TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Results of the 2022 Filing Season

March 30, 2023

Report Number: 2023-40-021

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HIGHLIGHTS: Results of the 2022 Filing Season

Final Audit Report issued on March 30, 2023 **Report Number 2023-40-021**

Why TIGTA Did This Audit

This audit was initiated to provide selected information related to the IRS's 2022 Filing Season. The overall objective of this review was to evaluate whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2022 Filing Season.

Impact on Tax Administration

The annual tax return filing season is a critical time for the IRS because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures.

The IRS began processing Tax Year 2021 individual tax returns on January 24, 2022. As of May 6, 2022, the IRS had received 143.2 million individual income tax returns (with 94.7 percent electronically filed) and issued nearly 94.4 million refunds totaling approximately $285.6 billion.

What TIGTA Found

During the 2022 Filing Season, the IRS took a number of actions to reduce the backlogs of unprocessed tax returns and other tax account work. These included hiring 9,000 new employees and using more than 2,400 employees from other IRS functional areas. However, as of September 30, 2022, the IRS still had 4.1 million unprocessed Tax Year 2021 paper tax returns.

More can be done to prevent the allowance of erroneous alimony deduction claims. Taxpayers are no longer allowed to deduct alimony paid as part of a divorce or separation agreement executed after December 31, 2018. However, the IRS's processes do not prevent taxpayers from receiving the deduction. In addition, the IRS's processes still do not identify all alimony deduction claims for which the alimony recipient Taxpayer Identification Number provided is questionable. As a result, taxpayers were allowed potentially erroneous alimony deductions totaling $68.4 million. TIGTA estimates these taxpayers reduced their tax liability by $9.8 million as a result of these deductions.

The IRS provides easy-to-use self-assistance options that enable taxpayers to access the information they need 24 hours a day, seven days a week. The most notable self-assistance option is the IRS's public Internet site, IRS.gov. The IRS also offers taxpayers the ability to obtain information from the IRS using their mobile devices. In addition, the IRS provides short, informative YouTube videos in English, Spanish, Chinese, Vietnamese, and American Sign Language.

The IRS continues to experience increased demand for toll-free telephone assistance in response to the processing backlogs, including the toll-free Taxpayer Assistance Center (TAC) appointment line. TIGTA tested the IRS's ability to answer the TAC appointment line by attempting to call the appointment line 15 times and was unable to speak with an assistor to schedule an appointment on 12 of the 15 call attempts. TIGTA found that taxpayers are not being transferred into the waiting queue, but instead are being disconnected.

What TIGTA Recommended

TIGTA made a total of seven recommendations. Five recommendations were related to the processing of alimony claims including rejecting electronically filed tax returns that claim alimony deductions based on payments to an alimony recipient with a questionable Taxpayer Identification Number or claims with a divorce date after December 31, 2018. The IRS agreed with two of the five recommendations related to the processing of alimony claims.

TIGTA made two recommendations to improve customer service at TACs, recommending that the IRS develop a process to schedule TAC appointments online or enable incoming calls to be routed to a call-back function. The IRS disagreed with these two recommendations.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

March 30, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Results of the 2022 Filing Season
(Audit # 202240007)

This report presents the results of our review to evaluate whether the Internal Revenue Service (IRS) timely and accurately processed individual paper and electronically filed tax returns during the 2022 Filing Season. This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Administering Tax Law Changes.*

Management's complete response to the draft audit report is included as Appendix VI. If you have any questions, please contact me or Diana M. Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

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Background

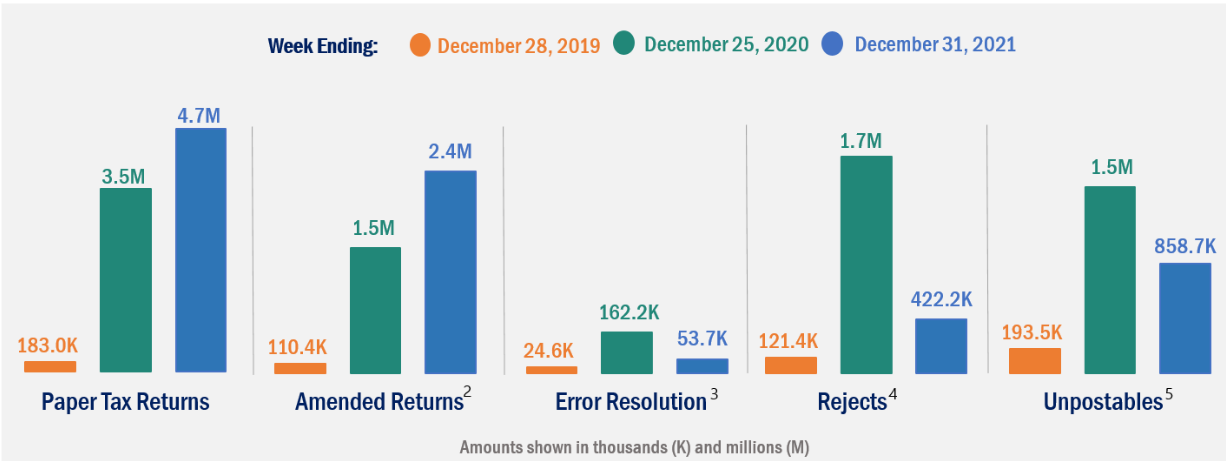
The annual tax return filing season is a critical time for the Internal Revenue Service (IRS) because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures.[1] One of the continuing challenges the IRS faces each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired provisions. In addition, ongoing backlogs of tax returns and other account work continued to challenge the IRS during the 2022 Filing Season.

Backlogs of tax returns and other taxpayer account work

IRS closures related to the pandemic and continued hiring and staffing shortfalls resulted in backlogs of tax returns and other types of tax account work from the 2020 and 2021 Filing Seasons. More than 8.4 million individual tax returns and transactions remained to be processed as of the end of Calendar Year 2021. As shown in Figure 1, the number of unprocessed paper tax returns and amended tax returns increased by nearly 1.2 million returns (34 percent) and 904,990 (60 percent) returns, respectively. However, the Error Resolution, Rejects, and Unpostable inventories declined by about 2 million cases collectively.

[1] See Appendix VII for a glossary of terms.

Figure 1: Comparison of Individual Return Inventory Carried Over to the Next Filing Season



Source: IRS Filing Season Statistics report and other inventory figures provided by the IRS to the Treasury Inspector General for Tax Administration (TIGTA).

Key tax law changes affecting Tax Year 2021 tax returns during the 2022 Filing Season

The American Rescue Plan Act of 2021 (ARPA), signed into law on March 11, 2021, affected Tax Year 2021 returns by modifying the Child and Dependent Care Credit (CDCC), Child Tax Credit (CTC), Earned Income Tax Credit (EITC), and Premium Tax Credit (PTC), and creating a third Recovery Rebate Credit (RRC).[6] Figure 2 provides a summary of these changes.

[2] Taxpayer corrections to an original tax return filing that are either being worked by Submission Processing or Accounts Management functions. For this report, the Calendar Year 2020 date is as of December 26, 2020, and the Calendar Year 2021 date is as of January 1, 2022.

[3] Tax returns identified with an error condition are suspended from processing and sent to the Error Resolution function for correction by a tax examiner.

[4] Tax returns that cannot be processed, usually due to missing or incomplete information. Tax examiners correspond with the taxpayer to clarify an entry on a return. When the taxpayer responds, the tax examiner will resolve the issue and the return will continue processing.

[5] Transactions that will not post to the taxpayer's account because they failed validity checks. The unpostable condition must be resolved in order to complete processing of the transaction.

[6] Pub. L. No. 117-2, 135 Stat. 4 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.).

Figure 2: Summary of ARPA Legislation Affecting Tax Year 2021 Tax Returns

The ARPA contains many significant tax-related provisions that affect the 2022 Filing Season.

Expands the CDCC for Tax Year 2021 only

- Increases:
  - the percentage of applicable expenses to 50 percent,
  - the dollar limit for qualifying expenses to $8,000 for one qualifying person and $16,000 for two or more qualifying persons,
  - the credit amount to a maximum of $4,000 for one qualifying person and $8,000 for two or more qualifying persons.
- Makes the credit fully refundable if the taxpayer has a principle abode in the United States for more than one-half of the tax year.

Expands the CTC for Tax Year 2021 only

- Increases the credit to $3,000 for children ages 6 to 17 ($3,600 for children under age 6).
- Makes the credit fully refundable if the taxpayer has a principle abode in the United States for more than one-half of the tax year or if the taxpayer is a resident of Puerto Rico.
- Directs the IRS to make periodic advance payments of up to 50 percent of an individual's estimated Tax Year 2021 CTC beginning on July 1, 2021, through December 31, 2021. Taxpayers must reconcile any advance payments received with the CTC claimed on their Tax Year 2021 tax return.

Expands the EITC

- Allows individuals to use Tax Year 2019 earned income to figure their Tax Year 2021 EITC if the 2019 earned income is more than the taxpayer's 2021 earned income.
- Lowered the minimum age for EITC claimed without a qualifying child for Tax Year 2021 only.
- Eliminated the maximum age limit for Tax Year 2021 only.
- For Tax Years 2021 and thereafter, individuals who have a child who meets all other qualifying child requirements except the Social Security Number requirement can now claim the child for the purposes of the EITC, but the amount of EITC the individual can receive is limited to the self-only amount.
- Makes the credit available for certain married taxpayers not filing joint returns who meet the requirements of a new special rule to claim the credit as a separated spouse.

Expands the PTC

- Increases the PTC for all income brackets for coverage years beginning in Tax Years 2021 and 2022. The *Inflation Reduction Act of 2022*, enacted on August 16, 2022, extended these increases through Tax Year 2025.[7]
- Establishes special rules for taxpayers who receive or are approved to receive unemployment compensation for as little as one week during Calendar Year 2021.

Issues a RRC for Tax Year 2021

- Provides a stimulus payment of up to $1,400 per eligible individual.
- Directs the IRS to make advance payments as soon as possible but not later than December 31, 2021.
- Taxpayers must reconcile advance payments received with the RRC claimed on their Tax Year 2021 tax return.

Source: TIGTA analysis of the ARPA.

This report presents the results of our assessment of the IRS's efforts to process individual Tax Year 2021 paper and electronically filed (e-filed) tax returns during the 2022 Filing Season. This report also includes information on the IRS's efforts to detect and prevent tax refund fraud and assist taxpayers. The results are presented as of several dates between January and October 2022 depending on when the information was available.

[7] Pub. L. No. 117-169, 136 Stat. 1818.

Results of Review

During the 2022 Filing Season, the IRS undertook a number of actions to reduce the backlogs of unprocessed tax returns and other tax account work. These included hiring 9,000 new employees and using more than 2,400 employees from other IRS functional areas, and contracting with a third party to provide temporary resources to process tax returns. These efforts have enabled the IRS to reduce persistent inventory backlogs, yet additional work is needed. As of July 1, 2022, the IRS had transcribed all individual Tax Year 2020 paper tax returns into its tax return processing systems. However, the IRS still had 9.5 million unprocessed Tax Year 2021 paper tax returns. The inability to timely process tax returns and address tax account work continues to have a significant impact on the associated taxpayers.

The IRS created or modified e-file business rules and error resolution codes used to identify potential errors on individual tax returns to reflect changes enacted in the ARPA and implemented processes to enable taxpayers to use their Tax Year 2019 earned income when claiming the EITC. We are conducting separate reviews of the IRS's implementation of the ARPA changes to the CDCC, CTC, PTC, RRC, and EITC claimed without a qualifying child.[8]

In addition, we continue to find that IRS processes identify and prevent the loss of revenue due to tax refund fraud and identity theft. The IRS also provides service to taxpayers via numerous online services. However, access to toll-free telephone service and face-to-face assistance at IRS Taxpayer Assistance Centers (TAC) continues to be limited.

Processing Tax Returns

Individual Tax Return Receipts and Number of Refunds Issued Decreased From the 2021 Filing Season

The IRS began processing Tax Year 2021 individual tax returns on January 24, 2022. During Calendar Year 2022, the IRS expects to receive about 161 million individual income tax returns (13 million paper and 148 million e-filed individual income tax returns). The total e-file volumes are projected to increase by 1.7 million (1.2 percent) in Calendar Year 2022. As of May 6, 2022, the IRS had received 143.2 million individual income tax returns. See Figure 3 for Filing Seasons 2021 and 2022 comparative statistics.

[8] See Appendix V for a list of TIGTA audits covering the ARPA legislation.

Figure 3: Comparative Filing Season Statistics

Cumulative Filing Season Data	2021 Actual	2022 Actual	% Change
Individual Income Tax Returns			
Total Returns Received (000s)	150,938	143,164	-5.2%
Paper Returns Received (000s)	10,864	7,553	-30.5%
E-Filed Returns Accepted (000s)	140,074	135,611	-3.2%
Practitioner-Prepared (000s)	75,276	72,130	-4.2%
Home Computer (000s)	64,798	63,481	-2.0%
Free File (000s) *(in the Home Computer total)*	4,371	2,995	-31.5%
Percentage of Returns E-Filed	92.8%	94.7%	2.1%
Refunds			
Total Number Refunds Issued (000s)	102,380	94,399	-7.8%
Total Refund Dollars	$285.0 billion	$285.6 billion	0.2%
Average Refund Amount	$2,784	$3,025	8.7%
Total Number of Direct Deposits (000s)	92,626	88,861	-4.1%
Total Direct Deposit Dollars	$264.6 billion	$276.2 billion	4.4%

Source: Multiple 2022 Filing Season reports. The 2021 Filing Season figures are through June 4, 2021, and the 2022 Filing Season figures are through May 6, 2022. These dates are approximately three weeks past the respective years' filing due dates. Totals and percentages shown are rounded.

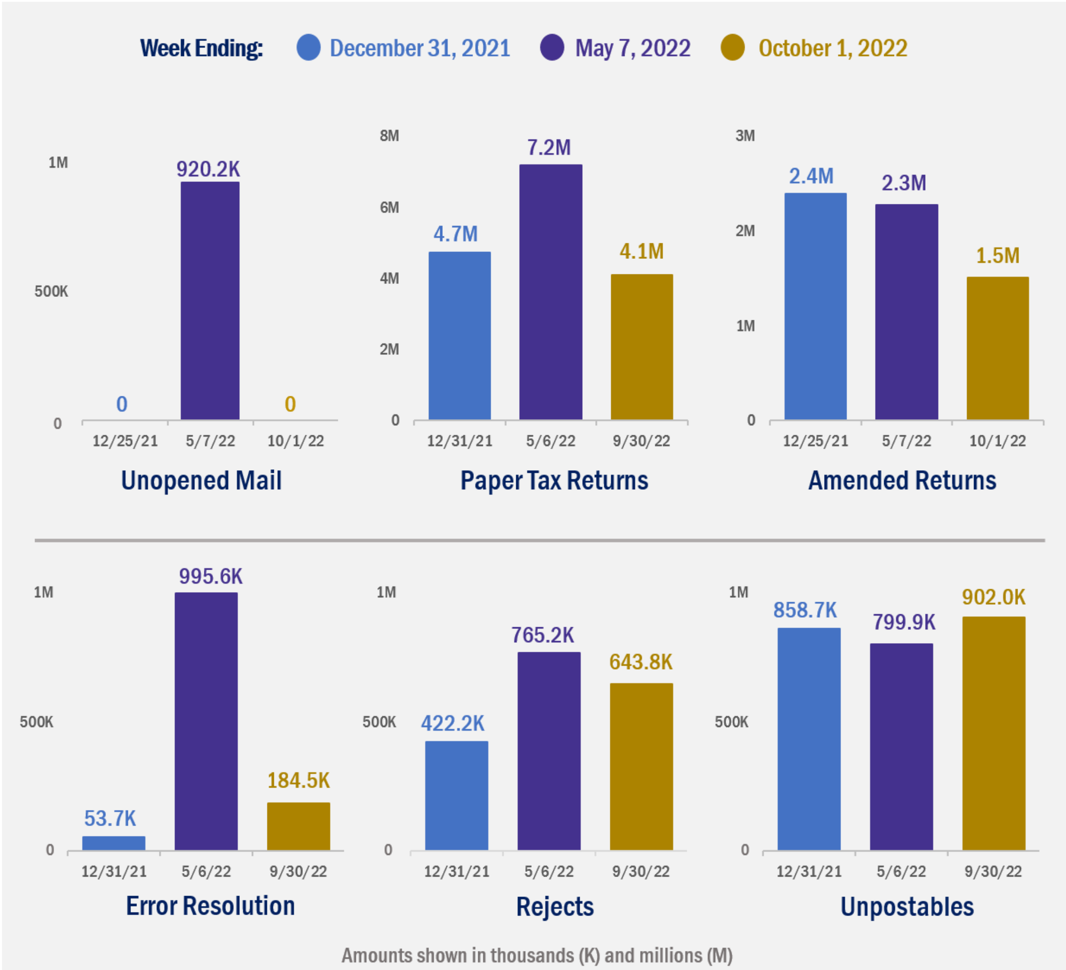
The IRS delayed the 2021 Filing Season and began processing tax returns on February 12, 2021; however, the due date was extended to May 17, 2021. Similar to the last filing season, the IRS is also processing a significant number of prior year tax returns that were received during Calendar Year 2021.

Backlogs of Individual Tax Returns and Other Tax Account Work Remain High

IRS management indicated they completed initial processing of all unprocessed paper tax returns received during Calendar Year 2021 before they began processing current year paper tax returns received in Calendar Year 2022.[9] IRS reports show that the initial processing of tax returns from the Calendar Year 2021 carryover inventory was completed as of July 1, 2022. This is a change of approach from what the IRS did to address the backlogs in the 2021 Filing Season whereby the IRS processed work from Calendar Year 2020 at the same time as current year paper returns. Figure 4 provides a comparison of the IRS's volumes of individual tax return work to be processed as of the week ending December 31, 2021, to the work remaining as of the weeks ending May 7, 2022, and October 1, 2022. The figures provided for Error Resolution, Rejects, Unpostables, and Amended Returns include tax returns received during Calendar Years 2021 and 2022, *i.e.*, Tax Years 2020 and 2021 returns that have not completed processing.

[9] Initial processing refers to the steps necessary to get the tax return entered into the IRS's processing system. After initial processing, a return could be identified for further review to correct both taxpayer and IRS errors.

Figure 4: Individual Tax Return Work



Source: The IRS's Submission Processing Weekly Inventory Tracking Report, IRS-provided weekly inventory levels; and the Customer Account Services Form 1040X Consolidated Inventory Report (which includes Submission Processing and Accounts Management inventories).

In addition to the inventories shown in Figure 4, the IRS has other functional areas continuing to work through backlogs resulting from the closure of its Tax Processing Centers in Calendar Year 2020. For example:

- The **Accounts Management function** is responsible for assisting taxpayers with questions about the tax laws, their tax account, and the status of their refunds, as well as making adjustments to tax accounts when necessary. At the end of Calendar Year 2021, the IRS reported that more than 8 million cases remained in the Accounts Management inventory, with more than 7 million cases remaining in inventory as of May 7, 2022. As of October 1, 2022, inventory levels have been reduced to more than 5 million. These figures reflect both individual and business tax account work in Accounts Management inventories and include amended returns and carryback claims. The figures presented also include taxpayer relations work, a large portion of which consists of accounts maintenance transcript work. We are conducting a separate audit of the IRS's efforts to address the inventory backlog in Accounts Management and plan to report our results in Calendar Year 2023.[10]

- The **Return and Income Verification Services (RAIVS) function** is responsible for processing requests for wage and income information, tax return and account information transcripts, and verification of nonfiling. At the end of Calendar Year 2021, the IRS reported 857,938 cases remained in this function's inventory, with 921,217 cases remaining in inventory as of May 20, 2022. As of September 30, 2022, inventory levels increased to more than 1 million.

  In September 2022, we reported that we alerted management of our concern about the disproportionate allocation of resources in the RAIVS function and recommended that the IRS evaluate alternatives to address the increasing volume of RAIVS inventory at the Kansas City Tax Processing Center.[11] In response to our alert, IRS management indicated that they developed an action plan to move work to the other campuses to allow Kansas City to focus on reducing RAIVS inventory. However, as of May 18, 2022, the IRS did not have target dates or time frames for the action plan. IRS management indicated that they have not established target dates because all Tax Processing Center RAIVS resources are currently focused on addressing an increasing backlog of Income Verification Express Service requests related to the IRS's attempts to implement its Enterprise File Storage system.[12]

Hiring efforts are improving

Receiving direct-hire authority enabled the IRS to take significant steps to increase hiring in its Submission Processing and Accounts Management functions.[13] The use of direct-hire authority reduces the time associated with hiring employees and enables the IRS to bring on successful applicants within 30 to 45 days of their job offer. The IRS held four virtual and six in-person direct-hire events between February 2022 and early June 2022 for its three Tax Processing Centers. As of June 23, 2022, the IRS made tentative job offers to 5,016 individuals for its Submission Processing function.

As of September 29, 2022, the IRS has onboarded 5,290 Accounts Management employees, which is 106 percent of its hiring goal of 5,000. However, the IRS continues to struggle to meet its Submission Processing function hiring goals. As of September 27, 2022, the IRS onboarded

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[10] TIGTA, Audit No. 202240622, *Continued Assessment of the IRS's Efforts to Address the Backlog of Over-Aged Accounts Management Inventory During Filing Season 2022*.

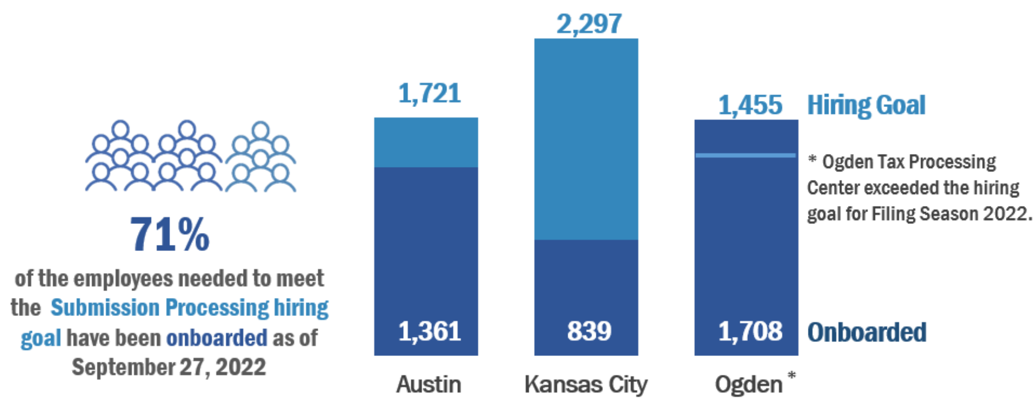
[11] TIGTA, Report No. 2022-46-057, *Delays in Management Actions Contribute to the Continued Tax Processing Center Backlogs* (Sep. 2022).

[12] Income Verification Express Service Program participants primarily serve as an intermediary by receiving tax transcript requests from their clients such as banks or mortgage companies, submitting the requests to the IRS for processing, receiving the tax transcripts from the IRS, and then providing them to their clients that use the transcripts to verify taxpayer income in a loan application process. The IRS is implementing its Enterprise File Storage system for the processing of the Income Verification Express Service transcript requests. This system is intended to provide centralized document management and electronic workflow capabilities to process IRS work without paper. During implementation, the IRS has had technical issues involving server capacity and downtime that has delayed the processing of transcript requests.

[13] A direct-hire authority is an appointing (hiring) authority that the Office of Personnel Management can give to Federal agencies to fill vacancies when a critical hiring need or severe shortage of candidates exists.

3,908 Submission Processing employees, which is 71 percent of its hiring goal of 5,473.[14] Figure 5 shows the hiring progress at each of the Tax Processing Centers.

Figure 5: Submission Processing Function Hiring Progress As of September 27, 2022



Source: TIGTA analysis of IRS Hiring Statistics as of September 27, 2022.

IRS management explained that there are a number of challenges that impede their hiring efforts, with their top concerns noted in Figure 6.

Figure 6: Top Staffing Concerns

Top staffing concerns

Seasonal workforce. A seasonal workforce does not provide permanent employment or desirable schedules and shifts.

Competitive pay. The Submission Processing function has several low-grade clerical positions, such as mail clerks in its Receipt and Control Operations. These employees can find similar entry-level positions in private industry for higher pay.

Overlapping applications. Applicants often apply for multiple job openings, reducing the true number of candidates available to fill vacancies.

Applicants fallout. Applicants fallout throughout the process because of their failure to respond or failure to pass a pre-screen suitability for tax compliance and background fingerprinting. Additionally, there are often candidates who do not show up for work after they have been hired.

On-boarding time. The length of time it takes to onboard a new employee may be contributing to lower on-boarding numbers.

Source: TIGTA-generated figure based on IRS concerns.

We performed a separate review of the IRS's hiring efforts which identified concerns related to fingerprinting and employment eligibility verification delays during the pandemic.[15]

[14] The 3,908 Submission Processing employees includes 1,028 internal hires and 2,880 external hires.

[15] TIGTA, Report No. 2022-16-039, *Fingerprinting and Employment Eligibility Verification Delays Due to the COVID-19 Pandemic May Increase Taxpayer Data Exposure Risks* (July 2022).

Several initiatives are underway to help address backlogs and reduce taxpayer burden

The Executive Order on Protecting the Federal Workforce (EO 14003), issued on January 22, 2021, directed the Office of Personnel Management to promote a $15 per hour minimum pay rate for Federal employees. On January 21, 2022, the Office of Personnel Management issued guidance on how agencies should adjust pay rates for affected employees. The $15 minimum hourly rate policy is effective beginning on the first day of the applicable pay period on or after January 30, 2022. In response, the IRS took the necessary actions to increase the salaries of impacted employees to meet the requirements of the Executive Order. However, IRS management indicated that competing with private sector pay is still a challenge.

On March 10, 2022, the IRS also announced its plans to address the ongoing backlog of tax returns and other tax account work during Calendar Year 2022. These initiatives, referred to as the *Get Healthy Plan*, were intended to return the IRS to healthy inventory levels by the end of Calendar Year 2022. Figure 7 provides an overview of the *Get Healthy Plan* initiatives. In December 2022, we reported that these efforts resulted in an increase in productivity, *i.e.*, the number of returns processed; however, our assessment of remaining inventory indicated that the IRS will not meet all of its goals by the end of Calendar Year 2022. As a result, the IRS will continue to have a backlog into the 2023 Filing Season.[16]

[16] TIGTA, Report No. 2023-46-007, *Backlogs of Tax Returns and Other Account Work Will Continue Into the 2023 Filing Season* (Dec. 2022).

Figure 7: Overview of the *Get Healthy Plan* Initiatives

IRS Get Healthy Plan Initiatives

Hiring and detailing thousands of employees to tackle the backlog

- Using recently obtained direct-hire authority to hire 5,000 new employees at its Tax Processing Centers.
- Continuing the use of overtime for employees working original and amended tax returns (mandatory overtime for approximately 6,000 employees and voluntary overtime for approximately 10,000 employees).
- Detailing approximately 1,500 employees from other IRS functions to work tax return and tax account inventory.
- Contracting with a temporary hiring agency to help with original return processing, including mailroom operations, transcription, and input of paper tax returns into IRS systems.

Communicating directly with taxpayers to help reduce tax return errors and related processing delays

- Sending taxpayers a letter showing the amount they received in advance RRC and CTC payments for use in filing their tax return.
- Creating new and expanding existing online self-service portals for taxpayers.
- Increasing the availability of in-person support at TACs through extra hours (including weekends).
- Awarding $41 million of support to over 330 volunteer tax assistance organizations across the country that provide free Federal tax return preparation to the underserved.
- Expanding customer callback to 70 percent of IRS toll-free telephone lines.
- Deploying 2,000 contractors to respond to taxpayer questions about the advance RRC and CTC payments.

Developing and deploying updated technology to automate functions

- Implementing a new automated tool to correct tax return errors.
- Suspending dozens of common notices to reduce taxpayer burden and prevent inventory increases.
- Implementing new automated support technology such as voice and chat bots in English and Spanish to quickly answer taxpayer queries.

Source: TIGTA analysis of the IRS's Get Healthy Plan.

In addition, the IRS collaborated with a third-party vendor to develop and test a scanning and digitalization solution to address the backlog of Tax Year 2020 tax returns. The project's goal is to scan a paper tax return that was prepared using tax preparation software in order to convert it to a format suitable for electronic processing. Before a scanned return can be processed, the scanned image must be validated. As of August 20, 2022, the IRS reports that 134,592 tax returns were scanned and required 12,187 hours to validate at an overall rate of approximately 11 documents per hour. Once validated, 95,724 (71 percent) of the scanned returns were processed, whereas 38,868 tax returns involved potential taxpayer errors requiring review in the Error Resolution function.

On September 15, 2022, the Treasury Secretary announced that the IRS would automate the scanning of millions of individual paper tax returns for Filing Season 2023, speeding up the issuance of refunds. We plan to evaluate the IRS's ongoing efforts to convert paper returns to an electronic format.[17]

[17] TIGTA, Audit No. 202340829, *IRS Efforts to Scan Paper Filed Individual Tax Returns for the 2023 Filing Season.*

Implementation of Key Provisions of the American Rescue Plan Act

As discussed previously, the ARPA modified the CDCC, CTC, EITC, and PTC and created a third RRC. As of May 5, 2022, taxpayers have claimed $266.1 billion in these credits. Figure 8 shows the number of tax returns processed with one of these credit claims.

Figure 8: Tax Returns Processed With Select Tax Credit Claims as of May 5, 2022

Taxpayers have claimed $266 billion of ARPA credits as of May 5, 2022.

Tax Credit	Number of Returns	Amount Claimed
CDCC (Refundable)	5.2 million	$11.1 billion
CDCC (NonRefundable)	426,000	$778.4 million
CTC	32.7 million	$171.6 billion[18]
EITC (claimed without a qualifying child)	12.8 million	$10.7 billion
PTC	5.8 million	$38.9 billion
RRC	17.8 million	$33.0 billion
Grand Total	**74.7 million[19]**	**$266.1 billion**

Source: TIGTA analysis of tax return data included in the IRS's Returns Transaction File and the Individual Master File as of May 5, 2022. A tax return can contain a claim for more than one of the credits listed.

Although we are conducting separate reviews of the IRS's implementation of these tax credits and reconciliation of advance CTC and RRC payments on Tax Year 2021 returns, we did assess the accuracy of the e-file business rules and Error Resolution Codes the IRS created or modified as a result of the ARPA, as well as 36 additional business rules that were created or modified for the 2022 Filing Season.[20] We also evaluated the IRS's processes to verify EITC claims for which the taxpayer elected to use Tax Year 2019 earned income and IRS's ongoing efforts to ensure that eligible individuals receive a refund of excluded unemployment income that was reported on their Tax Year 2020 tax return.

Accuracy of e-file business rules and error resolution codes

The IRS uses e-file business rules and error resolution codes to identify errors on tax returns at the time the returns are filed. In response to changes to the CDCC, CTC, EITC, PTC, and RRC

[18] Includes $70.7 billion in CTC that was paid in advance.

[19] The total number of tax returns could be overstated due to multiple credits being claimed on a tax return.

[20] We plan to issue the results of our reviews in Calendar Year 2023. See Appendix III for a list of the business rules covered in each of the applicable TIGTA audits.

enacted in the ARPA, the IRS created 22 new e-file business rules and error resolution codes and modified 25 existing business rules and error resolution codes. Our review found that one CDCC business rule and one EITC business rule were not functioning as intended. The RRC error resolution code was working as intended. Our review of the remaining error resolution codes is still in progress. Figure 9 provides the status of our review of these 47 e-file business rules and error resolution codes. The final results of our assessment of these business rules and error resolution codes will be included in the respective audit reports we plan to issue in Calendar Year 2023.

Figure 9: Status of Select Tax Credit Business Rules and Error Resolution Codes

The IRS created 22 new e-file business rules and error resolution codes and modified 25 existing rules and codes in response to the enactment of the ARPA. We reviewed these 47 e-file business rules and error resolution codes to determine whether they were working as intended.

Tax Credit	New	Modified	Business Rules Working as Intended	Error Resolution Codes Working as Intended
CDCC (Refundable)	3	4	No	In process
CTC	13	8	Yes	In process
EITC (claimed without a qualifying child)	3	1	No	In process
PTC	2	12	Yes	In process
RRC	1	0	No new or modified rules	Yes
Total	22	25		

Source: TIGTA analysis of tax return data in IRS's Modernized Tax Return Database, Error Resolution System, and the Returns Transaction File.

On February 17, 2022, we alerted IRS management of our concerns that the CDCC business rules were not updated to reflect the changes made to the Tax Year 2021 Form 2441, *Child and Dependent Care Expenses,* for claiming the refundable CDCC. We recommended that the IRS update the business rule programming to identify and evaluate returns for both refundable and nonrefundable CDCC claims. We also recommended that the IRS revise the reject condition explanation that is sent to taxpayers and providers to reflect the updated line numbers and naming conventions for the Tax Year 2021 Form 2441.

IRS management agreed that the programming for these business rules did not include refundable CDCC claims, and partially agreed that the language sent to taxpayers needed to be revised. IRS management stated that due to information technology standards, line numbers are removed from the explanation sent to the taxpayer when a business rule is updated. IRS management also stated that they have submitted a computer programming change request to revise the business rule criteria and to update the explanation provided to taxpayers and providers. On March 20, 2022, the IRS implemented three new business rules and modified seven existing business rules in response to our e-mail alert. We are continuing to monitor the three new CDCC e-file business rules.[21]

As previously mentioned, we also reviewed an additional 36 e-file business rules that were created or modified for the 2022 Filing Season. These rules identify potential taxpayer errors involving discrepancies between the various forms and schedules attached to the Form 1040, *U.S. Individual Income Tax Return*. TIGTA found that e-filed tax returns were accurately rejected for 27 of the 36 business rules. We were unable to test the nine remaining business rules because no e-filed returns had been rejected for these conditions as of August 30, 2022. These nine rules are related to the incorrect use of lines on a form that are reserved for future use, and as such, we did not expect tax returns to reject for these rules. We identified no concerns with the functionality of the 36 business rules when accepting e-filed returns. In addition, we ensured that the 125 business rules that were deleted or disabled did not reject Tax Year 2021 tax returns in error.

Use of Tax Year 2019 earned income to claim the EITC

Eligible individuals can elect to use their Tax Year 2019 earned income to figure their Tax Year 2021 EITC if their 2019 earned income is more than their 2021 earned income. The IRS accurately updated the Form 1040 instructions for this prior year earned income rule, and included a warning that taxpayers cannot use their 2020 earned income to claim the EITC. Our review of 1.6 million e-filed tax returns filed as of March 15, 2022, with an EITC prior year earned income election found that the IRS correctly used the earned income amount provided by the taxpayer to determine the taxpayer's allowable EITC. However, the IRS has no processes to ensure that the taxpayer provided the correct prior year earned income amount before the credit is allowed. As a result, the IRS issued $28.3 million in potentially erroneous EITC to 28,884 taxpayers who made the election to use prior year earned income but incorrectly used their Tax Year 2020 earned income instead of their Tax Year 2019 earned income to calculate the credit.[22]

Our review also indicates taxpayers may not fully understand when, or whether, they should use prior year earned income to calculate the EITC. Congress has provided taxpayers the ability to use prior year earned income for purposes of claiming the EITC in the past. However, taxpayers have generally been allowed to use the immediate prior year earned income to calculate their EITC. For example, for a Tax Year 2020 claim, taxpayers could use their Tax Year 2019 earned income to calculate their credit. For Tax Year 2021 claims, the ARPA only allows taxpayers the option to use their Tax Year 2019 earned income to calculate the credit. This distinction appears to have caused confusion for taxpayers, resulting in taxpayers potentially not receiving the full benefit of the EITC. If the 28,884 taxpayers who incorrectly used their Tax Year 2020 earned

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[21] TIGTA, Audit No. 202240709, *Expansion of Earned Income Tax Credit and Child and Dependent Care Credit Eligibility Requirements.*

[22] For the 28,884 tax returns, although the taxpayer made the election to use their prior year earned income to calculate the EITC, we did not ensure that their Tax Year 2019 earned income was more than their 2021 earned income.

income to claim the EITC for Tax Year 2021 had not made the election to use prior year earned income to calculate the credit, they could have potentially received an additional $33 million in EITC by calculating the credit using their Tax Year 2021 earned income. When the use of current year earned income would result in a larger EITC, the taxpayer is not required to calculate the credit using prior year earned income. The ability to use prior year earned income to calculate EITC is an option if the prior year earned income is more than the 2021 earned income and would result in more EITC.

The prior year earned income rule enacted by the ARPA is only effective for Tax Year 2021 tax returns. However, as mentioned, similar rules have been enacted a number of times before. Should Congress enact a similar rule in the future, the IRS should provide additional outreach with particular focus on explaining when it is most beneficial for taxpayers to use their prior year income to claim the EITC. The IRS should also develop processes to verify that the prior year earned income amount used by the taxpayer is for the allowable tax year(s); *e.g.*, Tax Year 2019 for Tax Year 2021 EITC claims.

Status of efforts to issue refunds for exempt unemployment compensation reported on Tax Year 2020 returns

The ARPA, enacted on March 11, 2021, retroactively excluded up to $10,200 in unemployment income from Tax Year 2020 taxable income for individuals with modified adjusted gross income of less than $150,000. If the taxpayer and their spouse both had unemployment income, they could exclude up to $20,400 of the unemployment compensation. Because this provision was enacted after taxpayers started filing their Tax Year 2020 returns, the IRS had already received tax returns from many of the taxpayers to whom this provision applied.

In March 2022, we reported that, as of October 14, 2021, the IRS had issued more than 13.5 million recovery payments totaling $6.3 billion for taxpayers who reported income from unemployment compensation.[23] The IRS continued issuing these recovery payments throughout Calendar Year 2022. As of September 15, 2022, the IRS reported that it had adjusted more than 13.7 million accounts for unemployment compensation through the systemic recovery process and issued nearly 12 million refunds totaling over $14.7 billion. IRS management stated that they have not yet finished adjusting the affected tax accounts. As such, we plan to finalize our review of the IRS's recovery process during our review of the 2023 Filing Season.[24]

More Can Be Done to Prevent the Allowance of Erroneous Alimony Deduction Claims

The Tax Cuts and Jobs Act, signed on December 22, 2017, repealed the deduction for alimony paid as part of a divorce or separation instrument executed after December 31, 2018.[25] However, the IRS's processes do not prevent taxpayers from receiving a deduction for alimony paid as part of these agreements. In addition, the IRS's processes still do not identify all alimony deduction claims for which [redacted] or the Taxpayer Identification

[23] TIGTA, Report No. 2022-40-024, *Results of the 2021 Filing Season* (Mar. 2022).

[24] TIGTA, Audit No. 202340003, *2023 Filing Season Individual Tax Return Processing.*

[25] Pub L. 115-97, 131 Stat. 2054 (codified in scattered sections of 26 U.S.C.).

Number (TIN) provided is invalid or ensure that penalties for providing an invalid alimony TIN are assessed when warranted. As a result, taxpayers were allowed potentially erroneous alimony deductions totaling $68.4 million. We estimate these taxpayers reduced their tax liability by $9.8 million as a result of these deductions.

Specifically, our review of Tax Years 2020 and 2021 returns processed as of May 5, 2022, identified:

- 4,033 Tax Year 2021 returns for which the recipient TIN is invalid or [redacted]. These taxpayers were allowed erroneous deductions totaling $59.2 million and reduced their tax liability by an estimated $8.5 million.
- 1,055 Tax Year 2021 returns for which the IRS did not assess taxpayers $52,750 in penalties for providing an invalid recipient TIN.
- 691 Tax Year 2020 and Tax Year 2021 e-filed returns with a reported divorce date after December 31, 2018, that were allowed $9.2 million in erroneous deductions. We estimate these taxpayers reduced their tax liability by $1.3 million.

Alimony deduction claims with an invalid or [redacted] TIN are not being selected for review

Our review of 260,263 Tax Year 2021 returns processed through May 5, 2022, that claimed an alimony deduction, identified 4,033 returns for which the recipient TIN provided by the taxpayer was invalid or that of a [redacted]. In August 2019, we recommended the IRS include the validation of alimony recipient TINs as part of its tax return processing systemic TIN validation process and reject e-filed tax returns with TINs identified as not being issued by the Social Security Administration or the IRS. We also recommended the IRS modify Error Resolution System (ERS) programming to send tax returns that contain an invalid recipient TIN to the Error Resolution function for review and correspondence with the taxpayer.[26]

The IRS has Discretionary Exam Business Rules that identify tax returns for post-processing review for which the alimony recipient TIN is either invalid or [redacted]. However, IRS management informed us that the Discretionary Exam Business Rules that identify claims with an invalid or [redacted] TIN were not being used because other alimony filters provide better examination results, *i.e.,* a higher percentage of these cases result in a change and yield larger assessments.

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Develop programming to reject e-filed tax returns that claim alimony deductions that are based on payments to an alimony recipient with an invalid TIN or to a recipient [redacted] tax year being processed.

> **Management's Response:** The IRS disagreed with this recommendation. IRS management stated that they are unable to reject these types of returns based on applicable case law. The IRS has to accept a "valid return." A return is valid under the Beard decision if it purports to be a return, contains enough information to compute the

[26] TIGTA, Report No. 2019-40-048, *Additional Actions Are Needed to Reduce Alimony Reporting Discrepancies on Income Tax Returns* (Aug. 2019).

tax liability, represents an honest and reasonable attempt to satisfy the requirements of the tax law, and is signed under penalty of perjury.[27] To that end, returns filed electronically and that claim alimony deductions based on payments reported to an invalid TIN or that of a recipient [redacted] tax year are valid returns meeting the Beard test. Without math error authority, the IRS has to accept the return and then conduct an audit.

Office of Audit Comment: IRS management's claim that the Beard decision prevents them from rejecting alimony deduction claims with an invalid or [redacted] TIN is inconsistent with current e-file reject processes. For example, the IRS has implemented e-file business rules to reject tax returns when the TIN in question is invalid or [redacted]. In addition, IRS management previously agreed that they have not consistently applied the Beard decision criteria when determining how best to address taxpayer errors on e-filed tax returns.

Recommendation 2: Develop fraud detection filters to identify for review alimony deductions that are based on payments to an alimony recipient [redacted] tax year being processed.

Management's Response: The IRS disagreed with this recommendation. IRS management stated that, based on existing case law, the IRS has to accept these returns as they are valid returns under the Beard decision. Because of this, the IRS cannot reject these returns at filing and the pre-refund filters are not an appropriate treatment stream. The returns must be allowed into the IRS's processing systems. In addition, the IRS has existing processes in place that evaluate and select returns for review when alimony deductions are claimed. Correcting noncompliance on these returns requires audit procedures. The IRS will continue to evaluate the priority of this work against other work in its examination planning processes. As the IRS moves into a future operating model and organizational structure, it will evaluate new treatment streams for this type of noncompliance.

Office of Audit Comment: As we report, the IRS is no longer using the post-processing examination rules it developed to address invalid or [redacted] alimony recipient TINs. We will continue to monitor the effectiveness of the IRS's use of other post-processing examination processes in addressing alimony claims that have an invalid or [redacted] TIN.

Processes do not ensure that penalties are assessed for alimony claims with an invalid recipient TIN

Internal Revenue Code Section 6723 allows for a penalty assessment of $50 when a taxpayer fails to comply with a specified information reporting requirement. This allows the IRS to assess a $50 penalty when an individual does not provide a valid alimony recipient's TIN, *i.e.*, not issued by the Social Security Administration or IRS when claiming an alimony deduction. Our analysis of 260,263 Tax Year 2021 returns processed through May 5, 2022, that claimed an alimony deduction identified 1,055 returns with alimony deductions allowed totaling $17.7 million that

[27] Beard v. Commissioner, 82 T.C.766, 774-79 (1984), aff'd 793 F.2d 139 (6th Cir 1986).

contained an invalid recipient TIN. None of the taxpayers were penalized as allowed. These taxpayers should have been assessed $52,750 in penalties. Further review of the 1,055 returns found that the most common invalid TIN used was 999-99-999 (32 returns). We shared the results of our analysis with IRS management on June 30, 2022. As a result, IRS management stated that they plan to begin rejecting e-filed returns that provide a recipient TIN containing all nines for the 2023 Filing Season.

In August 2019, we recommended the IRS modify ERS programming to send both e-filed and paper tax returns that contain an invalid recipient TIN to the Error Resolution function for review and correspondence with the taxpayer. Having Error Resolution function employees review the tax return would enable assessment of the penalty when required. While IRS management did not agree to correspond with the taxpayer, management indicated they would request programming to systemically assess the $50 penalty.[28] However, we found that the programming has not been implemented and will not be implemented for the 2023 Filing Season.

Alimony deductions were erroneously allowed for tax returns with a divorce date after December 31, 2018

IRS return processing procedures stipulate that Forms 1040 filed for Tax Year 2019 and subsequent tax years that contain an alimony deduction with a divorce or separation agreement date after December 31, 2018, be manually reviewed by the Error Resolution function. During processing, the IRS systemically identifies these claims for review by placing a special processing code on the tax return. During the correction process, tax examiners are instructed to delete any alimony deduction amounts with a divorce or separation agreement date after December 31, 2018.

The IRS had processed 655,510 Tax Year 2020 (as of November 29, 2021) and Tax Year 2021 (as of May 5, 2022) e-filed returns that contained alimony information in the tax return record. However, not all of these tax returns resulted in an alimony deduction being claimed. We identified 3,500 tax returns that had a divorce or separation agreement date after December 31, 2018, of which 1,146 claimed an alimony deduction. Our review of the 1,146 returns found that tax examiners incorrectly allowed alimony deductions on 623 returns (54 percent). The erroneous deductions totaled $8.4 million and resulted in an estimated reduction in these taxpayers' tax liability of almost $1.2 million.

Our review of 1,146 tax returns found that tax examiners incorrectly allowed alimony deductions on over half of the returns. The erroneous deductions totaled $8.4 million and resulted in an estimated reduction in these taxpayers' tax liability of $1.2 million.

In addition, we identified 2,354 tax returns for which the taxpayer did not claim an alimony deduction but the electronic information submitted with the tax return included information on alimony paid for a divorce date after December 31, 2018. We found that tax examiners incorrectly gave 68 of the 2,354 taxpayers an alimony deduction even though the taxpayer did not claim it. These deductions totaled $796,300 and resulted in an estimated reduction of these

[28] TIGTA, Report No. 2019-40-048, *Additional Actions Are Needed to Reduce Alimony Reporting Discrepancies on Income Tax Returns* (Aug. 2019).

taxpayers' tax liability of $114,127. Unlike paper tax returns, the special processing code that is added to identify the tax return for review by a tax examiner is added to an e-file return regardless of whether the deduction is actually claimed by the taxpayer.

On May 2, 2022, we alerted IRS management to our concerns and made three recommendations to address the erroneous alimony deductions.

The Commissioner, Wage and Investment Division, should:

Recommendation 3 (E-Mail Alert): Reinforce established guidance applicable to the disallowance of alimony deduction claims with a divorce or separation agreement date after December 31, 2018.

> **Management's Response:** IRS management agreed with our recommendation and updated its internal guidance on May 9, 2022.

Recommendation 4 (E-Mail Alert): Develop an e-file business rule to reject returns with an alimony deduction claim and a divorce date after December 31, 2018, or consider using the FixERS tool to systemically resolve the error.

> **Management's Response:** IRS management disagreed with our recommendation stating that returns claiming alimony deductions, when meeting the Beard test, are processable and rejection is not an appropriate treatment. The correction of errors associated with alimony deductions generally leads to consequent errors in other data fields used to calculate income and tax liability. Addressing and resolving the subsequent error codes that can result are beyond the capability of the FixERS tool and require manual review and action.

>> **Office of Audit Comment:** As discussed previously, IRS management's claim that the Beard test prevents them from rejecting alimony deduction claims is inconsistent with current e-file reject processes. In addition, IRS management previously agreed that they have not consistently applied the Beard decision criteria when determining how best to address taxpayer errors on e-filed tax returns.

Recommendation 5 (E-Mail Alert): Revise programming to not edit e-filed returns with a special processing code when the reported alimony amount contained in the electronic information that was submitted with the return is not actually claimed as a deduction.

> **Management's Response:** IRS management agreed with our recommendation and stated that programming changes were implemented in January 2023.

Some Actions Have Been Taken to Address Prior Recommendations to Improve the Error Resolution Program

In December 2020, we made nine recommendations to improve the IRS's administration of the ERS program.[29] The IRS agreed with all nine recommendations and planned to take appropriate

[29] TIGTA, Report No. 2021-40-008, *Expansion of Self-Correction for Electronic Filers and Other Improvements Could Reduce Taxpayer Burden and Costs Associated With Tax Return Error Resolution* (Dec. 2020).

corrective actions. As of May 3, 2022, the IRS has taken actions to address eight of the nine recommendations. One recommendation remains open with a hold date until December 2022. Figure 10 summarizes these recommendations and the IRS's corrective actions.

Figure 10: Status of Implementing Prior ERS Recommendations

Recommendation	IRS Status	TIGTA Review
Recommendation 1: Develop processes and procedures that provide taxpayers with the opportunity to self-correct errors on accepted e-filed returns that are suspended from processing for manual error resolution in an effort to reduce unnecessary burden on taxpayers and processing costs incurred by the IRS.	Programming updates to two error codes were implemented for the 2021 Filing Season which allow electronic returns to bypass ERS. Existing e-file business rules were identified that perform the validation function of ERS.	We reviewed the programming changes and confirmed that there were significant reductions in the fallout of e-filed tax returns with these two error codes. In addition, the IRS completed programming for a new business rule for Tax Year 2021 (effective for Processing Year 2022) to reject an e-file return with a missing Form 8962, *Premium Tax Credit (PTC)*, significantly reducing the number of e-file returns that fall out to ERS.
Recommendation 2: Expand processes and procedures for developing error resolution criteria to include an assessment of the potential reduction in taxpayer burden and cost savings to the IRS that can be gained by using additional tax return data to develop systemic error resolution processes.	The IRS cross-functional team identified programming updates for the 2021 and 2022 Filing Seasons that were submitted to systemically resolve error codes and prevent some manual review of returns. This includes the two error codes discussed in Recommendation 1 as well as a third error code implemented for Filing Season 2022.	We confirmed reductions in the number of returns falling out to ERS for all three error codes.
Recommendation 3: Review existing error codes to identify opportunities to expand the use of available tax return data to systemically resolve the error condition for both paper and e-filed tax returns and reduce the number of e-filed tax returns from unnecessarily being identified for manual review.	The IRS updated programming for Filing Season 2022 to add additional tax return data from Form 1040, Schedule 2, *Additional Taxes,* and Schedule 3, *Additional Credits and Payments*, to the record layout to be transcribed for both paper and e-filed tax returns. The IRS indicated this would affect two error codes and should prevent returns from falling out for manual review.	We compared changes in the volume of the two impacted error codes from the 2021 Filing Season to the 2022 Filing Season to see if the actions taken prevented returns from falling out for manual review. We found that the number of returns identified for manual review was reduced for one error code. However, the volume of returns identified for the second error code increased significantly during the same time frame. Our review of tax returns with this error code determined the increase in volume was related to the new requirement to reconcile advanced CTC payments.

Recommendation	IRS Status	TIGTA Review
Recommendation 4: Develop processes to systemically suspend and reactivate tax returns when processing must be suspended until computer programming or other actions necessary to ensure the accurate processing of these returns can be completed.	The IRS developed programming that systemically suspends and then activates and processes returns. The IRS uses a pre-existing Integrated Automation Technologies (tool to move pre-sorted inventory from unworkable to workable suspense). The new FixERS tool is used to close the processable returns out of ERS the following day.	We are evaluating the IRS's use of the FixERS tool to resolve CDCC, CTC, EITC, and RRC errors as part of our separate reviews of these credits mentioned previously.
Recommendation 5: Develop processes to systemically monitor the Error Resolution program, including processes to monitor error code volumes real-time as well as in comparison to historical data.	As an alternative to real time systemic monitoring, the IRS created a method to capture and evaluate the data from current ERS reports. The alternative method is an ERS Summary report called "Management Error Report Integrated Cross-reference Table," or the MICT.	Our review of the new MICT reports found the format allows for a comparison of error codes by location and type of return, *i.e.*, paper and e-file. It also allows the user to determine the most frequently occurring error code as of a specific date, and provides a historical perspective when comparing to another MICT.
Recommendation 6: Develop processes and procedures to retain and provide access to historical ERS data, including actions taken by tax examiners.	On hold until December 15, 2022. On September 8, 2022, IRS management indicated that due to the success of the FixERS initiative, they are deferring the work on this recommendation to a later filing season in order to refine and expand the operation of the FixERS tool for the 2023 Filing Season.	We will review the actions taken by the IRS once implemented.
Recommendation 7: Develop processes and procedures to identify and correct tax examiner entries in verified fields that exceed statutory limits, including a process to ensure that tax returns with verified amounts are systemically reprocessed through ERS programming before being released for processing.	The IRS requested programming changes to add controls to verified fields. Instead of sending returns with ERS verified fields for reprocessing, the IRS took actions to avoid returns falling out to ERS and to avoid use of ERS verified fields.	IRS's corrective action warrants further review. TIGTA will continue to evaluate the use of ERS verified fields in future reviews.

Recommendation	IRS Status	TIGTA Review
Recommendation 8: Review the 8,397 tax returns we identified in which taxpayers received more in the CTC or the ACTC than they were entitled to receive and take actions to recover the erroneous credits.	The IRS adjusted the tax accounts. Accounts Management confirmed that it had adjusted the credits improperly allowed on the 8,397 tax returns. With the adjustments, Accounts Management recovered $8 million.	We did not verify the IRS made the adjustments.
Recommendation 9: Review the 12,147 tax returns we identified in which taxpayers did not receive the amount of the CTC or the ACTC to which they were entitled and ensure that they receive their allowable credit amount.	The IRS adjusted the tax accounts. After the close of the review, TIGTA provided an additional 201 tax returns to be considered. After its review, Accounts Management confirmed that it adjusted the credits for 11,243 tax returns but determined that the remaining 1,105 tax returns did not require an adjustment. The total amount of the adjustments was not provided.	We did not verify the IRS made the adjustments.

Source: TIGTA review of IRS's corrective actions related to previous recommendations.

An automated Error Resolution correction tool was developed in response to prior TIGTA recommendations

We previously recommended steps the IRS could take to address its error inventories holistically rather than on a return-by-return basis.[30] In response, the IRS implemented an automated Error Resolution correction tool, called FixERS, that would shorten the time needed to resolve certain taxpayer errors and reduce the risk of IRS employee error. This tool systemically replaces the steps an IRS Error Resolution employee would take to resolve the identified tax return errors.

The IRS is using the FixERS tool during the 2022 Filing Season to address five common taxpayer errors when claiming the CTC, EITC, CDCC, and RRC.[31] IRS management stated that they chose these errors because they expected tax returns with these errors to be the most impactful on taxpayers during the 2022 Filing Season. The IRS reported that 12.92 million tax returns had been identified for the FixERS tool as of September 30, 2022, with 12.89 million (99.8 percent) of these returns being resolved. According to IRS management, the FixERS tool generally resolves a tax return error within three days of being identified, and can work more than 250,000 tax returns a day. For example, the average daily production between February 7, 2022, and

[30] TIGTA, Report No. 2022-46-032, *Processing of Recovery Rebate Credit Claims During the 2021 Filing Season* (May 2022), and TIGTA, Report No. 2022-40-024, *Results of the 2021 Filing Season* (Mar. 2022).

[31] Appendix IV provides a description of the errors being resolved using the FixERS tool.

April 22, 2022, was nearly 202,000 tax returns, but the highest daily production in that time frame was closer to 550,000 tax returns. IRS management stated that as of October 29, 2022, they are adding 16 additional error codes for future expansion of the FixERS tool in Calendar Year 2023.

While the FixERS tool has enabled the IRS to considerably reduce the time frame to resolve tax return errors, the use of the tool is currently limited to only e-filed tax returns. Paper tax returns with the five common errors must still be worked manually. Using available IRS reports, we estimate there were 802,748 returns in the Error Resolution inventory as of September 30, 2022, with a CDCC, CTC, EITC, or RRC error that still require manual resolution.

Processes to Ensure That Only Eligible Institutions Are Used to Claim the American Opportunity Tax Credit Are Reasonable

In order to claim the American Opportunity Tax Credit, a taxpayer must have attended an eligible institution. To be eligible, an educational institution must be eligible to participate in a student aid program administered by the Department of Education. Eligible institutions are required to file Form 1098-T, *Tuition Statement*, with the IRS to report tuition paid by a student, the student's enrollment status, *i.e.*, at least half time, *etc*. The IRS relies on the presence of a Form 1098-T as proof that the educational institution used by a taxpayer to claim the American Opportunity Tax Credit is an eligible institution. We reviewed the 18,384 educational institution Employer Identification Numbers (EIN) associated with 22.8 million Tax Year 2021 Forms 1098-T filed as of July 7, 2022, and found:

- 14,704 EINs were not found in the Department of Education's Postsecondary Education Participants System data.
    - 13,930 EINs matched the student's TIN provided on the Form 1098-T. It is likely the educational institution incorrectly prepared the Form 1098-T.
    - 774 are likely eligible institutions. Our review of a judgmental sample of these EINs found that the Postsecondary Education Participants System data contains an institution with the same or similar name for half of the sampled EINs.[32]
- 3,680 EINs were found in the Postsecondary Education Participants System data. These 3,680 institutions were used on 20.6 million (90 percent) of the 22.8 million Forms 1098-T filed.

As such, the IRS's reliance on the presence of a Form 1098-T as evidence that the educational institution is an eligible institution for purposes of the American Opportunity Tax Credit is reasonable.

Taxpayers Can Receive Notices in Alternative Media Formats

The IRS created Form 9000, *Alternative Media Preference*, for taxpayers to designate how they want to receive IRS tax notices, including notices related to additional taxes or penalties owed. Beginning on January 31, 2022, taxpayers can complete Form 9000 to request that their notices

[32] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

be sent in Braille, large print, audio, or in an electronic format. Taxpayers can include the completed form with their tax return, mail it as a standalone form to the IRS, or call 800-829-1040 to elect their preferred format.

Our review of 33,638 taxpayer requests to receive notices in an alternative format processed by the IRS as of May 26, 2022, found the IRS correctly captured the requested media format on the taxpayer's tax account. Of these, 28,897 (86 percent) were processed as part of the taxpayer's tax return filing, and the remaining 4,741 (14 percent) requests were manually input to the IRS's computer system. The IRS reports that as of July 25, 2022, it has issued 2,161 notices using the new Form 9000 process.

Some Tax Return Software Incorrectly Used the Taxpayer's Individual Taxpayer Identification Number for Forms W-2 Submitted With Electronically Filed Tax Returns

Taxpayers who e-file their tax return must provide the information from their employer-issued Form W-2, *Wage and Tax Statement*, with their return. When Forms W-2 are filed using an incorrect payee TIN, income mismatches could occur, causing further processing issues and delays. Incorrectly using an Individual Taxpayer Identification Number (ITIN) on Form W-2 can also hamper the IRS's efforts to identify employment-related identity theft; *i.e.*, situations in which an ITIN holder uses another person's Social Security Number (SSN) to gain employment. In May 2022, we received information from a tax industry professional that some tax software appeared to be auto-populating ITINs from the face of the tax return onto the Forms W-2 attached to the e-filed tax return, similar to an issue we had previously reported.[33]

Our review of 1.3 million e-filed tax returns processed as of May 5, 2022, that were filed by taxpayers using an ITIN identified 359,837 tax returns for which it appears the tax return software auto-populated the payee TIN on the attached Form W-2 with the taxpayer's ITIN. Further analysis of the 359,837 tax returns identified the majority of these were submitted using 10 Software IDs (an eight-digit number assigned by the IRS to identify software products used when transmitting electronic returns to the IRS).

We shared our results with the IRS on August 12, 2022. IRS management stated that they contacted the nine software companies associated with the 10 Software IDs we identified to confirm whether their software was auto-populating TINs onto Forms W-2.[34] The IRS reported that seven of the nine companies confirmed their software does not auto-populate ITINs onto Forms W-2; however, the remaining two companies' software auto-populated ITINs onto Forms W-2, but users could update the entry to match the actual TIN on the physical W-2. The IRS stated that both companies have taken corrective actions that will require the taxpayer or preparer to enter the TIN from the Form W-2 when the primary or secondary taxpayer has an ITIN. IRS management also stated that they reminded the nine software companies of the requirements set forth in Publication 1345, *Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns*, which indicates that filers of tax returns with ITINs should file

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[33] TIGTA, Report No. 2010-40-040, *Procedures Need to Be Developed for Collection Issues Associated With Individual Taxpayer Identification Numbers* (Mar. 2010) and TIGTA, Report No. 2011-41-061, *Individuals Who Are Not Authorized to Work in the United States Were Paid $4.2 Billion in Refundable Credits* (July 2011).

[34] One company is responsible for two Software IDs.

Forms W-2 using the SSN for which the wages were earned. Additionally, software must require the manual key entry of the TIN as it appears on employer-issued Forms W-2.

Detecting and Preventing Tax Refund Fraud

Fraud Detection Processes Continue to Prevent and Detect the Issuance of Billions of Dollars in Fraudulent Refunds

The IRS continues to increase the number of fraudulent tax returns detected and stopped from entering the tax processing system, *i.e.*, rejecting e-filed tax returns and preventing paper tax returns from posting. For example, as of December 31, 2021, the IRS has locked taxpayer accounts of nearly 49.1 million deceased individuals. This compares to 50 million accounts locked as of September 29, 2022. When tax accounts are locked, e-filed tax returns are rejected and paper tax returns are prevented from posting to the Master File. According to the IRS, as of September 30, 2022, it had rejected 810,723 fraudulent e-filed tax returns and had stopped 16,259 paper tax returns from posting to the Master File.

As of September 24, 2022, the IRS reported that it identified 587,580 tax returns filed with $4.8 billion claimed in fraudulent refunds and prevented the issuance of $4.6 billion (96 percent) of those refunds. This represents an increase of 29 percent in the amount of fraudulent refunds stopped when compared to the same period last filing season.[35] Figure 11 shows the number of fraudulent tax returns the IRS identified for Processing Years 2021 and 2022 as well as the refund amounts that were stopped.

Figure 11: Fraudulent Tax Returns and Refunds Identified and Stopped in Processing Years 2021 and 2022 (as of September 24, 2022)

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refunds Identified	Amount of Fraudulent Refunds Stopped
2021	606,462	601,799	$3,628,427,545	$3,594,111,067
2022	587,580	579,336	$4,836,358,473	$4,645,455,181

Source: IRS fraudulent tax return statistics for Processing Years 2021 and 2022 as of September 24, 2022.

Detection of tax returns involving identity theft

For the 2022 Filing Season, the IRS used 168 filters to identify potential identity theft tax returns and prevent the issuance of fraudulent refunds. In comparison, the IRS used 155 filters for the

35 The 2021 Filing Season began on February 12, 2021, which means there were 19 fewer days to stop fraudulent refunds when compared to the current year numbers.

2021 Filing Season. These filters incorporate criteria based on characteristics of confirmed identity theft tax returns, including amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. If the individual's identity cannot be confirmed, the IRS removes the tax return from processing to prevent the issuance of a fraudulent refund.

The IRS reported that it identified 4.1 million tax returns with refunds totaling $28.1 billion for additional review as a result of the identity theft filters.

In Processing Year 2021, the IRS confirmed 56,831 tax returns as fraudulent and prevented the issuance of $407 million. In Processing Year, 2022, the IRS confirmed 210,130 tax returns as fraudulent and prevented the issuance of $1.6 billion in fraudulent refunds related to identity theft.

As of September 28, 2022, the IRS reported that its identity theft filters identified 4.1 million tax returns with refunds totaling $28.1 billion for additional review. As of that same date, the IRS confirmed 210,130 tax returns as identity theft, preventing the issuance of $1.6 billion in fraudulent refunds.

The IRS automatically issues an Identity Protection Personal Identification Number (IP PIN) to confirmed identity theft victims if the case is resolved prior to the start of the next filing season. Taxpayers can also request an IP PIN directly from the IRS if they are concerned that their personal information has been stolen and/or want to protect their identity when filing a Federal tax return. The IP PIN is a six-digit number assigned to eligible taxpayers to help prevent someone else from filing a fraudulent Federal income tax return using a taxpayer's SSN.[36] The IP PIN is known only to the taxpayer and the IRS and acts as an authentication number to validate the correct owner of the SSN or ITIN listed on that tax return. This helps the IRS verify the taxpayer's identity when they file their tax return. Taxpayers can request an IP PIN or retrieve their existing IP PIN by using the "Get an IP PIN" tool through IRS.gov. The IRS reports that it issued nearly 1.3 million IP PINs to taxpayers who used this tool as of September 30, 2022.

Screening of prisoner tax returns

To combat refund fraud associated with tax returns filed using prisoner SSNs, the IRS compiles a list of prisoners (the Prisoner File) received from the Federal Bureau of Prisons and State Departments of Corrections as well as Prisoner Update Processing System data from the Social Security Administration. These data files are used to identify for additional screening tax returns filed using a prisoner SSN. As of September 24, 2022, the IRS reported that it identified for screening 196,679 potentially fraudulent tax returns filed by prisoners.[37] This represents a decrease of 67 percent over the number

The IRS compiles a list of prisoners that is used to screen for tax returns using a prisoner SSN.

In Processing Years 2021 and 2022, the IRS identified for screening 600,672 and 196,679 tax returns, respectively, as potentially fraudulent tax returns filed by prisoners, representing a 67 percent decrease.

[36] Anyone who has an SSN or ITIN and is able to verify their identity is eligible to enroll in the IP PIN program.

[37] Tax returns filed using a prisoner's name and SSN.

of tax returns identified during the same period of Calendar Year 2021.

Providing Customer Service

Access to Toll-Free Telephone and Face-to-Face Assistance Is Limited

The IRS provides assistance to millions of taxpayers via its website (IRS.gov), telephone, and social media platforms as well as face-to-face assistance at its TACs, Volunteer Income Tax Assistance sites, and Tax Counseling for the Elderly sites. Millions of taxpayers continue to use the IRS's online and social media assistance options; however, the IRS still struggles to provide sufficient access to taxpayers seeking toll-free telephone assistance and face-to-face assistance at a TAC.

Online assistance

The IRS provides easy-to-use self-assistance options that enable taxpayers to access the information they need 24 hours a day, seven days a week. The most notable self-assistance option is the IRS's public Internet site, IRS.gov. The IRS reported 896 million visits to IRS.gov for the 2022 Filing Season as of October 1, 2022. In comparison, the IRS reported 1.8 billion visits to IRS.gov for the 2021 Filing Season as of October 1, 2021. The IRS website provides a number of online tools to assist taxpayers. Figure 12 provides examples of these online tools, along with the number of times the tool was used as of October 1, 2022.

Figure 12: Examples of Online Tools Used for Processing Years 2021 and 2022 (as of the Week Ending October 1, 2022)

Tool	Description	Number of Uses in Processing Year 2021	Number of Uses in Processing Year 2022
Interactive Tax Assistant	A tax law resource that takes taxpayers through a series of questions and provides them with responses to basic tax law questions.	1.8 million	1.2 million
Where's My Refund?	Allows taxpayers to check the status of their refunds using the most up-to-date information available to the IRS.	614.9 million	430.2 million

Source: IRS management information reports.

On May 25, 2022, the IRS announced an enhancement to the *Where's My Refund?* online tool, introducing a new feature that allows taxpayers to check the status of their current tax year and two previous years' refunds. Taxpayers can now select any of the three most recent tax years to check their refund status, rather than being able to check only the most recently filed tax return as long as it was filed within the previous two years. Taxpayers can use this tool to start checking the status of their refund 24 hours after e-filing a Tax Year 2021 return, three or four days after e-filing a Tax Year 2019 or a Tax Year 2020 return, or four weeks after mailing a paper return. The *Where's My Refund?* tool is available on IRS.gov or the IRS2Go mobile application.[38] As of September 30, 2022, the IRS reports 14 million active users for the IRS2Go application.

Social media platforms

The IRS also offers taxpayers the ability to obtain information from the IRS using their mobile devices. For example, the IRS offers IRS2Go and uses various forms of social media, including Twitter, Facebook, and Instagram, to share the latest information on tax changes, scam alerts, initiatives, and products and services. In addition, the IRS provides short, informative YouTube videos in English, Spanish, Chinese, Vietnamese, and American Sign Language. Figure 13 shows the total number of followers for each of these platforms as of September 30, 2022, and cumulative number of YouTube videos viewed as of the same date.

Figure 13: Number of Followers on Social Media Platforms (as of September 30, 2022)

Social Media Platforms	Number of Followers
YouTube (Views)	27.7 million
Facebook	646,140
Twitter	455,594
Instagram	102,853

Source: IRS management information reports.

Toll-free telephone level of assistance

As of September 24, 2022, taxpayers made 148.9 million total attempts and 118.6 million net attempts to contact the IRS by calling the various customer service toll-free telephone assistance lines.[39] The IRS reports that 29 million calls were answered with automation, and telephone assistors answered 8.8 million calls and provided a 14 percent Level of Service with a 31-minute Average Speed of Answer. Figure 14 shows a comparison for Calendar Years 2021 and 2022, as of September 24, 2022.

[38] IRS2Go is a mobile application for iOS, iPadOS, and Android phones and tablets that allows taxpayers to check the status of their tax refund, make a payment, find free tax preparation assistance, sign up for helpful tax tips, and access IRS social media channels.

[39] Total call attempts represent calls received during all hours, open or not. Total net call attempts represent calls received during open hours that were handled in some fashion by an IRS system or a customer service representative.

Figure 14: Toll-Free Telephone Performance Statistics for Calendar Years 2021 and 2022

Statistic	Calendar Year 2021	Calendar Year 2022
Total Call Attempts	261,925,578	148,898,264
Total Attempts After Hours	18,752,862	11,897,209
Assistor Calls Answered	17,167,333	8,758,511
Automated Calls Answered	41,151,174	29,021,558
Level of Service	16.6%	14%
Average Speed of Answer (Minutes)	21	31
TIGTA's Level of Access[40]	24.0%	27.6%

Source: IRS management information reports (as of September 25, 2021, for Calendar Year 2021 and as of September 24, 2022, for Calendar Year 2022). TIGTA's calculation for Level of Access.

Taxpayer Assistance Centers

Each year, over a million taxpayers seek assistance from one of the IRS's 360 walk-in offices, called TACs. The IRS planned to assist 2.7 million taxpayers at its TACs in Fiscal Year 2022, which is an increase of 153 percent from Fiscal Year 2021.[41]

Insufficient staffing continues to result in the TACs not being opened to provide taxpayer assistance. As of September 26, 2022, the IRS reported that 32 of the 360 TACs were closed due to a lack of staffing. IRS management cautioned that the operating status of the TACs can vary day-to-day due to illness, staff leaving, or staff taking other positions within the IRS. For example, 189 of the 360 TACs operated by the IRS are staffed with one or two IRS employees.

The IRS continues to use its appointment service for all TACs. As a further service to taxpayers, the IRS will attempt to resolve the taxpayer's question or provide the taxpayer with information on alternative services when they call to schedule an appointment. The IRS reported that, as of September 30, 2022, IRS employees answered nearly 1.2 million calls to schedule an appointment. Of these, 686,123 calls necessitated that the taxpayer schedule an appointment and visit a TAC. The remaining 500,729 taxpayers were assisted without having to visit a TAC. Taxpayers who travel to a TAC without an appointment are assisted if there is availability. As of September 30, 2022, the IRS reported that it provided assistance to 18,214 taxpayers who visited a TAC without an appointment.

In an effort to further assist taxpayers, the IRS offered service at select TACs one Saturday a month beginning February 12, 2022, and ending May 14, 2022. On these dates, the centers provided taxpayers with in-person help between 9:00 am and 4:00 pm and no appointments

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[40] The Level of Access is computed by taking the sum of Assistor Calls Answered and Automated Calls Answered divided by the Total Dialed Number Attempts Open Hours, *i.e.*, Total Call Attempts less Total Attempts After Hours.

[41] IRS management informed us on November 16, 2022, that the estimate of the number of taxpayers the IRS planned to assist for Fiscal Year 2022 was made based on being back to normal operating procedures in 2022. Subsequent pandemic-related closures affected the ability of the IRS to assist taxpayers.

were required. The IRS website posted information regarding the days and hours of operation, a list of services provided at each TAC, as well as whether the TAC was open on one of these four Saturday dates. According to IRS management, they served 5,217 taxpayers in the 35 TACs that were open on the first two monthly Saturday dates. For the second two Saturdays, they served 5,406 taxpayers at the 40 TACs that were open on April 9, 2022, and 4,251 taxpayers at the 42 TACs open on May 14, 2022.

Finally, in addition to the services offered via the TAC appointment line and at the TACs themselves, the IRS also offers additional face-to-face initiatives, as summarized in Figure 15.

Figure 15: Summary of IRS Face-to-Face Initiatives

Virtual Service Delivery

This initiative is an effort to expand face-to-face services to taxpayers if no TAC is located in their geographic area. Taxpayers must make an appointment. Virtual Service Delivery integrates video and audio technology to allow taxpayers to see and hear an IRS assistor located at a remote TAC, giving taxpayers "virtual face-to-face interactions" with assistors. For the 2022 Filing Season, there were 13 community partner sites open to provide service as of September 20, 2022. The remaining nine Virtual Service Delivery sites were not opened. For Fiscal Year 2022, the IRS reported that as of September 30, 2022, 166 taxpayers used the service.

Co-Located Sites With the Social Security Administration

This initiative was implemented to comply with Section 3 of Office of Management and Budget Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*, dated November 25, 2016, which requires agencies to move aggressively to dispose of excess properties held by the Federal Government and make more efficient use of the Government's real estate assets. For the 2022 Filing Season, the Social Security Administration did not reopen the six locations where the IRS was co-located as of September 30, 2022. Therefore, for Fiscal Year 2022, the IRS reported that as of September 30, 2022, no one had used the service.

Web Service Delivery

This initiative is a virtual service option that provides taxpayers the opportunity to receive face-to-face assistance from an IRS representative over the Internet. The virtual conference is scheduled by appointment only, similar to other face-to-face service options. The Web Service Delivery pilot program expanded during the 2021 Filing Season from eight to 16 assistors and concluded on May 31, 2021. The IRS reported that as of May 28, 2021, it had assisted 1,669 taxpayers using this service. The IRS began the pilot again on March 15, 2022, using 32 assistors with eight assistors for each of the four continental time zones. For Fiscal Year 2022, the IRS reported that as of September 30, 2022, it had assisted 7,239 taxpayers using this service.

Source: IRS management information reports.

Taxpayers are experiencing difficulties accessing the TAC appointment telephone line

As previously discussed, the IRS continues to experience increased demand for toll-free telephone assistance in response to the processing backlogs and pandemic relief-related legislative changes, including the toll-free TAC appointment line. The IRS is aware that taxpayers are experiencing long wait times and have limited access to open TAC offices without an appointment.

During our audit, we tested the IRS's ability to answer the TAC appointment telephone line. We attempted to call the appointment line 15 times and were unable to speak with an assistor to schedule an appointment on 12 of the 15 call attempts. We found that taxpayers are not being transferred into the waiting queue, but instead are being disconnected. Prior to being automatically disconnected, taxpayers are told by the automated system, "We are sorry, due to extremely high call volume in the topic you requested we are unable to handle your call at this time. Please try again later or on the next business day. You can also visit us on the web at www.irs.gov." These taxpayers must call the IRS back and navigate the automated menu and long wait times to complete their original call. These courtesy disconnects unnecessarily increase the number of incoming calls to the IRS and increase taxpayers' burden and frustration.

On June 8, 2022, we alerted IRS management to our concerns and made two recommendations to address the difficulty in accessing the TAC appointment telephone line.

The Commissioner, Wage and Investment Division, should:

Recommendation 6 (E-Mail Alert): Develop a process to enable taxpayers to schedule their TAC appointment online.

Management's Response: IRS management disagreed with our recommendation. IRS management stated that the process of allowing taxpayers to schedule their appointment online is not currently feasible. Online scheduling would negate the triage concept that moves taxpayers to the most efficient resolution for their issue. The IRS's existing process prevents incorrect scheduling of taxpayers with issues that do not require resolution at a TAC and improves availability of TAC resources to serve taxpayers who require this resource. Further, the Field Assistance Scheduling Tool was developed and implemented with the intention that taxpayers or external sources would not have access to it. There are security constraints and other limitations associated with expanding the Field Assistance Scheduling Tool beyond its current capabilities.

Office of Audit Comment: The inability to expand the Field Assistance Scheduling Tool does not prevent the IRS from developing additional tools for taxpayers to schedule a TAC appointment. We also question IRS management's statement that online scheduling would negate the triage concept of the current process. The IRS has implemented text and automated chat bots to assist taxpayers with other services. According to the IRS, these tools offer real-time chat assistance to taxpayers and free up assistors to help taxpayers with more complex issues. The IRS could use these tools in conjunction with an online scheduling tool to triage taxpayer issues similar to the toll-free TAC appointment line.

Recommendation 7 (E-Mail Alert): If online TAC appointment scheduling is not an option, develop a process to enable incoming calls to be routed to a call-back function rather than disconnecting the taxpayer and making them call again.

Management's Response: IRS management disagreed with our recommendation. IRS management stated that the TAC appointment scheduling toll-free telephone line is configured to offer callback service to those queued for an assistor and who meet the callback business rules. The callback service is offered when callers reach an assistor queue and the estimated wait time is within defined parameters. Calls are disconnected when available resources are not sufficient to meet caller demand. If the volume of incoming calls exceeds the number of available assistors or the capacity of the telephone routing equipment, a disconnect condition can occur. This does not occur after a call reaches the point in the queue where it is eligible for callback service.

Office of Audit Comment: It is concerning that IRS management did not explore other options to assist taxpayers in scheduling a TAC appointment. As we reported, courtesy disconnects unnecessarily increase the number of incoming calls to the IRS and increase taxpayers' burden and frustration.

We are conducting a separate audit on the IRS's Telephone Customer Callback System and plan to report our results later in Calendar Year 2023.[42]

Assistance at volunteer program sites

The IRS's Volunteer Income Tax Assistance program offers free basic tax help to people who generally make $60,000 or less, persons with disabilities, and limited–English-speaking taxpayers who need assistance in preparing their own tax returns. In addition to the Volunteer Income Tax Assistance program, the Tax Counseling for the Elderly program provides free tax help, particularly for individuals age 60 or older. Many taxpayers depend upon the services offered via the IRS's Volunteer Program to meet their filing requirements and to obtain refunds they may be entitled to receive.[43] Volunteer Program sites prepared 2.2 million tax returns as of September 30, 2022. This is an increase of 11.9 percent over the nearly 2 million prepared at Volunteer Program sites the prior year as of September 30, 2021.[44]

Planned customer service changes for Filing Season 2023

On September 15, 2022, the Treasury Secretary announced planned changes for the IRS, including efforts to dramatically bolster the capacity of in-person and call-in support services. In addition, in the upcoming filing season, the Treasury Secretary said the agency would:

- Triple the number of taxpayers served at in-person support centers to more than 2.7 million.
- Raise the proportion of callers reaching an employee to 85 percent from 10 to 15 percent while cutting average wait times in half, to less than 15 minutes.
- Hire 5,000 customer service representatives to enhance its telephone operations.
- Allow taxpayers to receive and respond to notices online.

We plan to monitor the IRS's progress to meet these various goals as part of our continued audit coverage.

[42] TIGTA, Audit No. 202210032, *Review of IRS Telephone Customer Callback System*.

[43] The Volunteer Program includes Volunteer Income Tax Assistance and Tax Counseling for the Elderly.

[44] The percentage increase is based on the full number of tax returns prepared rather than the rounded numbers as shown.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate whether the IRS timely and accurately processed individual paper and e-filed tax returns during the 2022 Filing Season. To accomplish our objective, we:

- Monitored online news outlets and forums to identify any preparation, filing, or processing issues that taxpayers were experiencing.
- Identified volumes of paper and e-filed tax returns received through May 6, 2022, from the IRS Weekly Filing Season reports to provide filing season statistics and compared the statistics to the same period for the 2021 Filing Season.
- Determined whether the IRS monitoring systems indicate that individual tax returns were being processed timely and accurately. We monitored key IRS indicators, including the volume of tax return receipts, statistics from the IRS Filing Season Statistics Report, and Error Resolution volumes.
- Ensured that select business rules associated with the implementation of key tax provisions worked as intended. We evaluated the accuracy of the new business rules.
- Monitored current processing year volumes of inventory and monitored for any backlogs of inventory from Calendar Year 2021 using IRS reports.
- Obtained information related to Submission Processing and Accounts Management hiring and onboarding efforts.
- Followed up on prior TIGTA audit recommendations related to alimony and the Error Resolution Program.
- Obtained information on recovery efforts for the unemployment compensation exclusion.
- Identified observations related to information reporting by eligible educational institutions used to claim the American Opportunity Tax Credit. We performed a judgmental sample of 10 from the population of 774 employer identification numbers that were not found in the Postsecondary Education Participants System database. We used a judgmental sample to determine if the data contained an institution with the same or similar name, indicating these are eligible education institutions.[1]
- Determined whether the alternative media format election process was implemented and working properly.
- Determined if e-file software was pre-populating ITIN information on Forms W-2.
- Identified the results of the IRS tax refund fraud programs, including identity theft and prisoner refund fraud.

[1] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

- Identified the results of the IRS customer service programs, including the TAC Program, the Toll-Free Telephone Assistance Program, and the Volunteer Program.
- Identified the results for the IRS's self-assistance options, including IRS.gov and the social media platforms.

Performance of This Review

This review was performed with information obtained from the Wage and Investment Division Headquarters in Atlanta, Georgia, and the Wage and Investment Division Submission Processing function offices in Covington, Kentucky, during the period November 2021 through October 2022. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Diana M. Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services); Deann L. Baiza, Director; Sharla J. Robinson, Audit Manager; Sandra L. Hinton, Lead Auditor; Ashley E. Burton, Senior Auditor; Linda M. Valentine, Senior Auditor; Van A. Warmke, Senior Auditor; James Philip Bailey, Jr., Auditor; Jordan D. Bunte, Auditor; Hong Cao, Information Technology Specialist; Theodore Logothetti, Information Technology Specialist; and Julia K. Woods, Information Technology Specialist.

Validity and Reliability of Data From Computer-Based Systems

During this review, we obtained extracts from the Modernized Tax Return Database for Processing Year 2022. Before relying on the data, we ensured that each file contained the specific data elements we requested. In addition, we selected judgmental samples of each extract and verified that the data in the extracts were the same as the data captured in the Employee User Portal and the Integrated Data Retrieval System databases.[2] We also performed analysis on the Modernized Tax Return Database extracts to ensure the validity and reasonableness of our data, such as ranges of dollar values and obvious invalid values. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the process for planning, organizing, directing, and controlling program operations for the 2022 Filing Season. We evaluated these controls by monitoring IRS weekly production meetings, reviewing IRS procedures, and reviewing IRS reports.

[2] A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Revenue Protection – Potential; $8,461,333 in unpaid taxes for erroneous alimony deductions using an invalid or [redacted] recipient TIN on 4,033 returns for Tax Year 2021 (Recommendation 1).

Methodology Used to Measure the Reported Benefit:

We identified 260,263 Tax Year 2021 returns processed through May 5, 2022, that claimed an alimony deduction. Our analysis of these returns identified 1,055 returns using an invalid alimony recipient TIN with paid alimony deduction claims totaling $17.7 million and 2,978 Tax Year 2021 returns with paid alimony deduction claims totaling $41.5 million for which the recipient TIN was for a person [redacted] prior to Tax Year 2021. To determine the tax effect of these potentially erroneous deductions, we used an average tax rate based upon the average income tax divided by the average taxable income. We then multiplied the average tax rate by the average alimony deduction amount and number of affected returns to calculate the potential amount of unpaid taxes. Figure 1 shows the computation of the potential amount of unpaid taxes.

Figure 1: Computation of Estimated Tax Revenue Lost as a Result of Erroneous Alimony Deductions Using an Invalid or [redacted] Recipient TIN for Tax Year 2021

Issue Description	Average Tax Rate	Average Alimony Deduction Amount	Number of Tax Returns	Total Tax Effect
Alimony Deductions Using Invalid TIN	15.0%	$16,766	1,055	$2,653,220
Alimony Deductions Using [redacted]	14.0%	$13,931	2,978	$5,808,113
Totals			**4,033**	**$8,461,333**

Source: TIGTA analysis of tax returns claiming alimony deductions for Tax Year 2021.

Type and Value of Outcome Measure:

- Increased Revenue – Potential; $52,750 in unassessed penalties for individuals who claimed alimony deductions but did not provide a valid recipient TIN on 1,055 returns for Tax Year 2021 (Page 16).

Methodology Used to Measure the Reported Benefit:

We identified 260,263 Tax Year 2021 returns processed through May 5, 2022, that claimed an alimony deduction. Our analysis of these returns identified 1,055 returns that were not properly assessed the $50 penalty for claiming the alimony deduction with an invalid recipient TIN. To determine the tax effect for not properly assessing the penalty, we multiplied the 1,055 returns by the $50 penalty amount.

Type and Value of Outcome Measure:

- Revenue Protection – Potential; $1,309,588 in unpaid taxes for erroneous alimony deductions with a divorce or separation agreement date after December 31, 2018, on 691 e-filed returns for Tax Years 2020 and 2021 (See Recommendations 3 through 5).

Methodology Used to Measure the Reported Benefit:

We identified 385,472 Tax Year 2020 e-filed returns and 270,038 Tax Year 2021 e-filed returns processed through May 5, 2022, that contained alimony information in the tax return record; however, not all of these tax returns resulted in an alimony deduction being claimed. Of these tax returns, 1,766 Tax Year 2020 and 1,734 Tax Year 2021 tax returns had a divorce or separation agreement date after December 31, 2018. Our analysis of these 3,500 tax returns identified that an alimony deduction was claimed on 1,146 tax returns. Our analysis of the 1,146 tax returns identified that tax examiners failed to disallow potentially erroneous alimony deductions totaling approximately $8.4 million when claimed by the taxpayer on 623 e-filed tax returns (337 + 286). In addition, tax examiners erroneously added deductions totaling approximately $796,300 when the amount was not actually claimed on 68 e-filed tax returns (43 + 25). To determine the tax effect of these potentially erroneous deductions, we used an average tax rate based upon the average income tax divided by the average taxable income. We then multiplied the average tax rate by the average alimony deduction amount and number of affected returns to calculate the potential amount of unpaid taxes. Figure 2 shows the computation of the potential amount of unpaid taxes.

Figure 2: Computation of Estimated Tax Revenue Lost as a Result of Erroneous Alimony Deductions for Tax Years 2020 and 2021

Tax Year/Issue Description	Average Tax Rate	Average Alimony Deduction Amount	Number of Tax Returns	Total Tax Effect
2020 – Erroneous Deduction Allowed	14.3%	$13,119	337	$632,218
2021 – Erroneous Deduction Allowed	14.0%	$14,067	286	$563,243
2020 – Deduction Erroneously Added	14.3%	$12,253	43	$75,344
2021 – Deduction Erroneously Added	14.4%	$10,773	25	$38,783
Totals			**691**	**$1,309,588**

Source: TIGTA analysis of tax returns with alimony deductions for Tax Years 2020 and 2021.

Appendix III

Electronic Filing Business Rules and Error Resolution Codes

The following is a description of the e-file business rules and error resolution codes the IRS created or modified in response to the ARPA that TIGTA reviewed during our assessment of the IRS's processing of tax returns during the 2022 Filing Season. Figures 1 through 5 present the specific e-file business rules and error resolution codes we reviewed for the CDCC, CTC, EITC, PTC, and RRC. Figure 6 presents the additional 36 e-file business rules we reviewed that were created or modified for the 2022 Filing Season.

Figure 1: CDCC Business Rules and Error Resolution Code Reviewed

Business Rule	Description
F2441-002-04	[redacted]
F2441-011-02	[redacted]
F2441-023	[redacted]
F2441-526	[redacted]
F2441-001-01	[redacted]
F2441-024	[redacted]
Error Resolution Code	**Description**
363	Generates when all of the following exist: a) the taxpayer's and the computer's amount for Refundable Child and Dependent Care Credit are different by [redacted]; b) the tax period is 202112 or greater; and c) a math error is present.

Source: IRS business rule list and the Internal Revenue Manual section 3.12.3.30.13.

Figure 2: CTC Business Rules and Error Resolution Code Reviewed

Business Rule	Description
F1040-066-08	[redacted]
IND-098-02	[redacted]
IND-153-02	[redacted]
IND-154-03	[redacted]
IND-168-02	[redacted]
IND-454	[redacted]
IND-455	[redacted]
IND-459	[redacted]
IND-460	[redacted]
IND-461	[redacted]
IND-116-02	[redacted]
IND-241-01	[redacted]
IND-462	[redacted]
S8812-F1040-005	[redacted]
S8812-F1040-006	[redacted]

Business Rule	Description
S8812-F1040-007	[redacted]
S8812-F1040-008	[redacted]
S8812-F1040-009	[redacted]
S8812-F1040-010	[redacted]
S8812-F1040-011	[redacted]
Error Resolution Code	**Description**
345	Generates when Total Payments is not equal to Total Payments Computer and all of the following exist: a) the tax period is 202112 or later; b) the taxpayer's and the computer's amount for Refundable Child Tax Credit are different by [redacted]; and d) a math error is present.

Source: IRS business rule list and the Internal Revenue Manual section 3.12.3.30.2.

Figure 3: EITC Business Rules and Error Resolution Codes Reviewed

Business Rule	Description
F1040-459	[redacted]
F1040-460	[redacted]
Error Resolution Code	**Description**
339	Generates when Total Payments is not equal to Total Payments Computer and all of the following exist: a) the tax period is 202112 or later; b) Section 43 is present; c) EIC Amount differs from EIC Amount Computer; and d) a math error is present in Balance Due/Overpayment.
340	Generates when Total Payments is not equal to Total Payments Computer and all of the following exist: a) the tax period is 202112 or later; b) Section 43 is not present; c) EIC Amount differs from EIC Amount Computer; and d) a math error is present in Balance Due/Overpayment.

Source: IRS business rule list and the Internal Revenue Manual sections 3.12.3.28.16 and 3.12.3.28.17.

Figure 4: PTC Business Rules and Error Resolution Codes Reviewed

Business Rule	Description
F8962-070	[redacted]
F8962-330	[redacted]
Error Resolution Code	**Description**
189	Generates when the IRS computed PTC amount is equal to or greater than $25,000 and either of the following conditions exists: a) Taxpayer total premium amount is equal to or greater than $25,000 and does not match IRS computed premium amount, or b) Taxpayer total Second Lowest Cost Silver Plan amount is equal to or greater than $25,000 and does not match IRS computed Second Lowest Cost Silver Plan amount. Taxpayer Advance Premium Tax Credit (APTC) amount is equal to greater than $25,000 and does not match IRS computed APTC amount. Form 8962 is attached but no one is enrolled in the marketplace and either total premium amount or total Second Lowest Cost Silver Plan amount or total APTC amount is equal to or greater than $25,000.
190	Generates when the Form 8962 is missing and the Marketplace indicates APTC payments were made or the taxpayer has an entry for APTC Repayment or Reconciled PTC.
191	Generates when the Household Income Percentage is less than 100 percent of the Federal Poverty Level, Form 8962, Line 25 is blank, and the Marketplace indicates no APTC payments were made for anyone listed on the return.
195	Generates when the Form 8962 is present but no one is enrolled in the Marketplace.
196	Generates when the taxpayer used the annual calculation but should have used the monthly calculation or when the taxpayer reported fewer months than the Marketplace.
197	Generates when the taxpayer's annual or monthly premium amount does not equal the Marketplace amount.
198	Generates when the taxpayer's annual or monthly Premium Second Lowest Cost Silver Plan amount does not equal the Marketplace amount.
199	Generates when the taxpayer's annual or monthly APTC amount does not equal the Marketplace amount.
270	Generates when the Form 8962 is missing, the APTC repayment is present on Form 1040, and the Marketplace indicates coverage but no APTC was received.
271	Generates when monthly contribution for healthcare does not equal the amount calculated by the IRS.

276	Generates when the taxpayer's APTC Repayment amount differs from the amount calculated by the IRS.
750	[redacted]

Source: IRS business rule list and the Internal Revenue Manual sections 3.12.3.20, 3.12.3.26, and 3.12.3.32.7.

Figure 5: RRC Error Resolution Code Reviewed

Error Resolution Code	Description
350	Generates when all of the following exist: a) the tax period is 202112 or later; b) the taxpayer's and computer's amounts for the RRC are different; c) Total Payments is not equal to Total Payments Computer; and d) a math error is present.

Source: Internal Revenue Manual section 3.12.3.30.5.

Figure 6: Business Rules Reviewed for the 2022 Filing Season

Business Rule	Description
F1040-454-01	[redacted]
S1-F1040-253	[redacted]
S2-F1040-001	[redacted]
S2-F1040-002	[redacted]
S2-F1040-006	[redacted]
S2-F1040-007	[redacted]
S2-F1040-008	[redacted]
S2-F1040-009	[redacted]
S2-F1040-010	[redacted]

Business Rule	Description
S2-F1040-011	[redacted]
S2-F1040-251	[redacted]
S2-F1040-287	[redacted]
S2-F1040-303	[redacted]
S3-F1040-008-01	[redacted]
S3-F1040-011	[redacted]
S3-F1040-013	[redacted]
S3-F1040-016	[redacted]
S3-F1040-017	[redacted]
S3-F1040-019	[redacted]
S3-F1040-020	[redacted]
SA-F1040-025-01	[redacted]
SA-F1040-027	[redacted]
F3468-015 through F3468-023	[redacted]
F8379-021	[redacted]

Business Rule	Description
F8379-022	[redacted]
F8379-023	[redacted]
F8379-024	[redacted]
IND-391	[redacted]

Source: IRS business rule list.

Appendix IV

Tax Return Errors Resolved Using the FixERS Tool

The IRS used the FixERS tool during the 2022 Filing Season to address five common taxpayer errors when claiming the CTC, EITC, CDCC, and RRC. The following is a brief description of the error resolution codes used by the FixERS tool.

Error Resolution Code	Topic of Error Resolution Code	Description
339	EITC With Schedule EIC	Generates when Total Payments is not equal to Total Payments Computer and all of the following exist: a) the tax period is 202112 or later; b) EIC schedule is present; c) EIC Amount differs from EIC Amount Computer; and d) a math error is present in Balance Due/Overpayment.
340	EITC Without Schedule EIC	Generates when Total Payments is not equal to Total Payments Computer and all of the following exist: a) the tax period is 202112 or later; b) EIC schedule is not present; c) EIC Amount differs from EIC Amount Computer; and d) a math error is present in Balance Due/Overpayment.
345	Refundable CTC	Generates when all of the following exist: a) the tax period is 202112 or later; b) the taxpayer's and computer's amounts for Additional Child Tax Credit are different by [redacted]; c) Total Payments is not equal to Total Payments Computer; and d) a math error is present.
350	RRC	Generates when all of the following exist: a) the tax period is 202112 or later; b) the taxpayer's and computer's amounts for the RRC are different; c) Total Payments is not equal to Total Payments Computer; and d) a math error is present.
363	Refundable CDCC	Generates when all of the following exist: a) the taxpayer's and the computer's amount for Refundable CDCC are different by [redacted]; b) the tax period is 202112 or greater; and c) a math error is present.

Source: Internal Revenue Manual sections 3.12.3.28 and 3.12.3.30, revised November 23, 2021.

Appendix V

Treasury Inspector General for Tax Administration Audits of American Rescue Plan Act Tax Law Changes

Audit Number	Audit Title	Estimated Report Date
202240702	Reconciliation of the American Rescue Plan Act Recovery Rebate Credit During the 2022 Filing Season	May 2023
202240709	Expansion of the Earned Income Tax Credit and Child and Dependent Care Credit	April 2023
202240712	American Rescue Plan Act Advanced Child Tax Credit Tax Filing Reconciliation for Individuals	May 2023
202240720	Continued Review of Premium Tax Credit Rules Under the American Rescue Plan Act	April 2023

Source: TIGTA Fiscal Year 2023 Annual Audit Plan and Discretionary Audit Coverage.

Appendix VI

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

March 2, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin Digitally signed by Kenneth C. Corbin Date: 2023.03.02 15:26:26 -05'00'
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Results of the 2022 Filing Season (Audit # 202240007)

Thank you for the opportunity to review and provide comments on the subject draft report. The 2022 filing season began as our operations continued to recover from the impact of the COVID-19 pandemic. The combination of the pandemic, new tax laws and numerous other factors led to an unprecedented amount of unprocessed tax returns and correspondence remaining in the IRS inventory during 2021 and leading into 2022. We pursued significant actions during the 2021 filing season to address the return and correspondence inventory but, due to resource issues and numerous unique factors tied to new legislation and the pandemic, we entered the 2022 filing season with a significant inventory of unprocessed returns and correspondence. We continued pursuing innovative strategies to fulfill our commitment to restore inventories to a healthy level before entering the 2023 filing season. We are pleased that as of January 2023, all individual tax returns received through December 31, 2022, have been input into our systems and all error-free returns have completed processing, with refunds issued when applicable.

To reduce the inventory, we took aggressive actions that included:

- **Hiring and Deploying Surge Teams**. We presently have more Customer Service Representatives (CSRs) onboard than ever before. We retained temporary CSRs on a permanent basis to concentrate on the inventories. We took this risk in the context of an uncertain funding environment, hoping the annual appropriation process would deliver funding; however, this effort was not sufficient to reduce the inventories on hand at the beginning of the filing season, combined with new receipts. We deployed surge teams, which were groups of employees across the agency organized to temporarily assist with urgent issues. For example, we temporarily moved approximately 900 employees with previous

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relevant experience back into key areas from other organizations. In addition to the Accounts Management surge team, we also assembled a similar surge team for the Submission Processing function with 700 employees who started on this critical work in April.

- **Leveraging Hiring Authorities to Streamline Hiring**. Working with Treasury, the Office of Personnel Management, and the National Treasury Employees Union, the IRS secured direct hiring authority for a total of 10,000 positions – 5,000 employees with the goal of onboarding them within months, as well as an additional 5,000 new hires to be made over the course of the next year. Congress also helpfully provided hiring flexibilities to further expedite hiring in critical positions. Due to the challenges of hiring during the pandemic and competition from other employers for the same talent, this environment was and is an exceptionally difficult one for hiring. The Direct Hire Authority may improve our ability to be competitive in cities where these employees are most needed. Also, for the first time, we partnered with the Military Spouse Employment Program and engaged contractors while aggressively pursuing our hiring goals. We are grateful for the specific direct hiring authority language included in the Consolidated Appropriations Act, 2022[1] that enabled us to bring talent onboard more swiftly in needed locations.

- **Leveraging Mandatory Overtime**. We implemented mandatory overtime and offered authorized overtime to certain employees to help with the reduction in inventory and did so for the first time in certain functions.

- **Increasing Access to Online Self-service Tools**. Millions of individuals have created their individual online account through IRS.gov. Reducing call volumes through increased online service allows us to devote more resources to the inventories.

- **Providing Additional Guidance to Taxpayers Who Received Economic Impact Payments (EIP) and Child Tax Credit (CTC)**. We sent more than 250 million letters to help taxpayers match IRS records to prevent delays in processing. IRS Letter 6475, *Your Third Economic Impact Payment*, and IRS Letter 6419, *2021 Advance Child Tax Credit*, set forth the amounts that individuals received in 2021. Individuals could also verify these amounts by accessing their individual online account through IRS.gov. Given that more than 10 million returns failed to properly reconcile two EIP payments received in 2020 on their returns filed during the 2021 filing season, it was critical that individuals (and their preparers) verify the possibly six to eight payments received in 2021 before submission of a 2021 return this year.

[1] Pub.L 117-102, March 15, 2022

- **Innovating to Expedite Case Closures**. We deployed new tools to help IRS employees review and process tax returns that included errors and manual reviews, helping taxpayers receive refunds quicker in 2022. These efforts have already demonstrated positive results.

- **Expanding Saturday Openings of Certain Taxpayer Assistance Centers (TAC).** To assist taxpayers this filing season, we offered Saturday TAC hours in more than 90 cities around the country. The TACs provide important front line, in-person taxpayer assistance.

- **Encouraging Use of VITA/TCE**. We continued to notify taxpayers about "Free Tax Return Preparation for Qualifying Taxpayers" by encouraging use of the IRS's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs, which offer free basic tax return preparation to qualified individuals.

- **Creating and Expanding Self-service Portals.** Through these tools, we have expanded on-demand options for taxpayers to implement an Online Payment Agreement, request payment transcripts, request an Identity Protection Personal Identification Number (IP PIN), update their personal information, etc. These efforts reduced call volume, which released resources to help process our inventories.

- **Implementing Online Live Assistance, Voice Bots and Chat Bots (in English and Spanish).** These online tools empower taxpayers with additional options for interacting with IRS. Online Live Assistance leverages limited employee resources allowing a single employee to respond to multiple taxpayers at a time. Our Advance CTC Voice Bot launched February 18, 2022 (delivered 6-8 weeks ahead of schedule) and handles the top 27 Advance CTC topics to assist callers who need help reconciling the credits on their 2021 tax return. We deployed Voice and Chat Bots in English and Spanish for phone lines that assist taxpayers with tax payment issues or understanding an IRS notice they may have received. In addition to the payment lines, Voice Bots help people calling the EIP toll-free line, providing general procedural responses to the most frequently asked questions. Voice Bots are software powered by artificial intelligence (AI) that allow a caller to navigate an interactive voice response system with their voice, generally using natural language. Chat Bots simulate human conversation through web-based text interaction, also using AI-powered software to respond to natural language prompts. Taxpayers who request to speak with a CSR are placed in queue for English or Spanish telephone assistance. These efforts reduce call volume, releasing resources to help process our inventories.

We continue to make progress in reducing the volume of paper returns awaiting processing, including those involving alimony deductions. As mentioned previously, all

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original individual income tax returns received during calendar year 2022 have been input into our processing system. At the beginning of February 2023, less than 314,000 business paper returns received during 2022 remained to be input into our processing system. This contrasts with the 1.8 million paper business returns that remained unprocessed at the same time in 2022.

Our responses to your specific recommendations are enclosed. If you have any questions, please contact me, or a member of your staff may contact Dietra D. Grant, Director, Customer Account Services, at 470-639-3504.

Attachment

Attachment

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1
Develop programming to reject e-filed tax returns that claim alimony deductions that are based on payments [redacted] the tax year being processed.

CORRECTIVE ACTION
We are unable to reject these types of returns based on applicable case law. The IRS has to accept a "valid return." A return is valid under the Beard decision if it purports to be a return, contains enough information to compute the tax liability, represents an honest and reasonable attempt to satisfy the requirements of the tax law, and is signed under penalty of perjury.[1] To that end, returns filed electronically and that claim alimony deductions based on [redacted] are valid returns meeting the Beard test. Without math error authority, we have to accept the return and then conduct an audit.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 2
Develop fraud detection filters to identify for review alimony deductions that are based on payments [redacted] the tax year being processed.

CORRECTIVE ACTION
As reflected above, based on existing case law, the IRS has to accept these returns as they are valid returns under the Beard decision. Because of this we cannot reject these returns at filing and the pre-refund filters are not an appropriate treatment stream. The returns must be allowed into our processing systems. We have existing processes in place that evaluate and select returns for review when alimony deductions are claimed. Correcting non-compliance on these returns requires audit procedures. We will continue to evaluate the priority of this work against other work in our exam planning processes.

[1] Beard v. Commissioner, 82 T.C.766, 774-79 (1984), aff'd 793 F.2d 139 (6th Cir 1986).

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As we move into a future operating model and organizational structure, we will evaluate new treatment streams for this type of non-compliance.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 3 (E-Mail Alert)
Reinforce established guidance applicable to the disallowance of alimony deduction claims with a divorce or separation agreement date after December 31, 2018.

CORRECTIVE ACTION
Procedures in Internal Revenue Manual 3.12.3.9.7.3, *Correction Procedures (EC 079)*, were updated on May 9, 2022.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIAL
Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 4 (E-Mail Alert)
Develop an e-file business rule to reject returns with an alimony deduction claim and a divorce date after December 31, 2018, or consider using the FixERS tool to systemically resolve the error.

CORRECTIVE ACTION
Returns claiming alimony deductions, when meeting the Beard test, are processable and rejection is not an appropriate treatment. The correction of errors associated with alimony deductions generally leads to consequent errors in other data fields used to calculate income and tax liability. Addressing and resolving the subsequent error codes that can result are beyond the capability of the FixERS tool and require manual review and action.

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IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 5 (E-Mail Alert)
Revise programming to not edit e-filed returns with a special processing code when the reported alimony amount contained in the electronic information that was submitted with the return is not actually claimed as a deduction.

CORRECTIVE ACTION
Programming updates were implemented in January 2023.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIAL
Director, e-File Services, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
N/A

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 6 (E-Mail Alert)
Develop a process to enable taxpayers to schedule their TAC appointment online.

CORRECTIVE ACTION
The process of allowing taxpayers to schedule their appointment online is not currently feasible. Online scheduling would negate the triage concept that moves taxpayers to the most efficient resolution for their issue. Our existing process prevents incorrect scheduling of taxpayers with issues that do not require resolution at a Taxpayer Assistance Center (TAC) and improves the availability of TAC resources to serve taxpayers who require this resource. Furthermore, the Field Assistance Scheduling Tool (FAST) was developed and implemented with the intention that taxpayers or external sources would not have access to it. There are security constraints and other limitations associated with expanding the FAST beyond its current capabilities.

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IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 7 (E-Mail Alert)
If online TAC appointment scheduling is not an option, develop a process to enable incoming calls to be routed to a call-back function rather than disconnecting the taxpayer and making them call again.

CORRECTIVE ACTION
The TAC appointment scheduling toll-free line is configured to offer callback service to those queued for an assistor and who meet the callback business rules. The callback service is offered when callers reach an assistor queue and the estimated wait time is within defined parameters. Calls are disconnected when available resources are not sufficient to meet caller demand. If the volume of incoming calls exceeds the number of available assistors or the capacity of the telephone routing equipment, a disconnect condition can occur. This does not occur after a call reaches the point in the queue where it is eligible for callback service.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

Appendix VII

Glossary of Terms

Term	Definition
Adjusted Gross Income	Gross income minus adjustments to income. Gross income includes wages, dividends, capital gains, business income, and retirement distributions as well as other income. Adjustments to income include such items as educator expenses, student loan interest, alimony payments, or contributions to a retirement account.
Advance Premium Tax Credit	A tax credit that is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.
American Opportunity Tax Credit	A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
Business Rule	Used to validate information included on e-filed tax returns for acceptance into tax return processing. The IRS will reject e-filed tax returns from processing when the tax return does not meet a business rule.
Child and Dependent Care Credit	A tax credit for expenses that are paid for the care of a qualifying individual to enable taxpayers to work or to actively look for work.
Child Tax Credit	A tax credit for families with qualifying children.
Earned Income Tax Credit	A refundable tax credit for low-income to moderate-income workers.
Employee User Portal	The internal IRS portal that allows employees to access IRS data and systems, such as tax administration processing systems and financial information systems, in a secure, authenticated session.
Employer Identification Number	A unique nine-digit number used to identify a taxpayer's business account.
Error Resolution Code	These codes validate the accuracy of tax returns during processing. When a return is identified with an error condition, the IRS suspends the return from processing and sends it to a tax examiner to correct the error. Once the error is corrected, the IRS continues to process the tax return.
Error Resolution System	A real-time computer system used to identify and address paper and e-filed tax returns with an error condition.
Filing Season	The period from January through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Free File	A free Federal tax return preparation and e-filing program for eligible taxpayers developed through a partnership between the IRS and Free File Inc. The Alliance is a group of private sector tax software companies.

Term	Definition
Individual Taxpayer Identification Number	A nine-digit number assigned by the IRS to taxpayers who are required to have a TIN for Federal tax purposes but are not eligible to obtain an SSN.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Level of Access	A telephone performance measure recommended by TIGTA that reflects overall taxpayer call demand and IRS assistance by taking the sum of all assistor and automated calls answered divided by the total number of call attempts made during open hours.
Level of Service	The primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines. The IRS's measure is titled Customer Service Representative Level of Service.
Master File	The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.
Medical Savings Account	Created to help self-employed individuals and employees of certain small employers meet the medical care costs of the account holder, the account holder's spouse, or the account holder's dependents.
Modernized Tax Return Database	The official repository of all electronic returns processed through the Modernized e-File system.
Premium Tax Credit	A refundable tax credit created by the Affordable Care Act to assist eligible taxpayers with paying their health insurance premiums.[2]
Prisoner File	The IRS compiles a list of prisoners received from the Federal Bureau of Prisons and State Departments of Corrections as well as Prisoner Update Processing System data from the Social Security Administration.
Processing Year	The calendar year in which the IRS processes the tax return or document.
Recovery Rebate Credit	A refundable tax credit paid out to eligible individuals as an advance payment called an economic impact payment.
Returns Transaction File	An IRS database containing transcribed tax returns for individuals that includes most forms and schedules.
Social Security Number	A nine-digit number issued to an individual by the Social Security Administration. The IRS uses this number to process tax documents and returns.
Tax Examiner	An employee located in a field office who conducts examinations through correspondence. However, the tax examiner position is also used for many other types of positions located in various IRS offices.

[2] Patient Protection and Affordable Care Act (Affordable Care Act), Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of 26 and 42 U.S.C.), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

Term	Definition
Tax Processing Center	The location where the IRS processes paper and electronic submissions, corrects errors, and forwards data to the Computing Centers for analysis and posting to taxpayer accounts.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Taxpayer Assistance Center	An IRS office with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers face-to-face.
Taxpayer Identification Number	A nine digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, it can be an EIN, an SSN, an Adoption Taxpayer Identification Number, or an ITIN.
Volunteer Program	Includes the Volunteer Income Tax Assistance program (both the Volunteer Income Tax Assistance Grant program and the Tax Counseling for the Elderly program). The Volunteer Program provides free tax assistance to persons with low to moderate income (generally defined as within the EITC threshold), senior citizens, persons with disabilities, persons living in rural areas, those with limited English proficiency, and Native Americans.

Appendix VIII

Abbreviations

APTC	Advance Premium Tax Credit
ARPA	American Rescue Plan Act of 2021
CDCC	Child and Dependent Care Credit
CTC	Child Tax Credit
e-file(d); e-filing	Electronically File(d); Electronic Filing
EIC	Earned Income Credit
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
ERS	Error Resolution System
IP PIN	Identity Protection Personal Identification Number
IRS	Internal Revenue Service
ITIN	Individual Taxpayer Identification Number
MSA	Medical Savings Account
PTC	Premium Tax Credit
RAIVS	Return and Income Verification Services
RRC	Recovery Rebate Credit
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number

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