.1m	75.4%	\$85.1m	70.6%
<b>Total</b>	<b>\$103.6m</b>		<b>\$120.6m</b>	
<b>25 million taxpayers</b>				
Technology & Product	\$30.7m	13.9%	\$40.8m	16.4%
Customer Support	\$190.6m	86.1%	\$208.1m	83.6%
<b>Total</b>	<b>\$221.3m</b>		<b>\$248.9m</b>	

The report to Congress also projects that electronic filing completed through a new Direct File system would have an average cost ranging from \$8 to \$16 per return. The current Free File program has no short or long-term costs incurred by the IRS. As noted above, Customer Support for the new platform would account for over half of the cost projected and we question whether the projections are adequate to provide effective service. Former IRS Commissioner and Assistant Treasury Secretary for Tax Policy David Kautter’s remarks in a May 25<sup>th</sup>, 2023, Tax Notes interview align with our concerns.<sup>60</sup>

<sup>60</sup> David D. Steward, Jonathan Curry, David J. Kautter, May. 25, 2023 <https://www.taxnotes.com/tax-notes-live/tax-notes-talk/were-free-filin-assessing-irss-direct-file-report/7gry7>

*“I think the greatest understatement in the entire report is the statement about considerable uncertainty around development costs. Costs are substantially understated.”*

Estimates included in the report reflect a ratio of one customer service representative per 10,000 filers. The technical and customer services support for Free File program is provided by software providers and no costs are incurred by the IRS. Additionally, there is no mention or allocation of funds for marketing of this new return filing channel to drive taxpayer awareness and adoption and no mention of the extensive educational and communication campaign that will need to take place to ensure the new system does not cause negative impacts to taxpayers who have a state or local filing requirement.

### **Prioritizing Critical Technology Initiatives and Defining Realistic Timelines – The Opportunity Costs of Prioritizing Direct File**

Preparation for the 2024 filing season is already well underway for all tax administrators. The direct file pilot evokes many areas of concern, such as state tax return filing options and more, that are very complex and present serious consequences for both taxpayers and federal and state revenue agencies. The direct file study also indicated that the prototypes usability testing was done with only 14 taxpayers, which results in a sample size of 0.00028% compared to the reports lowest 2024 pilot use projections and cost calculations of 5 million users.<sup>61</sup> With ongoing debates and discussions surrounding this topic, ETAAC is concerned with the tight window with which the pilot can collaborate with stakeholders, be developed, tested, and rolled out in a way that does not increase the risk of harming taxpayers, revenue agencies, and potentially disrupt the taxpayer journey for all.

In addition, there are countless, more pressing priorities that should be funded and worked on before the IRS shifts any time or attention to Direct File. Government entities and tax administrators must balance and account for resource limitations. We believe former IRS Commissioner Kautter presents a reasonable analysis and question of IRS technology priorities from his experience with the agency.

*“I would say the IRS has a long list of technology priorities. In 2019, they issued a modernization report which listed dozens and dozens of programs that they needed to improve or develop in order to serve taxpayers effectively.*

*It is hard to believe that all of a sudden, direct file has catapulted from not on that list at all, to No. 1 on the list.”<sup>60</sup>*

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<sup>61</sup> Inflation Reduction Act §10301(1)(B) IRS-run Direct e-File Tax Return System May 16, 2023 – Page 6  
<https://www.irs.gov/pub/irs-pdf/p5788.pdf>

ETAAC again shares these concerns, which ultimately affect the taxpayer journey for every taxpayer, even beyond those who qualify and choose to use the Pilot for 2024. In addition, ETAAC believes there are multiple initiatives in the IRS Strategic Operating Plan that will impact a much broader swath of the taxpayer population and will have a more positive impact on effective tax administration, and these initiatives should be prioritized first before diverting any resources to developing a Direct File program.

**Recommendation #19: ETAAC recommends that if a Direct File option is implemented, Congress and IRS should ensure that it adheres to security standards implemented by the current Free File program.**



The IRS oversees the accuracy, security, and user experience of the current Free File Alliance system, and participating partners must adhere to strict security standards to remain part of the program. These security requirements should serve as the foundation for the IRS's obligations to ensure the system and data are secure when online, in transit, and at rest.

In response to the identified issues, Treasury Secretary Yellen and her leadership team have instructed the agency to initiate a pilot program. This pilot aims to collect data and further evaluate the concerns outlined in the report before making a decision on whether to implement a full-scale system. However, ETAAC voices our concerns regarding the projected timeline for the Direct E-file Pilot in FY 2024, as it involves complex development and implementation processes to create a functional and secure platform that meets the necessary security standards.

Given the magnitude of this endeavor, it is imperative to conduct an objective evaluation of the overall public costs and benefits. Ensuring the pilot's adoption of IRS Security Summit (NIST framework) practices are upheld to prevent undermining the taxpayer's confidence and avoiding potential unintended consequences that could compromise IRS systems, thereby posing risks to taxpayers by piloting with real taxpayer data.

## **Assisted Free Filing Programs - VITA & TCE**

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**Recommendation #20: ETAAC recommends the IRS consider funding two additional VITA/TCE new grant programs.**



VITA/TCE, sites offer free assisted tax return preparation for low to moderate-income taxpayers, senior citizens, persons with disabilities, those with limited English proficiency, rural, military, and Native Americans. VITA/TCE services are based on tax law scope, not income levels.

VITE offices are largely staffed by volunteers that depend upon grants in addition to government-purchased software and laptops to open and operate locations across the

country. This past year, \$30 million dollars in grants were secured for VITA and \$11 million for TCE. In FY23, VITA applicants requested over \$43M in grant funds. In FY23, TCE applicants requested over \$13M in grant funds.

In FY24, the Grant Program Office will disburse \$40M in VITA grant funds. The amount of TCE grant funds will be determined in the next appropriation. Additional grant funds awarded will not (and historically have not) necessarily equate to more returns prepared through these programs, but the additional funding does allow for the potential for greater geographic coverage. It could take up to two years for a new VITA recipient to show a return on investment. Additionally, many of the VITA grant recipients are working to return to their pre-pandemic tax preparation numbers.

Since these programs were first stood up in 2000, returns prepared under the VITA/TCE program have increased from 1.1 million in FY2000 to more than 3.5 million in FY2019 (pre-pandemic). As of April 30, 2023, over 2.4 million federal tax returns have been prepared with over \$2.3 billion claimed in refunds to be spent in local communities. Additionally, VITA/TCE sites completed 468,272 balance due returns totaling over \$651 million. The percentage of returns e-filed under the program has increased from 52.68% in FY2000 to 98.7% in FY2023.

Experience has shown that the best way to get to the underserved taxpayers is through their communities. VITA and TCE are just two examples of programs located within the communities of the underserved populations, and they've built the relationships and trusts with the taxpayers they serve. For this reason, ETAAC supports the Stakeholder Partnerships, Education & Communication (SPEC's) initiative to see the creation of two new grants that would assist with growing the VITA/TCE programs.

**Incubator Grant** – Provides support for beginning organizations that have not started operating and preparing returns. This grant allows these organizations an opportunity to put an operational strategy in place while engaging volunteers and providing initial return preparation services during the first year as a grant recipient. The VITA Grant Program requires the applicant to have matching funds. This particular grant would not require matching funds.

**Outreach Grant** - Provides support for VITA/TCE partners that primarily deliver outreach services. These organizations are critical to the success of VITA/TCE by reaching the program's targeted populations. In addition to reaching populations in need of free return preparation, some of these organizations educate VITA/TCE taxpayers on financial education and asset building.

## Part III - Business Systems, Modernization, and Human Capital

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As you can see throughout this report, the journey to tax compliance can be complex and difficult. While taxes are complex, the taxpayer journey doesn't have to be. The journey needs to be holistically evaluated and modernized in a taxpayer-centric way. The recommendations in this report are not investments in one agency, they are investments in all taxpayers.

Simply put, the IRS is using 20<sup>th</sup> century approaches to solve 21<sup>st</sup> century problems. There must be a holistic long-term solution to provide innovative technology, business processes, and human capital solutions to eliminate disruptions in the taxpayer journey. Without such a solution, the IRS is limited in its ability to effectively:

- Meet taxpayer expectations.
- Process returns timely.
- Service taxpayers and respond to inquiries.
- Protect taxpayer data and information.

The IRS is responsible for a staggering amount of work. In 2022, they processed more than 235 million business and individual returns. In tax year 2021 alone, they processed 110.5 million returns that contained a total of \$359.5 billion dollars in refunds.<sup>62</sup> An organization responsible for touching that many taxpayers should be given the tools necessary to serve them. Technology and funding alone cannot address volumes of this magnitude. The IRS must work across functions and create multi-faceted modernization solutions that include a balanced approach of technology, business process improvements, and human capital investments. These solutions should demonstrate added value to the taxpayer, empowering them to successfully navigate the tax system and create a better overall journey. In addition, strategies should be developed to hold the IRS accountable for streamlined and effective tax administration.

**Recommendation #21: ETAAC recommends Congress maintain stable, consistent, multi-year funding authorized through the Inflation Reduction Act, provide the IRS with adequate discretionary annual appropriations, and enable greater flexibility to align funding between IRS appropriations to meet mission needs.**



The IRS largely funds the Federal Government and the services it provides American citizens; the IRS needs the tools and investments to do the job. While the processing times for the 1040 program were reduced in 2022 by 98 days in comparison to 2021,

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<sup>62</sup> IRS Wage and Investment (W&I). E-mail from W&I Customer Account Services to ETAAC Subgroup on Digitalization, Business, and Human Capital Modernization (February 15, 2023).

this achievement required the IRS to reallocate resources and put other areas of tax administration on hold.<sup>63</sup> This is not an optimal staffing strategy and may result in delays working in other areas of the tax administration cycle. Some of the historical issues of the IRS could have been avoided with proper and predictable funding allowing the IRS to create staffing models that promote flexibility in their use of resources. “Just-in-time” staffing and reactive decision-making due to budget uncertainty is not an effective way to strategically manage an organization long-term.

“The primary sources of revenue for the U.S. government are individual and corporate taxes and taxes that are dedicated to funding Social Security, and Medicare. This revenue is used to fund a variety of goods, programs, and services to support the American public and pay interest incurred from borrowing. Fiscal Year to Date 2023 revenue from Individual Income Taxes accounted for 52% or \$767 billion dollars”.<sup>64</sup>

As the agency primarily responsible for government revenue sources, the IRS needs dependable funding. When not properly funded, issues like the significant backlog of returns not processed occur, and there cannot be proper long-term strategic planning. It’s not a matter of “if” issues will arise, it’s a matter of “when” issues will arise from the failure to fund the IRS and empower them to innovate technology, business processes, and human capital solutions. Funding issues create a situation where the IRS cannot holistically strategize its staffing needs or modernize technology and business processes. Last year was a good start in helping to address many issues with the \$80 billion investment Congress made to build the infrastructure over the course of 10 years. Reliable and sustainable funding needs to continue.

FY 2022 Staffing levels should be maintained. Discretionary requests for additional Taxpayer Services funding, Operations Support funding, and restoring IRS’ Business Systems Modernization (BSM) account are crucial to transforming the IRS as Congress intended with the Inflation Reduction Act funding. If discretionary inflationary costs and the BSM account are not restored back to FY 2022 levels, IRS will use approximately 1/3 of the IRA funds just to maintain staffing, services, and operations. Without Congressional action to support the Taxpayer Services and BSM accounts at its current pace, IRA funding for Taxpayer Services will run out in FY 2025 and IRA BSM funding will run out in FY 2028. Funding the IRS annual discretionary requests is important because if Congress waits until IRA funding runs out, the annual \$1B+ price tag will be

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<sup>63</sup> February 15, 2023 email received by IRS Submission Processing.

<sup>64</sup> “How much revenue has the U.S. government collected this year?” Fiscal Data, U.S. Treasury.  
<https://fiscaldata.treasury.gov/americas-finance-guide/government-revenue/>

more than the FSGG sub-committee can afford without significant cuts to other agencies.

Enabling greater flexibility to align funding between IRS appropriations will provide the IRS with more agility to allocate resources to meet mission needs. Since FY2010, the IRS has taken extraordinary measures in utilizing supplemental funding, user fees, and relying on inter-appropriation transfers to supplement underfunded Taxpayer Services and Operations Support discretionary budgets.

Ensuring the appropriate use of funds and avoiding waste and misuse of taxpayer money is crucial for maintaining their trust and confidence in the government. Therefore, investing in the IRS should be accompanied by a recommendation for Congress to hold the agency accountable for achieving results that prioritize taxpayer services and effectively reduce or eliminate their burden.

**Recommendation #22: ETAAC recommends technology modernizations that are not a “lift and shift” and leverage commercial off-the-shelf solutions whenever possible.**



Congressional funding provides an opportunity for the IRS to develop and execute a technology roadmap to modernize tax administration. The IRS should not simply take current technology solutions and business processes and “lift” them from one technology platform into a new platform.

The IRS should analyze and optimize business processes in concert with technology solutions. This will require the IRS to bring together data and business insight to examine taxpayer needs, system requirements, and business operations to develop effective technology solutions that are continuously improved and maintained.

**System changes need a comprehensive organizational change management plan.**

Any system modernization that neglects change management and business process improvements would be a failure on the part of the IRS.

Modernization of systems and processes is complex work and long overdue for the IRS. Projects of this nature require a commitment at every level within the IRS and begin with system changes that may not necessarily be customer-facing or provide exciting bells and whistles--but these system changes are necessary to lay the foundation for sustainable modernization efforts. These changes must be supported throughout the IRS organization and by Congress with an understanding that this is a long-term initiative that may take years to successfully implement solutions that are robust and enhance taxpayer experience.



The states are a leading investor in tax administration technology. They recognize the critical importance of investing in technology that supports the filing season and beyond. Many states have strategically implemented Commercial Off the Shelf (COTS) technology as an option 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 service. In addition to states, financial institutions have heavily invested in technology and dedicated themselves to approaches that meet the needs of the taxpayer while also protecting their data. ETAAC encourages the IRS to seek the insight and experience of state tax agencies, software providers and financial institutions as they navigate system and business modernizations.

**Recommendation #23: ETAAC recommends system modernizations and General Master File legacy system retirement while leveraging key stakeholder feedback and experience.**



Information technology (IT) plays a crucial role in the IRS's annual mission of serving taxpayers and collecting trillions of dollars in taxes that serve as the nation's revenue. To ensure continued success, it is imperative for the IRS to modernize and retire the outdated General Master File (GMF) systems that impedes internal and external innovation and hinders the ability to leveraging data for modern enterprise service capabilities.

It is no secret that the Service's ability to do the job is severely hampered by its use of outdated legacy systems that prevent it from being as nimble to change and challenges as the private sector. For example, in 2022, the IRS was confronted by an ugly truth; it had to destroy approximately 30 million unprocessed information returns because its current technology was so outdated it could not handle the glut of paper documents.<sup>65</sup> While the destroyed information returns only represented 1% of paper received, the IRS admitted "this situation reflects the significant issues posed by antiquated IRS technology."<sup>66</sup> In an audit report noting the destruction of information returns, the Treasury Inspector General for Tax Administration (TIGTA) advised that the IRS develop a broad strategy to increase electronic filing of business tax returns and forms, which still lags behind the electronic filing of individual taxpayer returns.<sup>67</sup> The IRS's legacy systems pose the following risks to effective tax administration: security risks,

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<sup>65</sup> "IRS Statement – Information Returns," IRS Statements and Announcements, Internal Revenue Service (IRS), (May 13, 2022). <https://www.irs.gov/newsroom/irs-statement-information-returns>.

<sup>66</sup> "IRS Statement – Information Returns," IRS Statements and Announcements, Internal Revenue Service (IRS), (May 13, 2022). <https://www.irs.gov/newsroom/irs-statement-information-returns>.

<sup>67</sup> "A Service-Wide Strategy Is Needed to Address Challenges Limiting Growth in Business Tax Return Electronic Filing," Report No. 2022-40-036, Treasury Inspector General for Tax Administration (TIGTA), (May 4, 2022). <https://www.tigta.gov/sites/default/files/reports/2022-06/202240036fr.pdf>.

unmet mission needs, staffing issues, and increased costs.<sup>68</sup> Despite setbacks, the IRS has relied on more 21<sup>st</sup> century, internet-based computing to modernize its systems since the COVID-19 pandemic. System modernization is key to the IRS's ability to adapt to change.

The IRS's legacy systems fall under three categories: applications, software, and hardware.<sup>69</sup> Applications are IRS-built software programs that automate business functions. Software includes non-IRS built software and commercial software available to the public. Hardware includes physical information technology infrastructure, namely mainframes and servers.<sup>70</sup> The three categories of legacy systems are used by the IRS to support daily and mission-critical functions such as processing tax returns, processing refunds, responding to taxpayers, and auditing and collection functions.<sup>71</sup>

However, of the total 776 applications it uses, 259 or 33% are considered legacy because they are either 25 years or older or are written in an obsolete programming language. 181 or 23% of applications are 25 years or older, and 13 applications in that range are between 55 and 64 years old.<sup>72</sup>

Software is considered legacy when it is two versions or more behind the current version and the IRS tracks this by "instances in use," or the installation of a product version that can be installed on multiple servers, workstation desktops, and laptops. The IRS has 4,821,033 software "instances in use," but 1,111,419 or 23% of its most frequently used commercial software is considered legacy. Additionally, 32% of legacy software being used by the IRS is at least four versions behind the current version commercially available.<sup>73</sup>

Hardware is considered legacy when it reaches a certain age based on industry standards, and 8 percent of the IRS's hardware falls into this category.<sup>74</sup>

Overall, the IRS has 21 modernization initiatives, several of which address retiring legacy systems. A major initiative is the Individual Master File Retirement (IMF) Acceleration Initiative. IMF is the IRS's data source for all individual tax account data. This application is over 60 years old. It is written in an obsolete and archaic language, which requires specialized technical skills to operate. The estimated cost of the retirement initiative is \$7.84 million. It aims to modernize individual taxpayer account information, provide digital options to address taxpayer needs, and maintain the IRS digital footprint. The initiative to

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<sup>68</sup> "Information Technology: IRS Needs to Complete Modernization Plans and Fully Address Cloud Computing Requirements," Report No. GAO-23-104719, U.S. Government Accountability Office (GAO), (January 2023). <https://www.taxnotes.com/research/federal/other-documents/gao-reports/gao-examines-irs-modernization-plans-and-cloud-computing/7fy00>.

<sup>69</sup> Report No. GAO-23-104719, GAO, p. 13.

<sup>70</sup> Report No. GAO-23-104719, GAO, p. 13.

<sup>71</sup> Report No. GAO-23-104719, GAO, p. 13.

<sup>72</sup> Report No. GAO-23-104719, GAO, p. 14.

<sup>73</sup> Report No. GAO-23-104719, GAO, p. 14.

<sup>74</sup> Report No. GAO-23-104719, GAO, p. 15.

modernize and retire IMF started in December 2021 and its planned completion date was scheduled to be March 29, 2024.<sup>75</sup> However, the IRS announced in 2022 that it would postpone the retirement of IMF until 2030. Retiring IMF is key to the IRS’s modernization and should be prioritized.

Tax administration relies on several different key stakeholders that hold a vast array of knowledge and experience as it relates to modernization efforts. There are many examples of successful projects and initiatives that were inclusive partnerships and leveraged the knowledge of key stakeholders such as Software Providers, State Tax Administrators, and Tax Professionals. There are also examples of failed projects that were built in a silo without stakeholder feedback and experience. The IRS can avoid failures by proactively identifying stakeholders and engaging with them early to create positive taxpayer experiences.

**Recommendation #24: ETAAC recommends the IRS consider new human capital strategies to compensate for higher attrition and customer service demands.**



Within the IRS strategic plan is a goal centered around people. Highlighted within the plan narrative is the fact that the IRS has an aging workforce. “An estimated 52,000 of 83,000 employees are eligible to retire within the next six years. The average attrition rate for federal agencies is 5.8%, whereas the IRS is higher than 7.3%.”<sup>76</sup> The attrition rate in the processing areas of the IRS is significantly higher, peaking at almost 30% in 2022.<sup>77</sup> While this kind of attrition rate may be common for jobs of this nature, the IRS needs to proactively identify measures to address it and remain ahead of it because failure to do so will impact return processing and taxpayer services.

Modernizing the IRS is more than modernizing business processes and technology. It’s an investment in human capital through appropriate succession planning strategies to ensure continuity in work and maximize taxpayer experience.

Like other private and public organizations, the IRS continues to have challenges with hiring due to the competitive labor market. The IRS should continue to over hire based on anticipated attrition and salary savings associated with this attrition. This flexibility allows them to have the staff on board to compensate for these attrition levels, eliminating or significantly reducing the likelihood of processing and customer service backlogs due to insufficient staffing. The IRS can then measure the effectiveness of the

<sup>75</sup> Report No. GAO-23-104719, GAO, p. 18, 19,23

<sup>76</sup> “Rising Retirement and Attrition,” Goal 3 (People) of the IRS Strategic Plan (Fiscal Year 2022-2026), Internal Revenue Service (IRS), (November 7, 2022). <https://www.irs.gov/about-irs/people>.

<sup>77</sup> IRS Wage and Investment (W&I). E-mail from W&I Customer Account Services to ETAAC Subgroup on Digitalization, Business, and Human Capital Modernization (February 15, 2023).

over hiring policy in 2024, to determine if there are any opportunities for change in the hiring process.

The IRS should also look at downstream modernizations that leverage technology, speed up processing, and allow for some staff to be reallocated to other added value initiatives. For example, last year the IRS implemented FixERS, which allowed technology to address errors in returns. “Through December 31, 2022, the tool received 13.47 million returns and processed 13.47 returns through automation. The 13.47 million returns worked by the tool would have required an additional 118 FTE’s.<sup>78</sup> The IRS should be commended for this use of technology and should continue their momentum to look for other areas within the return processing cycle to implement these modernizations. This will allow staff to be reallocated to other added value functions that cannot be addressed through technological solutions so that overall processing times can be reduced, and customers can reach the final destination of their journey even earlier.

Customer service continues to be a struggle for the IRS. Customers expect one call resolution and are typically contacting the IRS because they don’t have the information that allows them to self-serve. This is a perfect example of a where there needs to be a multi-faceted solution to address call volume and customer service. The IRS should consider the following:

- Exercise over hiring utilizing salary savings gained by attrition to always ensure appropriate staffing levels.
- Provide a robust training program for agents and identify agent quantitative and qualitative measurements that drive behaviors which align with the IRS strategic plan and taxpayer expectations.
- Implement technology solutions that address customer service call volume and resolve taxpayer issues whenever possible. These solutions should include modernized phone systems, customer relationship management (CRM) and knowledge management systems (KMS).

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<sup>78</sup> IRS Wage and Investment (W&I). E-mail from W&I Customer Account Services to ETAAC Subgroup on Digitalization, Business, and Human Capital Modernization (February 15, 2023).

**Recommendation #25: ETAAC recommends the IRS develop key metrics to be used internally and externally to measure customer service, taxpayer experience and promote transparency.**



As the tax collector for the federal government, the IRS is charged with meeting customer expectations. Clear markers of success, as determined by IRS customers, will help the IRS meet its charge and create clarity and greater trust in government.

The IRS can build upon its existing infrastructure. The IRS already uses service level metrics when it communicates about turnaround time for individual income tax refunds: "Over 90% of refunds are issues within 21 days." The IRS can evaluate what the desired service level metrics are and expand the use of them into key focus areas. Two key focus areas are highlighted below: answering phone calls and processing paper documentation.

### **What does success look like for answering phone calls?**

For some organizations, a successful service level for phone calls is defined as 80% of calls answered within 80 seconds. But as a reminder, taxpayers set expectations, not the IRS. As an initial data point, for identifying customer tolerance levels, the IRS can examine its records to determine when a material number of customers begin to hang up while waiting in queue.

Ideally, the IRS would like to answer each phone call on the first ring and provide one call resolution, but this is not a practical or realistic goal. As such, the IRS needs a practical waypoint along that journey and clear measures of success. The IRS should consider both quantitative and qualitative measures of success that align with customer needs. They should also evaluate any existing measurements to determine if they are still sufficient or need to be modernized. Each activity impacts another.

The number of phone calls is in part determined by the speed at which the IRS can process paper returns to avoid unnecessary return/refund status updates or how well they provide guidance on their website. Setting metrics of determined success will also help identify business practices and procedural changes that are needed to achieve the desired outcomes. The IRS indicates they have a team that is exploring how the IRS measures customer service/experience, with a goal of developing metrics that encompass not only traditional phone service, but all channels used to provide customer service. We encourage the IRS to engage taxpayers and stakeholders as they work on developing these metrics.

### **What does success look like in paper processing?**

The question can be answered by investigating when paper filers begin to call in material numbers after filing their paper returns. Then, the IRS can ask: What would it take to input all incoming paper returns within that timeframe? Can they estimate how such efforts would affect incoming calls--comparing their estimates to actuals when those numbers are available? Ideally, the IRS would like to process all paper returns on

the day they are received, but this too may not be a practical or realistic goal. The IRS may work toward that goal, but again, it needs a practical waypoint along that journey.

Defining success with customer expectations helps to shift the paradigm. The IRS does not set customer expectations. Instead, the IRS can capitalize on the nation's long tradition in which customers set expectations. Then the IRS can set its sights on meeting customer expectations and use data to guide them along the journey.

**Recommendation #26: ETAAC recommends the IRS provide timely legal guidance on federal and state laws that impact tax administration.**



Federal and State tax laws can have a significant impact on tax administration. Like it or not, federal tax law changes impact states and state tax law changes impact the IRS. One or the other can affect the actions taxpayers and stakeholders must take. These interconnections make legal reviews and guidance necessary to ensure returns can be filed in accordance with tax laws. Failure to provide timely legal guidance results in confusion, public relations issues, inaccurate returns, and more overall work for the IRS, taxpayers, and stakeholders.

There are several incidents where the IRS and Treasury failed to provide early legal direction, which negatively impacted taxpayer's ability to file an accurate return and stakeholders' ability to provide appropriate direction. It resulted in increased taxpayer confusion and eroded taxpayer confidence. Situations such as those that occurred with state special refunds/rebates, 6050x, 1099-K, and Hawaii Red Fuel cannot be the standard for providing legal guidance and we encourage the IRS to invest in operational and organizational changes that allow for appropriate and timely legal engagement with stakeholders and for taxpayers.

## **Closing:**

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ETAAC's experience has shown that tax administration can achieve greater efficiency and better serve taxpayers when it leverages the expertise and resources of its stakeholders. By working collaboratively with stakeholders, including taxpayers, industry leaders, and other government officials, ETAAC has been able to identify key areas for improvement and develop recommendations that will drive positive change. As tax administration continues to evolve, it is clear from our research and own experiences and expertise that a strong, transparent, and collaborative relationship between Congress, the IRS, and all stakeholders is critical to achieving success and ensuring that taxpayer needs are met in the most efficient and effective way possible.

## Appendix A: ETAAC Member Biographies 2022-2023

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**Jared Ballew (Chair)** – Ballew currently serves as the Vice President of Government Relations for Taxwell, representing both Drake Software and TaxAct products, as a tax administration professional with 20 years of experience. Ballew currently serves as the President of the National Association of Computerized Tax Processors (NACTP), promoting standardization and simplification between government tax agencies and the tax processing industry. Ballew is also actively engaged in the Council for Electronic Revenue Communications Advancement (CERCA) and the Security Summit, serving as a co-lead for the Tax Pro Working Group. He holds a Master of Business Administration from East Carolina University.

**Peter Barca** – Barca is Secretary of the Wisconsin Department of Revenue and an active member and officer of the Federation of Tax Administrators Board of Trustees. Barca has served in the Wisconsin State Assembly, the United States House of Representatives, and the United States Small Business Administration. He was also a business owner and President of Aurora Associates International.

**Vernon Barnett (Vice Chair)** – Barnett began his service as Commissioner of the Alabama Department of Revenue in May 2017. He has worked in state government for 25 years and served as a Deputy Solicitor General, Legal Advisor to the Governor, Deputy Commissioner of the Department of Corrections and Executive Counsel of the Department of Environmental Management. Barnett is current Chair of the Multistate Tax Commission and a member of the Federation of Tax Administrators Board of Trustees.

**Austin Emeagwai** – Dr. Emeagwai is an Associate Professor of Accounting at LeMoyne-Owen College, Memphis. He is the president of ABC Accounting and Tax Services, P.C., a full-service CPA firm. His research interests include small business and community development by Historically Black Colleges and Universities (HBCUs). Dr. Emeagwai is a member of the American Institute of Certified Public Accountants, Tennessee Society of Certified Public Accountants, National Society of Accountants, and is a Volunteer Income Tax Assistance (VITA) volunteer.

**Jerry Gaddis** – Gaddis is the founder and Chief Executive Officer of Tropical Tax Solutions, a boutique firm headquartered in Florida providing tax consultation, preparation and representation solutions for individuals and small businesses. He began his 20-year tax career at the VITA/Tax Counseling for the Elderly clinic in the Key Largo public library. He is a former H&R Block Franchisee, a former Dave Ramsey ELP and a graduate of the National Tax Practice Institute. Gaddis served on the board of directors for the National Association of Enrolled Agents for seven years including three years as an officer and one year as President/CEO. He is an Enrolled Agent.

**Robert Gettemy** – Gettemy is a full-time instructor at the University of Iowa where he teaches both undergraduate and graduate courses in entrepreneurship. In addition, he consults in the tax software industry. Prior to teaching, Gettemy spent seven years at TaxAct where he was Chief Operating Officer. During his tenure at TaxAct, Gettemy was responsible for all back-office operations, government relations and competitive intelligence. While at TaxAct, he served as Vice Chair of the American Coalition of Taxpayer Rights, was on the board of directors for the Council of Electronic Revenue Communication Advancement and was an industry co-lead in the IRS Security Summit initiative which was formed to combat stolen identity refund fraud. Gettemy was also active in IRS Free File.

**Mark Godfrey** – Prior to joining Ernst & Young's Digital Tax Administration – Government Services practice, Godfrey served as Taxation Division Director at the Missouri Department of Revenue. During that time, the Taxation Division team implemented an integrated tax system and underwent a reorganization to capitalize on processing efficiencies. Godfrey is an attorney and a certified public accountant.

**Eric Inkrott** – Inkrott is Vice President of Government and Partner Relations at Green Dot where he is engaged with the IRS Security Summit and partners with the IRS, state departments of revenue and the tax industry to develop new tools and strategies against identity theft and refund fraud. He is a member of the Senior Executive Board of the IDTTRF ISAC and a board member of CERCA.

**Jihan Jude** – Jude is an Estate and Trust attorney and counselor at law with the Davey Law Group in Maitland, Florida. She previously worked with ComplyRight, where she focused on business employment tax compliance, information return reporting requirements from the IRS and Social Security Administration and labor law legal issues. Jude also reviewed company guidance for business clients who used ComplyRight's tax solutions (paper and electronic filing of tax and information returns and proprietary tax filing software). Jude is also a Senior Tax Professional at H&R Block during the tax season and served as an IRS VITA volunteer every tax season since 2020.

**Carlos Lopez** – Lopez is founder and President of Lopez Tax Service and the Latino Tax Professionals Association located in Salinas, California. He holds a Bachelor of Arts from Pacific Union College and a Certificate of Management Development for Entrepreneurs from UCLA Andersen School of Management. He has completed the Stanford Latino Entrepreneur Initiative from the Stanford Graduate School of Business. He has been active in tax preparation and representation before the IRS for more than 36 years. Lopez has been a lecturer and presenter for the IRS Nationwide Tax Forums.

**Jonathan Lunardini** – Lunardini is Section Manager of the California Franchise Tax Board's ("FTB") Identity Theft/Fraud Program. He has been a member of the Security Summit since its inception in 2015, and has participated in its Information Sharing, Authentication and Financial Services working groups. Lunardini engages with the IDTTRF-ISAC as a participating member of the metrics sub-team and participates in the National Automated Clearinghouse Association and the NACTP. In his role with the



FTB, Lunardini has partnered with the IRS, other states, and industry partners on nationwide anti-fraud efforts.

**Sherice McCarthy-Hill** – McCarthy-Hill is Director of Payroll at Dartmouth College in Hanover, New Hampshire. She manages a payroll department of four payroll professionals and compensates approximately 10,000 faculty, staff, and students. She holds a Master of Business Administration in Systems Management from Baldwin Wallace College, a Bachelor of Arts in Accounting with a Minor in Information Systems from Notre Dame College. Also, she holds a Human Resources Professional Development Certificate. McCarthy-Hill belongs to the American Payroll Association, Society of Human Resource Management and Higher Education User Group.

**Argi O'Leary** – O'Leary is a Principal in the Advocacy Practice at Ryan, LLC in New York, where she provides tax strategy and audit assistance, including tax issue negotiations and resolution, policy advice and advocacy for all tax types. Before joining Ryan, O'Leary was a Deputy Commissioner with the New York State Department of Taxation and Finance, leading the Department's Civil Enforcement Division and Office of Professional Responsibility, and also served as an Assistant Deputy Commissioner, leading the Department's litigation strategy in tax controversy matters.

**James Paille** – Paille works for Creative Solutions Software Corp (dba myPay Solutions) an Iris Global company and has over 40 years of experience in the payroll industry, including front line, treasury, and management experience. Paille is a member of the board of directors of PayrollOrg (formerly the American Payroll Association), Citizens Bank Treasury advisory committee and NACHA ACH advisory board. He is also an active member of the National Automated Clearinghouse Association, National Association of Computerized Tax Processors, NPRC (National Payroll Reporting Consortium) and the IRS Reporting Agents Forum and a past board member of the Independent Payroll Providers Association.

**Hallie Parchman** – Parchman is a Senior Manager within Amazon's Corporate Tax function leading the end-to-end customer experience as it relates to tax information reporting and withholding. She and her team of tax professionals, software engineers, product managers and designers are responsible for tax compliance and operations as well as product design and delivery. Before joining Amazon, Parchman worked at Apple Inc. focused on information reporting and at KPMG in the Federal Tax Department. She is a licensed CPA in Texas.

**Andy Phillips** – Phillips is a Director at the Tax Institute at H&R Block, overseeing several teams that focus on Agency & Industry Relations, Tax Research and Tax Law & Policy Analysis, and Tax Content. Phillips is active in the Security Summit and the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (IDTTRF ISAC), serving as an industry co-lead on the Authentication Working Group and as a member of the ISAC Metrics Committee. Phillips is also active in tax industry associations, previously serving as a co-lead of the CERCA Legislative Implementation Working group, where he helped facilitate the implementation of the Tax Cuts and Jobs Act. In his personal time, Phillips serves on the Avila University Alumni Association Board.

**RaeAnn Pilarski** – Pilarski is Senior Manager at Code for America, where she scales and supports VITA partners that participate in the GetYourRefund program. Before joining Code for America, she oversaw the VITA program at the United Way of Tucson and Southern Arizona. During her tenure there, she worked closely with Code for America as one of the original partners in the GetYourRefund pilot and led the development of Valet VITA, a model that allowed clients' documents to be scanned and securely uploaded to a system through which volunteers would access the information needed to prepare the return.

**Keith Richardson** – Richardson has over 15 years of tax administration experience. He is Deputy Chief Financial Officer and Tax Commissioner for the District of Columbia. As the Deputy CFO, he contributed to the development of its new modernized tax system, including working with IDTTRF-ISAC and establishing strategic plans for its customer service for taxpayers. Richardson previously worked for the Commonwealth of Pennsylvania as the Bureau of Compliance Director and was responsible for tax compliance initiatives, clearances and creating the Gaming Control Clearance Division to oversee all tax clearances for owners, vendors, employees and winners. He has also served as Revenue Commissioner for the City of Philadelphia.

**Terri Steenblock** – Steenblock is the Director of Tax and Revenue Administration at the Federation of Tax Administrators. She supports state and local revenue agencies across the United States by providing information, outreach, education and support to tax administrators focused on all aspects of tax administration. Prior to working at FTA, she spent 15 years at the Minnesota Department of Revenue where she held various roles including serving as an Assistant Commissioner. Steenblock has been active in the Security Summit and IDTTRF ISAC since its inception.

**Timur Taluy (Vice Chair)** – Taluy founded FileYourTaxes.com 25 years ago and serves as its chief executive. Taluy is a tax return preparer participating in the IRS Annual Filing Season Program (AFSP) and actively prepares tax returns. He serves as the Board Treasurer of the Council for Electronic Revenue Communications Advancement (CERCA). As a founding member of the IRS Security Summit, he serves as the co-chair of the Summit's Strategic Threat Assessment and Response (STAR) workgroup. He develops content and speaks at tax related meetings including the IRS Nationwide Tax Forums, the Latino Tax Professionals Tax Fest, and his local colleges and universities. Taluy holds a Bachelor of Science degree in Electrical Engineering from the University of Southern California.

**Lindsey West** – West is the founder and former CEO of Track1099.com, one of the first services to offer completely online and paper-free Information Returns filing. West currently serves as General Manager of Avalara, Inc., which recently acquired Track1099. Track1099 has helped over 300,000 businesses and tax professionals easily and cost effectively manage their 1099, W-2, and ACA filings over the past 11 years. West is an aerospace engineer and received her doctorate in Aeronautics and Astronautics from Stanford University.

## Appendix B: Examples of Real-Time Collaboration & Feedback

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### Stakeholder Survey



August 12, 2022

Dear {Stakeholder}

As chair of the Electronic Tax Administration Advisory Committee (ETAAC), I am writing this letter to invite you to participate in a stakeholder engagement survey the committee is initiating as part of our work for the 2023 ETAAC Annual Report.

ETAAC was established by Congress to provide continuing public input into the development and implementation of the IRS organizational strategy for electronic tax administration. ETAAC researches, analyzes, considers, and makes recommendations on a wide range of electronic tax administration issues such as identity theft and refund fraud and provides input into the development of the strategic plan for electronic tax administration. The annual report contains recommendations to the IRS and Congress.

You and the members of your organization play an important and vital role in tax administration. Your interaction with the IRS gives you unique insights into the Agency, and ETAAC would like to better understand those insights as part of our research process.

We have developed a three (3) question survey we are asking you to complete. The survey is limited in scope and aligns with the mission of ETAAC which is electronic filing, identity theft, and refund fraud prevention.

We are asking you to solicit feedback from members of your organization and submit one survey response on behalf of your organization. The deadline for submitting feedback is September 2, 2022. The feedback you provide will be aggregated, anonymized, and considered by the ETAAC team as we work on our annual report recommendations. [Click here](#) to access the survey.

Thank you for the work you do in tax administration and thank you for taking time to complete the survey.

Sincerely,

Jared Ballew  
Chairman  
{Contact}

## Inflation Reduction Act Report Recommendations



### Suggestions for Prioritization of Inflation Reduction Act Funding

**Prepared for:** Acting Commissioner Doug O'Donnell and LB&I Commissioner Nikole Flax

**Prepared by:** The Electronic Tax Administration Advisory Committee (ETAAC)

**Date submitted:** December 19, 2022

**Purpose:** During the November 1, 2022, ETAAC meeting, ETAAC was asked to provide the IRS senior leadership team, including Acting Commissioner Doug O'Donnell and LB&I Commissioner Nikole Flax, with stakeholder project priorities by early December to assist the IRS Inflation Reduction Act (IRA) team as they develop their report to Treasury, which is due February 2023. As a result of this meeting, ETAAC drafted real-time feedback to the IRS regarding electronic modernization projects the IRS should prioritize pursuant to their increased IRA funding.

#### **ETAAC Leadership:**

- Jared Ballew, Chair (Drake Software)
- Timur Taluy, Vice Chair (File Your Taxes)
- Vernon Barnett, Vice Chair (Alabama Department of Revenue)
- Andy Phillips, Subgroup Lead (H&R Block)
- Hallie Parchman, Subgroup Lead (Amazon)
- Terri Steenblock, Subgroup Lead (Federation of Tax Administrators)
- Eric Inkrott, Fraud & Security Lead (Green Dot Corporation)

#### Introduction

The Inflation Reduction Act provided the IRS with an unprecedented infusion of funding over the next several years. Specifically included in that funding were appropriations of:

- \$45.6 billion for tax enforcement
- \$25.3 billion for operations support (which can include certain information technology investments)
- \$3.2 billion for taxpayer services (including filing and account services, prefilling assistance, and education)
- \$4.8 billion for business systems modernization (including enhancements to the IRS's IT infrastructure), and



Specific Priorities for Use of Funding

1. ETAAC recommends that the IRS prioritize the development and release of a more holistic and detailed return tracking tool for taxpayers (i.e., Where's My Refund 2.0).
  - a. This tool should include more details on where a return is in the processing pipeline, when a taxpayer should expect their return to be completely processed, and when a taxpayer can expect to receive their refund, where requested. This includes efile or paper return identification and additional tracking of paper returns – i.e. date received, inputted, etc. This tool should also provide tracking functionality for balance due returns.
  - b. Specifically, the tool should include higher visibility of the return status in situations where a return does not follow the happy path, such as when the taxpayer's return goes into ERS or is selected for further scrutiny (such as selection in the Taxpayer Protection Program). Specific sensitive return status information should require appropriate security and authentication.
  - c. The tool should also give specific details for any additional actions the taxpayer must take before the return can be processed.
  - d. In addition, the IRS should enable the taxpayer to authorize specific, authenticated third parties to receive this same information directly from the IRS. Authorized third parties should include tax professionals, tax software providers and state revenue agencies. ETAAC recommends sharing third-party data in a manner that provides the authorized party with the information needed to assist the taxpayer while ensuring it's properly utilized and protected. To ensure this information can be securely communicated to authorized third parties in a scalable and secure manner, the IRS should work with stakeholders to consider the development of an application programming interface (API) to allow third parties to pull the information from the IRS in a secure automated fashion once taxpayer consent has been obtained.
  - e. The IRS should be able to calculate an ROI to show that any project on the list is worth the money. ROI can be calculated as expected revenue increase, staff time savings or shift to more productive work, reduced FTEs, etc.
2. ETAAC recommends that the IRS create a task force to explore and determine if there is an appropriate alternative mechanism for DIY software filers to authenticate their identity to successfully submit their return electronically to the IRS. This concept has been discussed as part of an imperfect return indicator conversation and a task force comprised of various stakeholders could fully investigate this to determine if there are alternative solutions and how they may work.
  - a. The current mechanism requires DIY filers to provide either their prior-year adjusted gross income (PYAGI), or their prior-year self-select personal identification number (PYPIN). Legitimate taxpayers consistently struggle to get this right. In addition, in certain instances, the IRS improperly rejects returns that contain the PYAGI or



## ELECTRONIC TAX ADMINISTRATION ADVISORY COMMITTEE

- PYPIN. When these rejects occur, it leads to an unnecessary number of support calls to the IRS and DIY software providers and often leads to the taxpayer submitting a paper return instead of e-filing, which is an inefficient outcome.
3. ETAAC recommends the IRS identify the other most common reasons barring taxpayers from electronic filing and develop an alternative process for submission of those returns electronically. This concept has been discussed as part of an imperfect return indicator conversation and a task force comprised of various stakeholders could fully investigate this to determine if there are alternative solutions and what return population they may apply to.
    - a. With the prevalence of stolen identities outside of the tax ecosystem, we continue to see fraudsters attempting to file tax returns using stolen identities to perpetuate tax refund fraud.
    - b. One impact from this trend is that fraudsters file before the legitimate taxpayer, thereby locking the legitimate filer out of electronically submitting their tax return. This results in increased paper to the IRS, and results in the taxpayer experiencing a prolonged delay in the processing of their return and release of their refund. This delay causes inconvenience to the taxpayer and can often lead to financial hardship.
    - c. The IRS should work with a task force to consider an alternative solution that may allow multiple returns to be electronically filed and accepted under the same social security number. This will allow the IRS to timely review all returns filed under that social security number, and more quickly identify which one is legitimate and which one(s) is/are fraudulent. This will simplify the filing experience for the legitimate taxpayer, and should lead to reduced processing times. Additionally, precautions need to be taken to avoid any unintended consequences of generating opportunities for more fraud to occur, which is something the taskforce could explore.
    - d. Some of the top reject reasons provide the taxpayer with the opportunity to correct the return and resubmit it, but the taxpayer converts to paper. The IRS should conduct a study to determine why taxpayers choose not to correct the return and electronically resubmit it. This will help identify solutions that align with taxpayer behavior.
  4. ETAAC recommends that the IRS prioritize enabling advanced functionality in Tax Professional Online Accounts and Online Accounts for Business Entities.
    - a. The IRS has rolled out some very helpful features in Taxpayer Online Accounts. However, the IRS has not dedicated sufficient resources to enabling functionality for Tax Professionals via their Online Account. While offering additional digital services to taxpayers is a laudable goal, the simple fact is that individual taxpayers are generally unable or, more commonly, unwilling to use these accounts. Instead, they either wish to work through a third party or, if they do create an IRS Online Account because they are forced to do so, will use it for a one-time transaction but not with any regularity. Focusing resources on enabling further functionality for Tax Professionals will result in more usage of these digital services and will cut down on costly and hard-to-manage telephone and paper communication mechanisms that Tax



## ELECTRONIC TAX ADMINISTRATION ADVISORY COMMITTEE

- Professionals are often forced to use today because of a lack of self-service account-based functions.
- b. While individual taxpayers are often unable or unwilling to use an IRS Online Account with any regularity, business entities are a different story. The majority of taxpayers have a single interaction with the IRS a year. Alternatively, business entities engage with the IRS regularly throughout the year (payroll filing, estimated payments, etc.). Because business entities need to communicate with the IRS on a more regular cadence, they will be more likely to use an Online Account than an individual.
  - c. To make the most efficient use of limited resources, the IRS should prioritize enhancements and additional functionality for groups that will actually use those tools on a consistent basis. Thus, ETAAC recommends that the IRS prioritize Tax Professionals and business entities over individuals when identifying additional functionality to be rolled out in Online Accounts.
5. ETAAC recommends the IRS pursue additional Direct Hire and Streamlined Critical Pay authority to fill vital open positions.
- a. Following the passage of the IRA, Treasury Secretary Yellen outlined 4 key priorities for the IRS:
    - i. Clear the backlog of tax returns,
    - ii. Improve customer service and reach an 85% level of service on toll-free phone lines,
    - iii. Modernize the IT infrastructure at the IRS, and
    - iv. Hire employees to replace retiring workers.
  - b. To enable the IRS to meet each of these goals, it is imperative for the IRS to offer market-competitive pay and make real-time job offers to qualified applicants. ETAAC recommends the IRS review their positions of greatest need, including all front-line service roles and key technologist roles (including systems developers, software engineers, architects, etc.), and quickly determine if further Direct Hire or Streamlined Critical Pay authority is needed to meet the hiring demand.
  - c. Where either of these special hiring incentives is necessary, the IRS should pursue all available methods (administrative and legislative) to obtain the necessary approvals.
6. ETAAC recommends the IRS develop automation tools to aid in tax enforcement, including but not limited to:
- a. Automating the early identification of return defects pre and post-submission, prioritizing high volume, high dollar defects first,



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ADVISORY COMMITTEE**

- b. Notifying taxpayers and tax professionals of defects in Taxpayer Online accounts, minimizing the number of paper notices by tracking receipt of online notices and only sending paper notices to those accounts that didn't receive the online notice, and
- c. Providing taxpayers and tax professionals flexible options to remediate defects by enabling a one-stop shop portal where issues and suggested changes can be viewed, accepted, and rejected, returns can be amended and re-submitted, and the updated tax liability can be calculated in real-time, including penalties and interest, providing varied payment plans for the taxpayer to avail.

ETAAC believes investments in advanced technology, including artificial intelligence (AI) are paramount in utilizing the IRA funding for tax enforcement in a way that enables IRS operations to be efficient, effective, and self-sustaining for years to come, while keeping taxpayers front-of-mind by reimagining the taxpayer journey in a digitized way. Investing in low-code technologies also allows for self-service workflow creation to aid in enforcement.



## 1099K Real-Time Feedback



### ELECTRONIC TAX ADMINISTRATION ADVISORY COMMITTEE

#### Real time feedback regarding Form 1099-K

**Prepared for:** IRS SB/SE

**Prepared by:** The Electronic Tax Administration Advisory Committee (ETAAC)

**Date submitted:** March 7, 2023

**Purpose:** Congress lowered the threshold for reporting Forms 1099-K from 200 transactions and \$20,000 in receipts to \$600 in receipts with no transaction threshold as part of the American Rescue Plan Act of 2021 starting with the 2022 tax year. On December 23, 2022, the IRS issued [Notice 2023-10](#) delaying the implementation of the lower thresholds. The current expectation is these new rules will become effective beginning with the 2023 tax year. Some tax professionals estimate this change will lead to tens of millions of additional taxpayers receiving Forms 1099-K<sup>1</sup> – many for transactions that are not reportable in gross income or for amounts that exceed the amount a taxpayer received for products and services. This change will be burdensome for taxpayers, tax professionals, and the IRS alike, especially because it is not altogether clear what the amounts on the 1099-K represent. This will make it difficult for taxpayers and tax professionals to accurately report the income, as well as make it difficult for the IRS to reconcile amounts reported on the 1099-K with the income tax returns filed. If the IRS is not able to accurately reconcile amounts reported or decipher between what is or is not required to be reported as income, it will make it more difficult to create any type of compliance plan that does not come with the risk of incorrectly selecting taxpayers for audit or adjustment creating unnecessary taxpayer burden and a poor taxpayer experience.

Accordingly, ETAAC recommends the following to alleviate the potential burden:

1. **Update the 1099-K and its instructions to better indicate the nature of the transactions**

We applaud the IRS for publishing updated 1099-K FAQs<sup>2</sup> to cover a variety of examples of the type of income reported on the 1099-K and how it should be reported on a return. However, the FAQs still require taxpayers to educate themselves and understand how to report their income, creating unnecessary complexities for the average taxpayer.

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<sup>1</sup> [If You Dread the IRS Now, Wait Until You Get a 1099-K - WSJ](https://www.wsj.com/articles/internal-revenue-service-taxes-irs-1099-k-form-tracking-payment-transactions-credit-card-venmo-privacy-breach-cybersecurity-11648745007), available at <https://www.wsj.com/articles/internal-revenue-service-taxes-irs-1099-k-form-tracking-payment-transactions-credit-card-venmo-privacy-breach-cybersecurity-11648745007>; [How New IRS Rules Could Affect Venmo, Zelle and CashApp Users \(msn.com\)](https://www.msn.com/en-us/money/taxes/how-new-irs-rules-could-affect-venmo-zelle-and-cashapp-users) available at <https://www.msn.com/en-us/money/taxes/how-new-irs-rules-could-affect-venmo-zelle-and-cashapp-users/ar-AA15wCp9?ocid=entnewsntp&cvid=a757edc345c047bb88378e3af24259c9>.

<sup>2</sup> [FAQs to the 1099-K](#)



With a little less than a year to prepare, if the 1099-K is going to continue to be a catch-all, ETAAC proposes the IRS update Form 1099-K and its instructions in advance of the 2023 tax filing season to add income codes that accurately reflect the amount reported as unadjusted gross sales much like the W-2 has codes in Box 12 to indicate type of income such as elective deferrals, Roth contributions, etc. Examples might include A: Online marketplace sales of goods or services, B: Fees paid in relation to online marketplace sales of goods or services, C: Refunds paid in relation to online marketplace sales of goods and services, D: Reimbursements, etc. Additionally, for each code, the IRS can provide explicit instructions to taxpayers and tax professionals on whether to report information and where to report this information on their return.

To reduce complexity for taxpayers, the IRS might consider removing the monthly amounts on the recipient copies of the 1099-K given these amounts do not aid taxpayers in reporting amounts on their return.

Taxpayers will be able to voluntarily comply to their tax reporting responsibilities because they will understand how to report 1099-K amounts on their income tax return. Not only will this result in higher rates of compliance and preventing underpayment notices, interest and penalties, but it will reduce the burden on IRS taxpayer assistance and expenses associated with post processing adjustments.

**2. Provide additional guidance to taxpayers and tax professionals on how to accurately report the income.**

Taxpayers receiving Form 1099-K may need to report a lower amount than shown on the Form 1099-K on their tax return, or not report the income at all. There are myriad situations where a taxpayer receiving Form 1099-K may not have reportable income for the amount stated, if at all, including for example:

- 1) someone who receives a Form 1099-K for a non-taxable event, or
- 2) someone who receives a Form 1099-K for selling personal property at a loss, or
- 3) a hairdresser who collects all her business income via a payment service. She then sells her couch at a loss and receives the funds from that transaction via the same payment service for the convenience of her and the buyer. She also pays for some meals for her friends who reimburse her. Her Form 1099-K will include amounts earned as a hairdresser and the amounts received for the couch. Since the amounts received from the couch are not included as gross income, the amount reported on Schedule C may be less than the amount shown on Form 1099-K. Generally, this would trigger a computer-prepared or CP notice from the automated under reporter AUR.



## ELECTRONIC TAX ADMINISTRATION ADVISORY COMMITTEE

ETAAC anticipates the complexities associated with Form 1099-K could lead to an increased number of CP notices to taxpayers.

CP notices from the AUR system are sent to taxpayers on paper, often more than a year after the tax filing occurs and requires the taxpayer to respond on paper. ETAAC believes that CP notices generated via the IRS Automated Under Reporter System (AUR) undermine the public trust in e-file in addition to the paper burden placed on the Service to generate and respond to taxpayer correspondence, will erode confidence in the electronic tax system, jeopardize voluntary compliance, and increase taxpayer creating a negative taxpayer experience, all of which leads to additional IRS burden.

ETAAC recognizes major change to Form 1099-K may not be possible for Tax Year 2023 and therefore, ETAAC offers some simple recommendations to Congress, Treasury, and the Internal Revenue Service.

IRS should expand and make more clear, comprehensive guidance for all scenarios to report all income shown on Forms 1099-K and a method to back out those amounts that do not need to be included in gross income, including the specific schedule and line number for both paper and e-filed returns.

Even if guidance is comprehensive and clear, it may still be difficult for the average taxpayer to navigate. ETAAC suggests the IRS encourage e-file, highlighting its ease, particularly for taxpayers with one or more 1099-Ks.

By using these existing fields on electronically filed tax forms, the IRS will receive the information needed as part of the e-file instead of paper or paper equivalent attachments to a tax return. If IRS has the information electronically, it will be best positioned to use existing anti-fraud tools, and also process the information more efficiently with all the cost savings, benefits, and tax return accuracy enhancements e-file provides.

This guidance should be clear enough for software programs, tax professionals, and taxpayers alike to understand and be made available in multiple languages.

The IRS also should provide this updated draft guidance to the tax professional, software preparation industry, and states as soon as possible so that there is a clear understanding by all within the tax ecosystem and procedures, communication materials, and appropriate systems can be accurately programmed for the tax filing season. IRS should then modify the instructions, post the guidance to IRS.gov and invest in a robust communication strategy to promote and educate on this new requirement.



ETAAC understands that there may be some cases where this guidance may not be ideal given all of the tax laws and rules; however we believe perfection should not get in the way of progress, and the benefit of reduced CP notices in the future, and the benefits of taxpayers who have Forms 1099-K not having to paper file, exceed any challenges that may occur as a result of unintended consequences of this recommendation.

### **3. Implement Gradual Enforcement**

ETAAC further recommends that the IRS establish a dollar value threshold below which it will not adjust the income reported on taxpayers' tax return filings based on discrepancies in the amounts reported on Forms 1099-K. In the first year of implementing new legislation, which has already caused confusion for taxpayers and tax professionals, it is appropriate to devote IRS resources to educating taxpayers through correspondence in situations where the income reported on Form 1099-K does not match the amount of income reported by the taxpayer. The IRS is well-versed in generating educational notices to taxpayers, and doing so will allow the IRS to focus on higher-priority adjustments and provide taxpayers with the information needed to correctly report taxable income.

Although information returns including the 1099-K can highlight income that can be garnished by the IRS in the form of tax levies for delinquent taxpayers, ETAAC recommends delaying the inclusion of all 1099-K forms in this process, instead similarly instituting thresholds for gradual enforcement. This will avoid unnecessary strain on IRS phone lines as well as allow payers to update their processes to comply with the levies, and enable taxpayers time to understand how to accurately report amounts on the 1099-K forms they receive to minimize the volume, especially since these notices are sent on paper.

## ETAAC Chair & Vice Chair - Direct File - Real-Time Feedback

### IRS Direct eFile Independent Review Task Force Questions for Electronic Tax Administration Advisory Committee (ETAAC) Final Written Statements from 03/31/23 Interview Call

#### BACKGROUND

We are interested in hearing from stakeholders in the public and private sector about the IRS's efforts to research the possibility of "developing and running a free direct efile tax return system," as mandated in the Inflation Reduction Act. As the independent third-party task force, we are tasked with assessing "the overall feasibility, approach, schedule, cost, organizational design, and Internal Revenue Service capacity to deliver such a direct efile tax return system."

With the following questions, we aim to gather high-level information about the tax-filing landscape, as well as ETAAC members' perspective about a potential direct efile system. We very much appreciate your willingness to provide us with this information.

You are not obligated to answer any of these questions. Additionally, if there is anything else you would like to share with us, please feel free to provide information beyond the specific questions listed here.

#### CURRENT TAX-FILING LANDSCAPE

**1. How would you briefly describe the current tax e-filing landscape? What are the various options for taxpayers, and how well do those options work?**

The current tax e-filing landscape has four major components: the IRS, states, software companies, and tax return preparers. All four work together tirelessly each year to ensure a smooth filing season for taxpayers. Industry and government collaborate regularly to solve problems and find solutions to better serve the taxpaying public.

The various options for e-filing include:

- Do It Yourself (DIY) software
- Utilizing a tax professional to file on behalf of the taxpayer
- Tax Assistance Centers such as Volunteer Income Tax Assistance (VITA), Tax Counseling for the Elderly (TCE), and the FreeFile Alliance
  - The VITA program has operated within the IRS for over 50 years and offers free help to people who need assistance in preparing their own tax returns. Generally, the VITA program is available to people who make \$60,000 or less, persons with disabilities, and limited English-speaking taxpayers.
  - Tax Counseling for the elderly offers free help for those who are 60 years of age and older, specializing in questions about pensions and retirement-related issues unique to seniors.
    - Both VITA and TCE are staffed by IRS-certified volunteers who provide tax counseling.
  - The Free File Alliance is a group of industry-leading private-sector tax preparation companies that provide free online tax preparation and electronic filing only through the IRS.gov website. IRS.gov states that the private

industry has a proven track record in providing the best technology and services available for taxpayers and, therefore, the IRS established a partnership in the Free File Alliance rather than provide its own software free to the public. Companies involved in the Free File Alliance include On-line Taxes, TaxSlayer, FileYourTaxes.com, 1040Now.net, ezTaxReturn.com, TaxAct, and FreeTaxUSA. Taxpayers making less than \$73,000 are eligible to use FreeFile.

- Software providers independently provide roughly 30 million free returns outside of the 3 million FreeFile program returns

**2. What types of taxpayers are well served by the current e-filing system?**

Arguably, most taxpayers are well served by the current e-filing system. According to the Comprehensive Taxpayer Attitude Survey published by the IRS in January 2022, paid tax professionals are the most valuable source of tax advice and information. Data indicates that aside from taxpayers that utilize IRS paper forms, most are satisfied with their current method of tax preparation.

**3. What types of taxpayers face challenges in preparing and filing a tax return under the current e-filing system? Why do these challenges exist?**

Taxpayers without reliable internet access, such as those in rural areas, struggle to access IRS.gov resources and to e-file their returns using DIY software. Some taxpayers also face challenges in creating Online Accounts and accessing transcripts on the IRS website. The process for verifying identity to create an Online Account presents challenges for those who are less technologically literate or do not feel comfortable sharing personal documents online. The EITC also presents challenges. Many assume that low-income tax returns are the “easy” returns, but the truth is that the EITC confuses taxpayers across the board and is associated with a high error and fraud rate. Preparer due diligence penalties are onerous and often drive away trained circular 230 credentialed preparers from taking on the risk of preparing these types of returns.

Lastly, taxpayers face challenges in communicating with the IRS. The IRS does not always adequately communicate with transparency, especially when returns are held or rejected. Even when taxpayers receive notice of a held or rejected return, communications from the IRS are often hard to interpret, and taxpayers may become confused about next steps. Even when taxpayers seek the help of a paid preparer, the preparer is not able to help in this situation due to lack of access.

**4. How do you think the IRS could best address the challenges for taxpayers who are currently poorly served under the existing tax filing system?**

- Focus on Service, guidance, and education.
  - The IRS answered a million more phone calls this season than last season, but improvements still need to be made. Language in IRS notices must become more accessible for the layperson, taxpayers should receive regular updates about the status of their return beyond the capabilities available in the

"Where's My Refund" tool, and clear guidance from the IRS should be issued in a timely manner.

- Accessibility
- Identity Theft Protection, IPPINs, One Time ID codes
- Greater utilization of trusted third parties who are currently working and serving this population.
  - This includes ESL and minority neighborhoods.

**5. What do you think is the role of government in supporting taxpayers to file a tax return?**

- The IRS mission: Provide 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.

**DIRECT EFILING SYSTEM**

**6. There are many different ways that a direct efile system might be designed. What primary considerations should the IRS take into account when deciding how to design such a system?**

We disagree that there are many ways. Technically there are three primary ways.

1. The IRS continues to use the current direct file system FreeFile (no cost other than marketing).
2. The IRS builds, maintains, and supports its own system on-premises with its own staff.
3. The IRS contracts through RFI/RFP for an off the shelf software provider like the VITA contract.

**Note: All Options will require expenses and marketing dollars to be spent for IRS to drive traffic to the site.**

Additional Items to Consider for Options 2 and 3 that drive up the additional cost for development:

1. The cost of a system has many facets and is not a static one-time expense
  - Developing and Hosting an In-house solution vs using Commercial-off-the-shelf (COTS) software.
  - Development & Platform Integration
  - Support
  - Maintenance
  - Education
  - Security
- Collaboration Needs
  - States
    - Whatever choice is made, state revenue departments need to be considered and the impacts to their agencies. May states start with FAGI and must choose to couple or decouple.

- Security – States rely on authentication data from the federal return.
    - Budgets of states may not allow them to develop a new system
  - Industry (stakeholders).
    - Purchasing a COTs system is no different than what the current system offers.
    - Industry provides feedback and collaboration
- Representation and Support as the Vendor Software
  -

**7. Are there ways that a direct e-file system could improve electronic tax administration?**

- We understand that there is currently a direct file option available through FreeFile and VITA that supports the current IRS Mission.
- Increased funding for marketing and awareness of the current system would be the most cost-effective way to improve the current direct file system.
- State revenue agencies and their missions must be considered.

**8. Are there ways that a direct efile system could harm electronic tax administration?**

- As we currently understand the proposal, a direct file outside of the current arrangement would run the risk of breaking the current ecosystem for tax administration, thereby generating unnecessary burdens on every taxpayer. Developing a direct file system would also run the risk of siloing the IRS even further, which harms tax administration. Areas of Harm:
  - States' Returns
  - Levels of Service
    - Tax Prep Advice
    - Auditing
  - Fighting Fraud
  - Funding and long-term stability
  - Benefit of cross collaboration
  - Taking on additional risks for preparation software services and support

**9. Can you foresee any potential risks that a direct efile system might present related to identity theft or refund fraud?**

- The security summit has standards that IRS, States, Industry, and practitioners agree upon. Lowering any of these standards to increase participation is a danger to the entire system.
- States getting leads. Sharing FTI.
- Bad actors will look to use and abuse any system that allows lowered levels of authentication and identity proofing. Traditional non-filers will become targets for low-dollar refund schemes if allowed to file with little to no authentication resulting in harm to the population this program is trying to help.

**10. Are there opportunities for the IRS and the private sector to work together in providing a direct efile system to improve e-filing services for taxpayers?**



- It is our understanding that IRS and the private sector already provide a filing system that services the direct file requirements called FreeFile
  - The FreeFile program belongs to the IRS, and its MOU, which are the rules created by the IRS, dictate how any approved software must comply to be a part of this program. The IRS already sets the rules and thresholds. We believe FreeFile currently meets the requirements outlined in the IRA direct file study.
  - There is currently a long-term working relationship that includes states in this model.
  - Zero cost to the US Government and taxpayers to maintain this platform. It is our understanding that there are no grant or contracted payments provided to the FreeFile program by the US government. We see this as a great value to the American taxpayer and valuable cost savings.
  - From our own research we believe the program suffers from underfunding by the IRS on marketing, IRS website design, Search Engine Optimization(SEO), and overall taxpayer awareness. We believe increased funding to market the current system to increase awareness is the best use of IRS resources and funding to gain the most adoption.
- VITA and TCE sites also provide free in-person assistance to taxpayers where the IRS contracts and procures software for these clinics and centers to use for filing tax returns. The overall cost is greater to the IRS for these services, and volunteers must be obtained to run these sites.

11. **Is there anything else you would like to share with us?**

- Thank you for the opportunity to provide feedback.

Regards,



Jared Ballew  
ETAAC Chairman



Vernon Barnett  
ETAAC Vice Chairman

## **Appendix C: Status of Open Prior Year Recommendations**

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ETAAC considers the following recommendations still open. While Congress and the IRS have made progress in addressing many recommendations, the recommendations set forth below, the Committee believes processes and work remain.

We have had multiple recommendations over the years that ask the IRS to do things like:

- Facilitate transparency with Congress, stakeholders, and taxpayers.
- Continuously collaborate on any promising technology initiatives with electronic administration stakeholders.
- Enhance communication with taxpayers and other stakeholders.

Communication, Collaboration, and Process Improvement require near-constant attention. Regardless of whether a specific recommendation remains open, we look forward to the IRS's future openness to engage in dialogue with ETAAC for continuous process improvement about the continuous ongoing facets of electronic tax administration.

### **2022 Recommendations**

**Recommendation 2:** ETAAC recommends that Congress provide both budgetary and legislative support that allows the IRS to leverage its successes to deliver the level of services that taxpayers expect and deserve. The formula for success includes all the following:

- Collaboration with Stakeholders to ensure system design meets user needs.
- Modern, Iterative, Flexible Design in processes and technology.
- Prioritization of projects to optimize the benefit to tax administration as a whole; and
- Balance Machines & People to ensure that repetitive tasks are assigned to machines so that people are available to assist taxpayers.

**Recommendation 3:** The IRS should, in collaboration with states and software platforms, implement enhancements to MeF that remove impediments from e-filing, with appropriate security features, taxpayer consent, and acknowledgments.

**Recommendation 5:** The IRS should work collaboratively with states and software providers to develop a long-term roadmap for Payroll and Information Return Modernization, leveraging its experience with MeF, to provide capabilities that allow a seamless experience for all stakeholders using the systems.

## **2021 Recommendations**

### **Recommendation #2: Congress should accelerate the filing deadline for certain informational returns.**

This recommendation remains open. Fabricated information returns continue to be a path that criminals use to attack tax systems. Ensuring that reporting occurs as early as possible in the filing season – January 31 – helps to ensure that the data needed to weed out fraudulent returns is available before refunds are issued.

#### *Summary from 2021 Report*

*ETAAC recommends that Congress accelerate the filing deadline for certain information returns to January 31st. Third-party information returns are a proven tool that encourages voluntary compliance and helps to reduce the tax gap. Accelerating the filing deadlines of informational returns has proven to be an effective tool to reduce fraud and increase efficiency across the tax ecosystem by allowing for more real-time matching of information reporting to tax returns. The IRS should then share the applicable state return information with states as soon as possible after receipt. The earlier filing deadlines ensure that relevant data is available when it is most needed, improving the filing season for taxpayers, tax preparers, issuers, the IRS, and states.*

### **Recommendation #3: Congress should modernize the data-sharing statutes among federal agencies.**

ETAAC recommends that Congress review and modify IRC Section 6103 to expand data sharing across federal and state agencies to combat stolen identity theft fraud. The IRS is currently limited to sharing data with other agencies for tax administration purposes. This limitation prevents the IRS from sharing detailed data related to existing and emerging schemes with other agencies that combat stolen identity fraud.

### **Recommendation #4: The Form 1099 Portal should have functionality that integrates with key stakeholders at the time of rollout.**

We are pleased to see that the 1099 portal will require authentication through SADI. In addition, ETAAC commends the IRS for designing the 1099 Portal in a way that will make the future replacement of the IRS-facing processing systems easier. We have included additional recommendations in this year's report to expand upon the needs within the payroll and information return sector. We continue to recommend that the IRS collaborate with stakeholders to ensure that the information return modernization project is designed in a way that improves the taxpayer experience by offering taxpayers a one-stop way to

file information returns with the federal and state systems. Leveraging the design strengths of MeF can simplify taxpayers' filing experience and can also enhance the fraud protection efforts of the Security Summit.

**Recommendation #5: Increase the electronic filing goals.**

ETAAC recommends that the IRS further increase its electronic filing goals to enhance the taxpayer experience. Congress set the IRS goal of 80% paperless filing for major federal tax and information returns 23 years ago. The IRS considers that they met that goal for major tax returns four years ago. ETAAC believes it is time to reset the electronic filing goal to better match digital communications progress since 1998. The IRS could either raise the 80% goal or be more inclusive of what is considered a major return, or both. Estimated tax returns, extensions, and amended returns should be added to the goals. Additional focus is warranted on the employment series of tax returns, which currently languishes around an electronic filing rate of 53%.

**Recommendation #7: Allow for greater transparency into return processing status.**

This year's report provides additional discussion and suggestions in this area.

**Recommendation #8: Expand the taxpayer protection tools in the EFIN Toolset.**

This recommendation was repeated with variations over several years, with the 2021 recommendation being the most recent. We understand that the IRS is ready to implement real-time EFIN validation capabilities, but this project has not been funded. The IRS should place this recommendation high on their priority list with a critical status.

**Recommendation #10: Accelerate the investment in and timing of digital initiatives.**

The IRS has adopted a digital-first mindset to improve the taxpayer experience but needs to accelerate the implementation of these tools. Taxpayers and practitioners alike desperately need modern, user-friendly tools to interact with the IRS digitally. The COVID pandemic has highlighted key tools where an accelerated digital commitment can enhance the taxpayer experience and create more effective and efficient tax administration. Of the tools recommended here, the IRS has implemented SADI, and has incorporated SADI into many high-use applications. We continue to recommend the following, and discuss the last item in further detail in this year's report:

- *Make permanent the temporary e-signature initiatives.*
- *Promote digital payment methods.*
- *Expand electronic filing options.*

**Earlier Recommendations:**

**2018 Recommendation #8**

Require security continuing education.

**2017 Recommendation #3**

Given its associated exceptionally high e-file rejects, the IRS should analyze the effectiveness of the Prior Year Adjusted Gross Income/Self-Select PIN taxpayer signature verification model and work collaboratively within the Security Summit to identify options to replace this model, preferably with one that could be used by both IRS and States. We provide more discussion and recommend an additional solution in this year's report.