

National Taxpayer Advocate delivers Annual Report to Congress; focuses on taxpayer impact of processing and refund delays

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WASHINGTON — National Taxpayer Advocate Erin M. Collins today released her [2021 Annual Report to Congress](#), calling calendar year 2021 "the most challenging year taxpayers and tax professionals have ever experienced." The report says tens of millions of taxpayers experienced delays in the processing of their returns, and with 77 percent of individual taxpayers receiving refunds, "processing delays translated directly into refund delays."

The report credits the Internal Revenue Service for performing well under difficult circumstances. Since the start of the pandemic, the IRS, in addition to its traditional work, has implemented significant programs enacted by Congress. Among other things, it has issued 478 million stimulus payments (referred to as Economic Impact Payments or "EIPs") totaling \$812 billion and has sent Advance Child Tax Credit (AdvCTC) payments to over 36 million families totaling over \$93 billion.

The report says "[t]he imbalance between the IRS's workload and its resources has never been greater." Since fiscal year (FY) 2010, the IRS's workforce has shrunk by 17 percent, while its workload – as measured by the number of individual return filings – has increased by 19 percent. The report reiterates the National Taxpayer Advocate's longstanding recommendation that Congress provide the IRS with sufficient funding to serve taxpayers well.

Major challenges for taxpayers

"There is no way to sugarcoat the year 2021 in tax administration," Collins wrote. "The year 2021 provided no shortage of taxpayer problems."

"While my report focuses primarily on the problems of 2021, I am deeply concerned about the upcoming filing season," Collins added in releasing the report. "Paper is the IRS's Kryptonite, and the agency is still buried in it." As of late December, the IRS had backlogs of 6 million unprocessed original individual returns (Forms 1040), 2.3 million unprocessed amended individual returns (Forms 1040-X), more than 2 million unprocessed employer's quarterly tax returns (Forms 941 and 941-X), and about 5 million pieces of taxpayer correspondence – with some of these submissions dating back at least to April and many taxpayers still waiting for their refunds nine months later.

Although e-filed returns fared better than paper returns, the report says millions of e-filed returns were suspended during processing due to discrepancies between amounts claimed on the returns and amounts reflected on IRS records. The most common discrepancy involved Recovery Rebate Credit (RRC) claims by taxpayers who did not receive some or all of their stimulus payments as EIPs the prior year. These returns had to be manually reviewed, and the IRS issued more than 11 million math error notices to taxpayers over RRC discrepancies with IRS records. When a taxpayer

disagreed with a math error notice and submitted a response, the taxpayer's response went into the IRS's paper processing backlog, further delaying the refund.

Collins is concerned that the number of returns suspended and requiring manual processing is likely to be high again in 2022. In March, Congress authorized two advance tax credits that may result in additional discrepancies between amounts claimed on tax returns and in IRS records. It authorized a third round of EIPs that may be claimed as RRCs by taxpayers who did not receive them, and it authorized monthly payments of the Advance Child Tax Credit (AdvCTC) for the second half of 2021, both of which will have to be claimed and/or reconciled on 2021 individual tax returns. The IRS is attempting to minimize discrepancies by sending notices to taxpayers who received EIPs and AdvCTC showing how much they received, but millions of discrepancies – and math error notices – remain likely.

At the postponed filing deadline of May 17, 2021, the IRS was holding 35.3 million tax returns for employee review that consisted of roughly half unprocessed paper returns and half tax returns suspended during processing, leading to refund delays for many of these taxpayers. "Refund delays have a disproportionate impact on low-income taxpayers," the report says. "Earned Income Tax Credit (EITC) benefits are worth up to \$6,660, Child Tax Credit benefits [were] worth up to \$2,000 per qualifying child under tax year 2020 rules, and RRCs are potentially worth several thousand dollars for families who did not receive some or all of their EIPs. Millions of taxpayers rely on the benefits from these programs to pay their basic living expenses, and when refunds are substantially delayed, the financial impact can range from mild inconvenience to severe financial hardship."

The report says processing delays led to a cascade of customer service problems:

The IRS's "Where's My Refund?" tool often could not answer the question. Taxpayers attempted to check the status of their refunds on IRS.gov more than 632 million times last year, but "Where's My Refund?" does not provide information on unprocessed returns, and it does not explain any status delays, the reasons for delays, where returns stand in the processing pipeline, or what actions taxpayers need to take, if any. For taxpayers who experienced significant refund delays, the tool often did not do its job.

Telephone service was the worst it has ever been. The combination of processing delays and questions about new programs like the AdvCTC caused call volumes to almost triple from the prior year to a record 282 million telephone calls. Customer service representatives (CSRs) only answered about 32 million, or 11 percent, of those calls. As a result, most callers could not obtain answers to their tax law questions, get help with account problems, or speak with a CSR about a compliance notice. "Among the lucky one in nine callers who was able to reach a CSR, the IRS reported that hold times averaged 23 minutes," the report says. "Practitioners and taxpayers have reported that hold times were often much longer, and frustration and dissatisfaction was high throughout the year with the low level of phone service."

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

The ten most serious problems encountered by taxpayers. By statute, the National Taxpayer Advocate is required to identify the ten most serious problems encountered by taxpayers in their dealings with the IRS. This year's report details the following problems: processing and refund delays; challenges in employee recruitment, hiring, and training; telephone and in-person taxpayer service; transparency and clarity; filing season delays; limitations of online taxpayer

accounts; limitations in digital taxpayer communications, including e-mail; e-filing barriers; correspondence audits; and the impact of collection policies on low-income taxpayers. For each problem, the report includes an IRS response.

Taxpayer Advocate Service administrative recommendations to the IRS

The report makes numerous recommendations to address taxpayer problems, including the following:

- **Utilize scanning technology and reduce barriers to e-filing.** The IRS could reduce its backlog of paper tax returns by using scanning technology to machine read returns, as many state tax agencies have been doing for more than ten years. In addition, some taxpayers who try to e-file their returns are blocked for several reasons, including when they need to file certain tax forms that the IRS has not programmed its systems to receive electronically. These Taxpayer Advocate Service (TAS) recommendations would reduce the need for IRS employees to manually transcribe the data from paper returns – the primary cause of the backlog and of transcription errors that led to math error notices and refund delays. For individual taxpayers who filed on paper, the report says "roughly one out of every four returns had a transcription error that could trigger an unwarranted compliance action or an erroneous refund that the IRS might later seek to recover."
- **Deploy "customer callback" technology on all telephone lines, so taxpayers and tax professionals don't have to wait on hold and can receive a return call when the next CSR is available.** Customer callback technology is not a cure-all for IRS telephone operations because if the IRS workforce only has the capacity to answer 32 million telephone calls, as it did last year, customer callback will not enable the IRS to handle the 250 million calls that went unanswered. However, many taxpayers call the IRS multiple times before they get through, and if effectively used, customer callback technology could substantially reduce the need for repeat calls.
- **Improve online taxpayer accounts and allow taxpayers to communicate with the IRS routinely by secure email.** The report says online taxpayer accounts are plagued by limited functionality. For example, taxpayers generally cannot use their online accounts to view images of past tax returns, most IRS notices, or proposed assessments; file documents; or update their addresses. Similarly, the IRS generally does not communicate with taxpayers by email. Limitations on communicating with the IRS electronically frustrate taxpayers who have been conducting comparable transactions with financial institutions for more than two decades. This increases the number of telephone calls and pieces of correspondence the IRS receives and leads to more paper processing delays.
- **Create and update a weekly "dashboard" on IRS.gov to provide the public with specific information about delays.** The IRS has created a webpage, [IRS Operations During COVID-19: Mission-critical functions continue](#), that provides certain high-level information. However, it does not provide detailed information on processing backlogs, saying for amended returns only that "[t]he current timeframe can be more than 20 weeks." It does not provide detailed information on correspondence backlogs, saying only that processing mail "is taking longer than usual," and "[t]he exact timeframe varies depending on the type of issue." It does not provide information on recent telephone delays, even though doing so would give taxpayers a better sense of whether they should devote the time to calling. TAS recommends that the IRS post a filing season dashboard, updated at least weekly, that lists each category of work and the length of time it is taking to complete it. This should include the number of weeks to process original paper tax returns and amended paper tax returns, the number of weeks to process math error and other taxpayer correspondence by category, and the percentage of taxpayers who called the IRS the previous week and reached an employee.