



Electronic Tax Administration Advisory Committee

ANNUAL REPORT

TO CONGRESS

June 2022



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ETAAC Members

This report is the culmination of many months of work by the members of this year’s IRS Electronic Tax Administration Advisory Committee (“ETAAC”). Due to the lingering COVID pandemic, the Committee’s work was completed virtually. Despite not meeting in person, ETAAC members spent countless hours researching, discussing, and developing the report’s recommendations. The 2022 Members of ETAAC are:

Dmitri Alexeev
Jared Ballew (Vice Chair)
Peter Barca
Vernon Barnett
Latryna Carlton
Daniel Eubanks
Mark Godfrey
Larry Gray
Eric Inkrott
Jihan Jude
Courtney Kay-Decker (Chair)
John Kreger
Carlos Lopez
Jonathan Lunardini
Julie Magee
Sherice McCarthy-Hill
James Paille
Kim Pederzani
Andrew Phillips
Terri Steenblock
Timur Taluy
Lindsey West

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

Letter From the Chair and Vice-Chair

On behalf of our committee, we are honored to present ETAAC's 2022 Annual Report to Congress. By now, members of Congress have heard from many sources that the IRS needs more money. You've read dozens of articles and heard testimony from the IRS Commissioner, the National Taxpayer Advocate, and many others about the IRS's financial woes. You may have even grown tired of hearing the refrain: The IRS needs flexible, sustainable, predictable, multi-year funding. While we sing that refrain again in this report, we will also paint a picture of the path to a better future for taxpayers. That better future can be achieved sooner by leveraging the IRS's existing strengths, which we discuss throughout this report.

While underfunding has been at the top of discussions, the timing of funding plays an even more critical role in the IRS's ability to deliver both new technologies and provide adequate services. Late appropriations, which result in operations under more restrictive Continuing Resolutions ("CRs"), often mean that the IRS is left only with choices that do not promote and facilitate optimal tax administration practices for the taxpayers of the United States. Commissioner Rettig noted in his testimony to the House Oversight Committee on April 21, 2022, that the IRS has experienced over 100 CRs since 2001.¹

Each year, IRS leadership and staff strive to deliver the best service possible to as many taxpayers as possible. They are continuously looking for opportunities to make incremental improvements as the budget allows. However, the IRS is also mindful of Anti-Deficiency Act's prohibition on spending without appropriation and works to ensure that its spending follows the law.² The downside of late appropriations is funding uncertainty. Funding uncertainty forces the IRS to opt for more expensive, less effective, short-term solutions. For example, they spend resources to keep outdated legacy systems running. They use temporary staff over permanent staff and typically suspend hiring during times of budget uncertainty.³

The IRS also faces significant challenges in hiring new talent to fill open positions. While we acknowledge that workforce challenges are real, simply adding people is an expensive, unsustainable, and largely ineffective way to solve what ails the IRS. The IRS cannot meet taxpayers service expectations without a healthy balance between technology and human capital investments. By optimizing technology in the right places, the IRS can provide high-quality customer service through a leaner, more agile workforce. In the end, a healthy IRS empowers taxpayers to access critical information at a time that is convenient for them in a manner that maximizes their ability to understand and comply with their tax responsibilities.

The good news is that the IRS, in our view, has recently demonstrated their ability to successfully execute appropriately funded technology and process modernization projects. The most successful deployments occur when the IRS works in collaboration with its stakeholders to ensure new modernization efforts will meet the future needs of the American taxpayer for both long- and short-term objectives.

¹ See Charles Rettig, Testimony to House Oversight Committee, "IRS: Is It Ready?", April 21, 2022.

² See 31 U.S.C. Sections 1341, 1342 and 1517. Federal employees who violate the Anti-Deficiency Act may be subject to administrative discipline including suspension from duty without pay or removal from office. Employees may also be subject to fines, imprisonment, or both.

³ See Charles Rettig, Testimony to Senate Finance Committee, "On the Filing Season and the IRS Budget," page 13 Apr. 7, 2022.

To be clear, ETAAC has not ignored any of the service challenges that taxpayers have faced in recent years. We agree with the voices (including IRS leadership) saying that many taxpayers are not getting the service they deserve. However, we believe that the current IRS possesses significant strengths that position it to successfully complete funded projects in a timely and accountable manner.

We continue to support the need for flexible, sustainable, predictable, multi-year funding, and we summarize that support in Recommendation #1 below.

In service,

Courtney M. Kay-Decker
Chair

Jared G. Ballew
Vice Chair

Summary of Recommendations

Congressional Recommendations

Recommendation 1: *ETAAC recommends that Congress provide the IRS with flexible, sustainable, predictable, multi-year funding.*

In particular, ETAAC urges Congress to make IRS appropriations for the 2023 fiscal year prior to October 1, 2022, so that staff can be appropriately trained for the 1099 Portal rollout, and to help ensure the successful rollout of changes and new initiatives coming online for the upcoming filing season.

The key components of our 2021 recommendation have been slightly updated and are as follows:

- *Restructure the IRS's funding to eliminate appropriation categories.*
- *Predictably and fully fund the IRS's budget requests each year, prior to the start of the applicable fiscal year.*
- *Develop and implement a pilot benefits-based funding tool that allows the IRS to retain a portion of defined amounts it collects for technology or staffing-related projects.*
- *Establish sustained multi-year funding for the IRS's Technology Modernization Plan, which will allow the IRS to contract for technology services in a more cost-efficient manner and will lead to timely and successful technology implementations.*
- *Ensure that inapplicable budgetary limitations do not impact IRS funding.*⁴

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

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

IRS Recommendations

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

Recommendation 4: *The IRS should promote the use of IP PIN thru a national, year-long campaign, leveraging stakeholders including the tax and financial services industries, to highlight the benefits of the program, including the overall (1) reduction in identity theft, (2) reduction in costly manual reviews, and (3) quicker issuance of refunds.*

⁴ Additional detail regarding this recommendation can be found beginning on page 24 of [ETAAC's 2021 Report](#), Publication 3415 (Rev. 6-2021) Catalog Number 28110R Department of the Treasury, Internal Revenue Service, www.irs.gov.

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

In addition to these recommendations, ETAAC provided real-time feedback to the IRS throughout the year, with a goal of engaging in discussions that improve the taxpayer experience as issues arose. We have included summaries of the real-time feedback in Appendix B.

Two Sides to Every Story: IRS Accomplishments Demonstrate Its Strengths

The news is full of reports that identify some form or shape of failure by the IRS. No doubt, your constituents have reported instances of service that have not met their or your expectations. In our roles outside of ETAAC, each of our members can relate and can share anecdotes from many collective years working in tax administration with a wide array of taxpayers. But there is another side to the story that is often underreported: the magnitude of the achievements of the IRS, particularly in recent years, exceed the failures.

The pandemic and the corresponding legislation by Congress, expanding the IRS services and roles has, without a doubt, increased the number of taxpayers experiencing challenges and brought areas of deficiencies into public view. Many taxpayers who would not normally need to file a tax return had to file during the pandemic to claim or reconcile available credits. This created higher volumes of returns and more people in need of assistance. The Commissioner says it best when he shares his belief that one taxpayer having a bad experience is too many.⁵ The IRS's commitment to providing secure and customized services to meet taxpayer needs is the first objective in the IRS's recently released Strategic Plan.⁶

Examples of the types of actions that lead to a modern IRS already exist in various pockets throughout the agency. We have selected a handful of successful IRS initiatives to highlight in this report that we believe can be expanded upon to quickly address many of the filing and communication challenges that taxpayers face today. ETAAC believes these successes are indicative of the IRS's strengths and can be used as springboards for further improvements.

Modernized E-file

One of the most successful platforms the IRS has developed is the current e-filing system. The IRS Modernized e-file system ("MeF") is a collaborative effort among state revenue agencies, the IRS and commercial software providers. MeF is a capable tool that can intake tax returns, extensions, amendments, and even accept documentary evidence in the form of PDF attachments. Though MeF may be technically categorized as a legacy system because of its age, its flexible design has allowed it to be modified to keep up with the needs of the IRS and its stakeholders. As we discuss below, MeF still has more potential, and with appropriate funding, can be further expanded to relieve paper bottlenecks.

In August 2020, the IRS implemented an MeF upgrade to reduce paper intake by allowing certain amended personal income tax returns, filed on Form 1040-X, to be filed electronically. As of May 16, 2022, the IRS has electronically received nearly 3.5 million amended returns since e-filing inception, removing those returns from the paper submission flow.⁷ Though amended returns still require manual adjustments to be made by trained IRS staff, e-filing the amended return has eliminated the need for IRS staff to open the mailed 1040-X forms and manually enter the data from these returns.

⁵ We view the Commissioner's attitude as an optimistic and noble goal. We also recognize that bad experiences may be reported by taxpayers as a result of an IRS finding that they owe more money. Good customer service throughout the process will not necessarily resolve these negative feelings.

⁶ Strategic Plan FY 2022-2023 Goals and Objectives, Publication 3744-C (Rev. 04-2022) Catalog Number 71458C.

⁷ Information received in discussions with IRS representatives.

We are pleased that the IRS continues to expand return eligibility for electronic Form 1040-X filings. We encourage the IRS to continue working on automating processing after intake so that fewer returns will require human intervention.⁸ Electronically filed amended returns also have the benefit of the automated validity, fraud detection, and consistency checks that the MeF system applies to all tax returns.

Taxpayer and Tax Professional Online Accounts

The IRS recently launched the first iteration of the Tax Professional Online Account and has continued to enhance the Taxpayer Online Account for individuals. These two tools represent the future of communication between the taxpayer (or their trusted representative) and the IRS. The Online Accounts are built on platforms that allow the IRS to add functionality and information as the financial and technical resources are available. These Accounts are integrated with the IRS's modernized identity verification and authentication tools known as Secure Access Digital Identity ("SADI"). SADI's modernized identity and authentication processes allow IRS to gain a level of confidence in the identity of a taxpayer and subsequently for taxpayers to authenticate to their IRS accounts.

The success rate for identity verification has risen from an abysmal 40% under SADI's predecessor, Secure Access, to above 80% since SADI's launch. The IRS rolled out taxpayer and tax professional Online Accounts, a Get My [Stimulus] Payment Account and a Child Tax Credit Update Portal all in the last 2 years. In addition, the IRS quickly developed functionality within the Online Accounts to provide taxpayers with information regarding the monthly payments of the Advanced Child Tax Credit ("ACTC"), three rounds of Economic Impact Payments ("EIPs" - or stimulus payments), and the reconciliation process to ensure taxpayers properly reported these advance payments on their tax returns. We commend the IRS for anticipating that many taxpayers would have challenges with the Advance CTC and the EIPs and for providing helpful information and functions within the Online Account.

Telephone Service Tools

It's no secret that IRS phone lines have been busy. The IRS folks who answer the phones are often the same people who open the mail and handle other processing tasks. In a typical year, 55% percent of a customer service representative's time is spent on the phone, and 45% of the staff time is spent on processing (another pain point).⁹ Call volumes have been significantly higher during the pandemic years. In 2021, the agency received more than 145 million calls from January 1 through May 17, or more than four times its normal call volume. On March 15, 2021, the IRS received 8.6 million calls on just that one day, which is an average of about 1,500 calls per second¹⁰. While call volumes have increased astronomically, the IRS has not been able to hire enough staff to fill the need. Instead, they did their best to begin to fill the gap by rolling out pilots of multiple technology tools that, when fully implemented, will provide significant benefit to taxpayers. These tools include things like chatbots, taxpayer call back, and secure document upload capabilities. We also note that the IRS has taken strides to expand the availability of communication in languages other than English

⁸ As reported to ETAAC in a meeting with IRS officials, the simple changes likely to be automated soonest include adding a dependent and changing filing status.

⁹ Information received in discussions with IRS representatives.

¹⁰ See Charles Rettig, Testimony to the Senate Finance Committee, <https://www.irs.gov/newsroom/written-testimony-of-charles-p-rettig-commissioner-internal-revenue-service-before-the-senate-finance-committee-on-the-filing-season-and-the-irs-budget>, April 7, 2022.

over the past few years. In 2022, multi-lingual telephone service was expanded to the Volunteer Income Tax Assistance programs.

The 1099 Portal

The Taxpayer First Act provided the IRS with the legislative directive and funding to build a new system for the filing of Forms 1099. Since our last report, the IRS has made substantial progress in the design and development of the new internet portal. The work to date is part of Phase 1 of the IRS Information Returns Modernization Plan, and the scope of the work includes the foundational items that will allow for ongoing modernization and will also enhance compliance and enforcement. The cloud-based platform will feature a user-friendly interface and the initial availability of an application to application (“A2A”) transmitter channel for the use of third-party software filers.

ETAAC commends the IRS for the efforts put forth to date in preparation for an on-time launch of the new portal for the upcoming filing season. We are also pleased that the IRS was responsive to stakeholder feedback, adding even more functionality to the 1099 Portal than was required within the Taxpayer First Act. This progress is an excellent example of what the IRS can accomplish with a properly funded technology initiative. This type of modernization initiative is critically important to fortify the infrastructure of the aging tax systems.

The initial availability of the A2A channel is a promising first step, but the scope of this channel at the launch of the platform is expected to be limited to a single initial form type. As part of the rollout of the new platform, it is important for the IRS to focus on the supportability of the platform and access to both self-help and live-help offerings to ensure that initial adopters of the platform have successful filing experience to increase further adoption of the platform. Staff training and communications to the public will be critical to help taxpayers learn to use the system and to provide support to filers in time for the January 2023 launch.¹¹

RECOMMENDATION #1: ETAAC recommends that Congress provide the IRS with flexible, sustainable, predictable, multi-year funding. In particular, ETAAC urges Congress to make IRS appropriations for the 2023 fiscal year prior to October 1, 2022, so that staff can be appropriately trained for the 1099 Portal rollout and for other changes and new initiatives coming online for the upcoming filing season.

As we discuss later in this report, ETAAC views an A2A replacement of the existing Form 1099 filing platform to be a priority. During the most recent filing season, the current platform, known as File Information Returns Electronically (“FIRE”), experienced periods of unavailability and unstable performance leading up to and on the Form 1099 filing deadline. We understand that the recent unavailability and instability may have been in part attributable to internet communications issues. Nevertheless, developing a plan to upgrade FIRE with a modern platform is of increased importance since recent legislation will result in a significant increase in information return e-filing volume starting in January 2023.¹²

¹¹ The planning process for each upcoming filing season starts soon after April 15 each year. Seasonal hiring and training of new and existing staff for the upcoming filing season starts in early fall at the latest.

¹² For Tax Year 2022 and after, a \$600 filing threshold applies for Forms 1099-K. For Tax Year 2023 and after, reporting of transactions in digital assets is required. Additionally, e-filing mandates are imposed for filers of 10 or more information returns.

Automation of IRS Errors Resolution - FixERS

One of the more exciting accomplishments over the past year has been the rapid development and implementation of automation that expedites return error processing for certain electronically filed returns. The Error Resolution System (“ERS”) inventory is comprised of tax returns that contain errors that have historically required manual review by IRS staff, and the manual review process has created substantial delays in the processing of impacted tax returns. For example, returns filed during tax season 2021 that required manual review often resulted in tax refund delays of 90 to 120 days or more.¹³

The rapid law changes that occurred during the pandemic resulted in a significant increase in the number of returns filed with apparent errors. Prior to the pandemic, the IRS typically identified about 5% of total returns filed (paper and electronic) that appeared to have errors needing resolution through ERS. During the 2021 filing season, the rate of returns sent to ERS for resolution was approximately 20% of the total returns filed.¹⁴ For example, the IRS received far more than 10 million returns where the taxpayer did not properly reconcile the first two rounds of EIPs received during 2020 to the amount of the Recovery Rebate Credit stated on their tax return filed during 2021.¹⁵ The IRS correctly anticipated that the error rates would continue to be above normal for ERS processing at least through 2022. Thus far, for the 2022 filing season, the IRS experienced roughly a 12% rate of returns sent to ERS. To reduce the delays in refunds for taxpayers with errors, the IRS developed the FixERS tool, which automated the resolution of several simple but common errors, including errors made in reconciling the third round of EIPs and errors made in reconciling ACTC on 2021 returns.

FixERS is a shining example of how process improvements should work in any organization. The IRS identified a human bottleneck...and quickly developed automation to minimize or eliminate the need for human intervention for as many cases as possible.

As of April 2022, the FixERS tool has significantly shortened processing and resolution times. The tool has resolved about two-thirds of the returns coming through ERS, minimizing human intervention for those returns and bringing returns in the ERS manual queue back to pre-pandemic levels. For 2021, ERS unit could process 100 returns per employee in a day. With FixERS, up to 5000 returns per employee are processed in a day.¹⁶ The returns that are resolved through FixERS are now processed through ERS in a timely fashion, allowing IRS to issue refunds within their standard 21-day window, whereas the manual process in 2021 created delays of several months in many cases.

¹³ IRS Operations During COVID-19: Mission-critical functions continue, What You Can Expect, <https://www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue>.

¹⁴ The IRS credits the reduction in the pandemic error rate between the 2021 to 2022 filing seasons to sending letters to taxpayers regarding amounts of EIP and ACTC received.

¹⁵ See Charles Rettig, Testimony to the Senate Finance Committee, <https://www.irs.gov/newsroom/written-testimony-of-charles-p-rettig-commissioner-internal-revenue-service-before-the-senate-finance-committee-on-the-filing-season-and-the-irs-budget>, April 7, 2022.

¹⁶ Remarks by Commissioner Charles Rettig at Federation of Tax Administrators E-file and Refund Protection Symposium, May 4, 2022.

FixERS is a shining example of how process improvements should work in any organization. The IRS identified a human bottleneck that they expected would persist and quickly developed automation to minimize or eliminate the need for human intervention for as many cases as possible. ETAAC commends the FixERS team for their problem-solving work that has made the 2022 filing season better for millions of filers with errors on their returns.

Formula for Successful Initiatives

Appropriately funded IRS initiatives are generally more successful when the following characteristics are present:

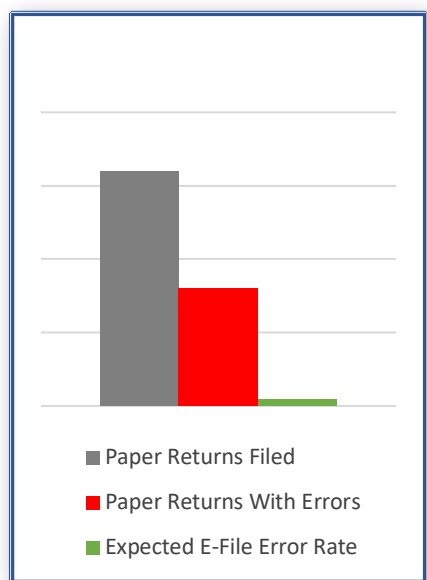
- **Collaboration:** External stakeholders, who are the users and often the champions of IRS improvements, are engaged in collaborative brainstorming and troubleshooting early and often during the initiative and its rollout. MeF, the Security Summit, and the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (the “IDTTRF ISAC”) are all initiatives that have been tremendously successful due to collaboration among the stakeholders of those processes and systems.
- **Modern, Iterative, Flexible Design:** Technology is built using commonly accepted languages, using tools that are secure and designed to handle change efficiently as tax law and administration changes occur. The 1099 Portal is an example of a new system that uses a common language that allows for easier system changes as needed. The IRS’s approach to increasing functionality over time based upon taxpayer needs demonstrates this principle.
- **Prioritization:** A true strength of the IRS is making sure that the highest volume workflows are successful. With over 90% of individual returns being filed electronically, maintaining MeF and all the systems that support it is naturally at the top of the list. Also at the top of the priority list are crises, such as national disasters and the pandemic.
- **Balance of Machines & People:** The initiative calibrates an appropriate machine-to-human balance, assigns simple, repeatable tasks to machines, and allocates complex tasks requiring judgment to humans. Between the two are the processes that ensure that work is completed timely and accurately. The FixERS success shows that today’s IRS understands this balance.

We acknowledge that many members of Congress are concerned about providing funding without confidence that the IRS will responsibly and effectively implement real change to better serve taxpayers. ETAAC is confident that when the IRS follows the above formula, coupled with appropriate, predictable, flexible, multi-year funding from Congress, initiatives that fundamentally improve service to taxpayers can be timely and successfully completed.

RECOMMENDATION #2: We recommend that Congress provide both budgetary and legislative support that allows the IRS to leverage its successes to deliver the level of services that taxpayers expect and deserve.

Follow the Return: Preparation and Submission

The National Taxpayer Advocate identified paper as the IRS's Kryptonite.¹⁷ In our view, paper backlogs are the tangible byproduct of the current suboptimal balance between IRS technology and its workforce. With budgetary support from Congress, the IRS can attack its paper challenges on multiple fronts at the same time. First, IRS should expand e-filing and electronic submission capabilities to take in returns and other documents electronically wherever possible, particularly in the case of the largest category of returns by volume, individual income tax returns.¹⁸



Most taxpayers have relatively uneventful filing experiences. The IRS boasts over a 90% electronic filing rate for individual returns (Forms 1040) through the MeF. And the error rate for e-filed returns is small, at roughly 3% of returns filed.¹⁹ The paper problem exists for less than 10% of individual tax returns filed, and that percentage continues to decrease. The relatively low 10% figure still translates into a lot of paper. The IRS sees close to 20 million individual returns on paper in a typical year, and the error rate for paper returns typically ranges between 40% and 50% percent.²⁰

ETAAC believes that getting a better understanding of the error rate, and reasons that taxpayers choose to file on paper, will open opportunities to increasing electronic filing. Helping these taxpayers file a more accurate return by removing barriers for them to be electronic filers will not only accelerate applicable refunds, but it will also reduce the IRS's per-return cost of filing by nearly 98% -- from \$15.21 to 36 cents.²¹

ETAAC was created decades ago to advise and support innovations in e-filing. Then and now, we encourage and recommend innovations that increase electronic filing. E-filing continues to be the fastest way for a taxpayer to file an accurate return and quickly receive any refund due. We also recognize the current short-term bottleneck of increased paper resulting from mid-season and pandemic-related law changes and workforce impacts has exacerbated the paper problem and has created an intense desire for rapid solutions.

¹⁷ National Taxpayer Advocate, Annual Report to Congress Press Release, January 12, 2022. <https://www.taxpayeradvocate.irs.gov/news/national-taxpayer-advocate-delivers-annual-report-to-congress-focuses-on-taxpayer-impact-of-processing-and-refund-delays/>

¹⁸ Later in this report, we discuss the need for increased e-filing of the 94x series of forms.

¹⁹ Information received from IRS staff during ETAAC meeting.

²⁰ Data provided by IRS staff during ETAAC meeting.

²¹ TIGTA, Report No. 2022-40-036, A Service-Wide Strategy Is Needed to Address Challenges Limiting Growth of Business Tax Return Electronic Filing (May 2022).

The IRS (and Congress) Should Prioritize Improvements to the E-filing Platform

Among the pool of paper filed individual returns, typically at least 50% have been prepared using commercial software. In many cases, these paper-filing taxpayers attempted to file electronically, but their return was rejected because of errors. Though a taxpayer can often correct errors and resubmit the return electronically, the following are common categories of errors that currently require paper filing:

- The taxpayer cannot remember their prior year adjusted gross income (required to validate the taxpayer's identity),
- A return has already been filed using the taxpayer's identification number,²²
- A dependent has already been claimed on another tax return, or
- The taxpayer is missing a form that must be attached to the return.

We encourage the IRS to work collaboratively with stakeholders to rethink policies and processes for electronic return intake to allow taxpayers to securely authenticate themselves and electronically solve the most common e-filing problems faced by taxpayers. MeF and Online Accounts are promising vehicles that can empower taxpayers to resolve problems in a way that reduces the amount of back-and-forth paper communication.²³ It is essential that the IRS work collaboratively with states and the private sector partners to preserve the integrity of the data and the fraud prevention gains achieved through the Security Summit and IDTTRF ISAC. Obtaining a thorough understanding of the common characteristics of paper-filed returns and taxpayer behavior from the IRS, state, and software perspectives is a necessary first step when reviewing potential policy changes. ETAAC stands ready to provide feedback and support on the reimagining of these processes.

As noted above, the work of the states, the IRS, and commercial software companies over the years has led to an MeF system that is flexible in adjusting to the evolving needs of the electronic filing process. The IRS should use the existing collaborative MeF model of development to holistically analyze and implement modern pathways that securely expand the availability of MeF to the remaining paper filers. The end result should include:

- Prioritization of programming resources to ensure that forms with material volume can be e-filed.
- A process for securely authenticating and ingesting more returns that preserves the integrity of the data throughout the return lifecycle.
- A process for uploading to MeF the supporting documents needed to resolve return issues.

RECOMMENDATION # 3: The IRS should, in collaboration with states and software platforms, implement enhancements to MeF that remove impediments from e-filing, with appropriate security features, including taxpayer consents and acknowledgements.

We encourage the IRS to continue to work collaboratively with its stakeholders, including state revenue agencies and software providers, to implement a MeF-based solution for digitally prepared, paper-filed returns. ETAAC believes that by working together, the IRS and its stakeholders can

²² Social Security Number or Individual Tax Identification Number.

²³ As discussed later in this report, providing addition visibility into return processing status can also help to reduce the paper problem.

implement improvements for the upcoming filing season, provided that an adequate appropriation is enacted on or before October 1, 2022. Furthermore, by removing barriers to ingesting more returns electronically, the IRS will have a greater ability to distribute work among available staff and to help ensure that IRS staff is available to help when they are most needed by taxpayers.

Scanning must be Deployed Strategically

We appreciate that scanning paper will have a place in tax administration for the foreseeable future. At the end of the day, a scanned document is still a paper document that is less efficient and costs significantly more to process. Scanning must be deployed strategically to avoid the unintended consequence of encouraging paper filing, thereby reversing the e-filing gains that have been achieved.

We recognize that some taxpayers have a preference to file on paper and should also receive quality service. Our recommendation above will allow those who prefer to file using software to use MeF, leaving fewer taxpayers in the paper queue with computer-generated returns. For those who choose to file on paper, service can be improved by ensuring that all processing centers have modern, functioning scanners. This also includes investing in modern paper processing technology that aligns with industry standards.

While our approach prioritizes IRS electronic filing capabilities over scanning documents, we believe that the IRS has some capacity to do both. As part of a modernized scanning initiative, we recommend that the IRS implement standards that are already in existence across the tax administration ecosystem. For example, many state revenue departments work closely with the software industry to utilize well-established technology standards to process paper submissions more effectively. The IRS should adopt the existing technical standards to promote economic efficiency and to accelerate the timeline for implementation of such technologies. Scanning is a helpful tool, but it does not reach to the root cause of the problem. A solution that harnesses MeF keeps significant amounts of paper out of the system entirely.

The Taxpayer Filing Journey Goes Beyond the IRS

Paper submissions to the IRS result in paper submissions to the states as well. The MeF design recognizes the interconnectedness of federal and state tax systems and makes the filing process better for taxpayers. Most taxpayers must file a federal return and at least one state return. For taxpayers that use software to file their returns, the state returns are prepared alongside the federal and are typically e-filed at the same time using the same IRS system. This long-standing process, built on the foundation of cross-sector collaborative partnerships and innovation, has provided the taxpayers with a better customer service experience by offering a “one-stop-shop” to return filing, additional security measures to protect their most confidential information, and a less burdensome manner of filing multiple returns.

Taxpayers who opt to file both returns electronically reap the numerous benefits that dual e-filing allows. E-filing both federal and state returns together reduces tax preparation time and filing process time, diminishes entry and calculation errors by only having to enter items once, and avoids the extra manual paperwork and hassle of numerous mailings and inevitable processing delays. A reduction in the filing of paper returns at the federal level will result in a reduction in paper filings at the state level. Because electronic returns are processed more quickly and efficiently, increased federal e-filing

provides taxpayers a better experience while simultaneously reducing the costs to taxpayers for tax administration systems.

Efforts focused on paper processing promote inefficiencies at the federal and state levels of government. In addition, that focus does not address issues such as taxpayer errors that inherently come with paper return filing and slow down processing regardless of tools used to process paper. The world is finding ways to leverage technology to change the way we live. Focusing on paper return filing instead of finding ways to enhance the technology that allows taxpayers to file an accurate and timely tax return is an antiquated approach that puts the IRS in a reactive position instead of proactively leveraging technology and collaborative relationships for the betterment of tax administration.

Follow the Return: Where's My Refund? Where's My Return?

The IRS's Where's My Refund ("WMR") toolset is used by taxpayers hundreds of millions of times during a given year. For example, the IRS received over 545 million contacts on their WMR tools (phone, online and mobile app) from over 54 million unique taxpayers in 2020 alone. While the toolset provides basic information as to the status of a taxpayer's return, the amount of information provided is often insufficient to provide information that helps a taxpayer truly understand where exactly their return is in processing, why a delay may have occurred and what steps, if any, the taxpayer needs to take.

ETAAC is also in full agreement that for taxpayers and tax professionals alike, the visibility of a return as it moves through the IRS processing system is lacking. Millions of calls are generated to both the IRS, State Departments of Revenue, software service providers, tax practitioners, the National Taxpayer Advocate, and even your Congressional offices every year just to ask the question, Where's My Return?

We have recommended previously that the IRS implement tools that allow taxpayers to obtain information about return status from the practitioners and platforms that they have chosen to help them prepare their returns.²⁴ ETAAC provided real-time feedback to the IRS on how we believe IRS can develop and prioritize these services.²⁵ The integration of Application Programming Interfaces ("APIs"), which allow public and private systems to communicate more efficiently and securely, are tools that can be legislatively supported and directly funded by Congress and are currently lacking in the IRS's arsenal to deliver excellent service. Extending APIs for "Where's My Refund" to the commercial software platforms is a first step and has been piloted previously. In cases where a taxpayer chooses to allow the software platform access to WMR information, the platforms can remove burdens from IRS phone lines by providing another avenue for taxpayers to receive WMR information.

²⁴ ETAAC 2021 Annual Report to Congress, Recommendation 7 – Allow for Greater Transparency into Return Processing Status, <https://www.irs.gov/pub/irs-pdf/p3415.pdf>.

²⁵ See Appendix B "Increase Transparency to Taxpayers and Their Chosen Trusted Providers and Platforms."

ETAAC encourages the IRS to provide, upon the election of a taxpayer, secure tools that include filing status information to trusted software platforms to assist taxpayers through return processing, starting with implementation of an API for Where's My Refund.

As the IRS expands information available to taxpayers, it will need to evaluate whether the level of security required to view that information on WMR is appropriate or whether the additional information is better suited for an Online Account. As part of the IRS's long-term plan for the Online Accounts, it should ensure that appropriately authenticated practitioners and platforms can assist taxpayers through the data feeding into the Online Account as well. The discussion below provides additional ways to expand taxpayer access to refund status and other information about a taxpayer's return.

Follow the Return: What if There is a Problem?

As noted above, when something goes wrong in return processing, whether it is an error or the IRS needs more information, Where's My Refund does not provide granular details about the problem. The taxpayer is often unable to fully understand the problem until the taxpayer receives a letter in the mail from the IRS, which is often weeks later.

Typically, if a problem arises that the IRS does not have enough information to correct, the only way for the IRS and the taxpayer to correct the problem is to exchange letters and documents on paper by mail.²⁶ In many cases, this entire process could be handled through MeF processes and the Online Account, further reducing the amount of paper that enters the tax system. For more complex problems, IRS has indicated that it will continue to evolve the taxpayer and tax professional Online Accounts so that taxpayers and their authorized representatives can obtain the substance of those letters electronically.

When taxpayers choose to interact with a practitioner or with an online platform to file their tax return, they expect communication about their return to be available both directly from the service provider and the IRS. After selecting a tax practitioner or an online tax filing service, taxpayers expect that their return will be filed, their tax payment made, or their refund delivered. It is reasonable to expect that these taxpayers would also want their preparer or online platform to be able to help them address any issues that may arise while the return is being processed.

Currently, IRS issues refunds or sends notices, but the return preparer or online service provider does not receive that information unless the taxpayer has signed a formal power of attorney (Form 2848) or tax information authorization (Form 8821). This is the case even if the taxpayer has "checked the box" on Form 1040 to allow the IRS to communicate with the preparer about the applicable return during processing. Although the IRS has disclosure authorization from the taxpayer to provide the reason for any delay in processing the return or refund, and the date of any refund to the tax

²⁶ The taxpayer may also fax documents to the IRS while on the phone with a customer service representative. Because the IRS does not have sufficient phone assistants to meet demand, this is not a great alternative.

preparer or tax preparation firm,²⁷ IRS policies restrict the tax return preparer or an online service provider (i.e., DIY tax software provider) from using IRS self-service tools to access information regarding processing delays of the tax return or refund.

While there may be debate as to when processing does (or should) end for purposes of the “check the box” authorization, ETAAC encourages the IRS to reexamine the definition of “processing” and the duration of the “check the box” authority. IRS should extend the check the box authority to allow the tax preparer to resolve all issues that arise before a return is fully processed from the taxpayer’s perspective. ETAAC recognizes the inherent sensitivity of a taxpayer’s personally identifiable information and tax records that are provided to the IRS. Yet, the IRS’s overarching goal of putting taxpayers first requires the IRS to rethink whether the IRS’s current policies regarding the scope of practitioner and platform authority in tax administration before audit is consistent with taxpayers’ expectations of the scope of consent granted.

Empowering the tax return preparer and online service providers with information about tax return processing, any delays, and any subsequent notices, will help reduce correspondence with the IRS as these practitioners and online service providers will generally be able to provide the professional services responding to the delays or notices. Currently, this burden falls exclusively on the IRS. Because most taxpayers elect to use a third party to help them interact with the IRS and state revenue agencies, taxpayers will benefit from having a trusted practitioner or online service provider having increased visibility.

Keeping Taxpayer Information Secure

Part of ETAAC’s charge is to provide information and recommendations to the IRS and Congress regarding Identity Theft Tax Refund Fraud (“IDTTRF”). Since the inception of the Security Summit partnership in 2015 and the IDTTRF Information Sharing and Analysis Center (“ISAC”) in 2017, the IRS, state tax agencies and the private sector have made great strides in detecting and preventing Identity Theft Tax Refund Fraud.

The accomplishments of the ISAC and the Security Summit are numerous. Between 2015 and 2019, the number of taxpayers reporting they were identity theft victims fell 80%. These are taxpayers who file identity theft affidavits. In 2019 the IRS received 137,000 reports from taxpayers compared to 677,000 reports in 2015. This was the fourth consecutive year this number declined.²⁸ But as the criminal element continues to evolve, the ISAC and Security Summit must evolve as well. Our cyber and identity theft defenses must remain vigilant, and taxpayers deserve tools of their own that help them protect their identity.

²⁷ <https://www.irs.gov/pub/irs-pdf/f8879.pdf> and <https://www.irs.gov/pub/irs-pdf/p4164.pdf> (page 168).

²⁸ See Security Summit Accomplishments, <https://www.irs.gov/newsroom/security-summit>, accessed May 27, 2022.

Identity Protection PINs: Effective but Underused

An Identity Protection PIN (IP PIN) is a six-digit number assigned to eligible taxpayers to help prevent their tax identification number from being used to file fraudulent federal income tax returns. It is a literal cyber key to a taxpayer's tax return filing. Originally, the IP PIN was provided to taxpayers who

RECOMMENDATION # 4: The IRS should promote the use of IP PIN through a national, year-long campaign, leveraging stakeholders including the software and financial services industries, to highlight the benefits of program, including the overall (1) reduction in identity theft, (2) reduction in costly manual reviews, and (3) quicker issuance refunds.

were confirmed victims of identity theft. Over the years, ETAAC has recommended that the IRS expand and add features to the IP PIN. We continue to support those recommendations. In January 2021, the IP PIN program was expanded nationally to all taxpayers who can properly verify their identity. We note that the bi-partisan Taxpayer First Act required the IRS to make IP PINs available nationwide no later than July 1, 2024. The IRS delivered this important tool *more than three years* early.

For taxpayers who opt into the program, a new IP PIN, or cyber key, is issued to the taxpayer each tax year. There is currently no way to opt-out of the program once enrolled. The IRS began significant promotion of the IP PIN through its National Tax Security Awareness Week programming in the fall of 2021 in preparation for the 2022 filing season. Even with the IRS's efforts, as of December 2021, only 6.1 million taxpayers were participating in the program, which accounts for approximately 3.8% of all returns received by the IRS the same year. For filing season 2022, from January 1 thru April 24, 2022, over 320,000 taxpayers have newly enrolled into the IP PIN program through one of the three processes available, online (Get an IP PIN), correspondence (Form 15227 Application for an IP PIN) or in-person (visiting their local Taxpayer Assistance Center).

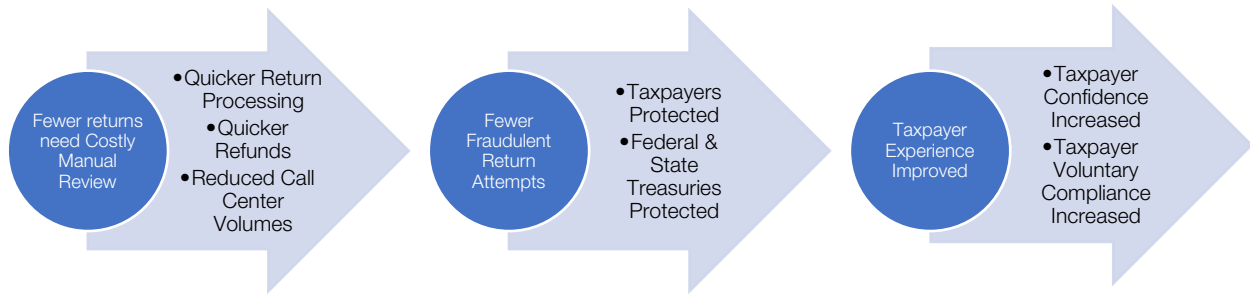
IRS allows taxpayers to opt-in to receive an IP PIN at IRS.gov after going through the SADI identity verification process, but the IRS should also allow all taxpayers who have an IP PIN to recover that IP PIN after verifying their identity through SADI.

The IP PIN program is the most effective way for a taxpayer to take control and protect their information from being used to file a fraudulent tax return. Every opportunity should be taken to ensure the public is aware of this program, including, but not limited to, correspondence from the IRS, SSA, other government agencies, tax practitioners, software providers and financial services industries.

The IP PIN is the #1 security tool currently available to taxpayers from the IRS. This tool is the key to making it more difficult for criminals to file false tax returns in the name of the taxpayer.

Congressional support in getting the word out would help as well. The communication strategy should highlight the ways that IP PIN benefits the taxpayer, and tax administration.

In our view, the benefits of increased IP PIN usage are many:



Ultimately, the American tax system relies on taxpayers voluntarily filing and complying with tax laws. Taxpayers must have confidence that when they provide their most coveted information to IRS that their information will be protected, and that the IRS is proactively taking the steps necessary to ensure their information is not used by criminals.

Secure Access Digital Identity (“SADI”)

Online identity verification and authentication is increasingly challenging as taxpayers transition more of their secure information online. Last year, we commended the IRS on the development and initial rollout of SADI. The system has greatly surpassed the usability of its predecessor. Security by necessity creates friction for the user. Finding the right balance between security protocols and user-friendly interfaces is a challenge that all software developers face. But for the IRS, the stakes are higher - 98% of appropriable funds of the U.S. Government pass through the IRS in the form of tax collections. We encourage the IRS to continue its work in this area and applaud its ability to quickly change course to make facial recognition an optional rather than required path for authentication to address taxpayer and Congressional concerns.

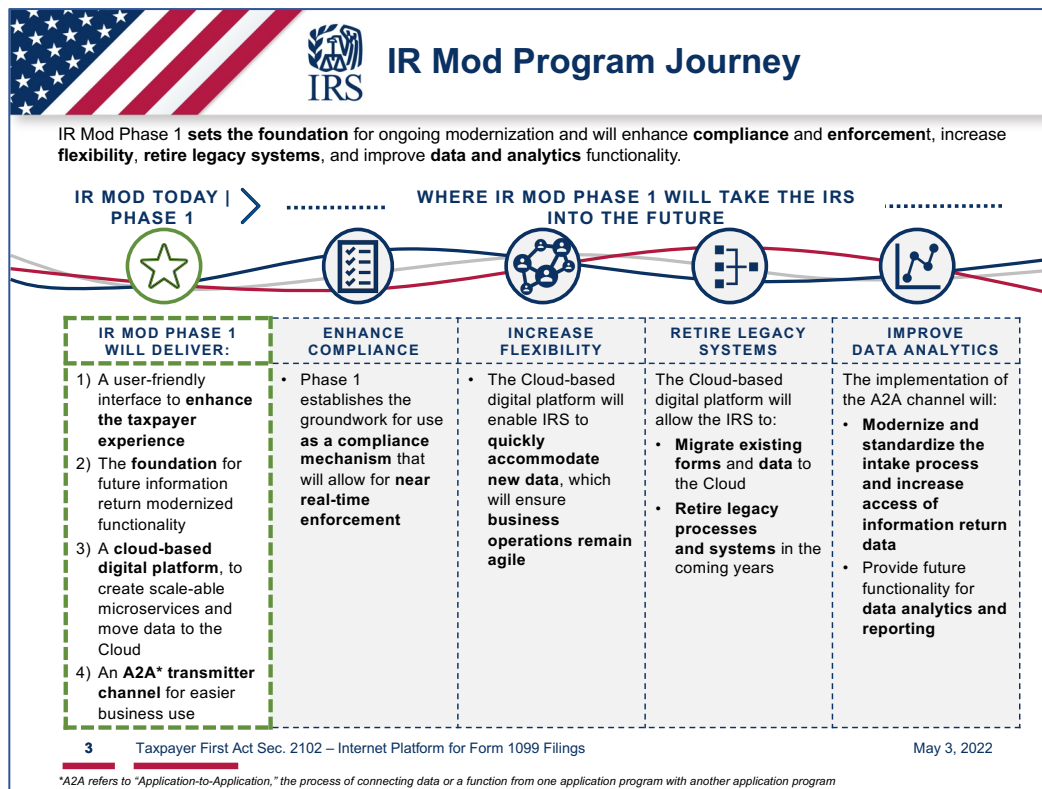
While we do not have a specific recommendation in this area, we recognize the complex and competing goals that the IRS had to balance in implementing SADI. Our tax system requires that Americans have faith that the information provided to the IRS is secure and will not be disclosed inappropriately. Taxpayers also expect convenient online access to their tax information when they need it. Developing and supporting systems that are accessible to users, sensitive to privacy concerns, and highly secure is a complex balancing act. Consistent with our discussions throughout this report, ETAAC encourages the IRS to continue enhancing the tools available to taxpayers that provide additional online access to their own information with the appropriate security to protect taxpayers and the tax ecosystem. We further appreciate that Congress has, in recent years, provided funding for various tools that help to protect the security of the tax ecosystem.

Source Documents: Payroll and Information Returns

For many years, ETAAC has made recommendations to help improve the payroll and information return areas. These are the income source documents that taxpayers rely on to prepare accurate returns, and that tax administrators rely on to help establish the taxpayer’s identity, confirm amounts reported, and protect the integrity of the tax system. Last year we had three recommendations related to these returns, including specifically a recommendation to increase e-filing goals for the 94x series of returns. While the IRS has taken some steps forward, most notably in the development of the 1099 Portal, the processes and systems for payroll and information returns need to be reimagined for a digital world. We recommend that the IRS work in partnership with states and industry to reimagine this world.

Phased Modernization Plan Is Critically Needed

With the financial support of Congress, the IRS developed its Phase I plan for information return modernization. To date, that plan only includes the 1099 Portal. We identified the 1099 Portal as a success story earlier in this report. The Portal demonstrates that the IRS can successfully build major new systems when appropriately funded by Congress. We also appreciate that the IRS appropriately used the funding to anticipate the future need to replace the systems that process these returns. As such, it built the system using modern technology so that when funding became available, the critical components of the system could be readily connected to the Portal.



A key system related to the 1099 Portal is the FIRE system. This system experienced performance issues throughout the information return filing season and outages throughout the day on the critical

filing deadline. Many Form 1099 filers who were prepared to file on the deadline were unable to log into or upload their files to the FIRE system creating many questions about how the IRS will levy potential penalties for files unable to be uploaded as the deadline passed. These types of outages undermine the confidence in electronic filing, the administration of our tax systems, and create additional administrative overhead for the IRS. The FIRE system is a key compliance mechanism that supports IRS enforcement activities. As filing volumes increase and filing deadlines move earlier in the filing season, a stable and modern system for Form 1099 electronic filing is critically important.

As with the MeF system, states, software platforms and the IRS all have a stake in modernizing the FIRE platform in a way that leverages modern technology and security practices. The IRS should engage these groups to work collaboratively in developing a roadmap that re-envision the payroll and information return filing process for a digital world. With this roadmap in hand, Congress could be confident in providing the multi-year funding that will be needed for this project.

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

Paper is a Problem for Payroll Returns, Too

The second-largest category of paper returns by volume, accounting for over 17.5 million paper returns in calendar year 2021, is the 94x Series which is filed by all businesses with employees. These returns report payroll and unemployment taxes and are generally filed on Forms 940 and 941. This category of returns had a relatively low e-file adoption rate of about 55% for the 2020 fiscal year.²⁹ Furthermore, amendments to these returns must currently be filed on paper. The lack of e-filing capability for amended returns created burdens for many small businesses during the pandemic.

The Employee Retention Credit (“ERC”) provided credits against payroll taxes for eligible businesses that kept employees on staff during the pandemic. The ERC was enacted under the CARES Act in March 2020 and was expanded twice, in December 2020, March 2021. The March 2021 expansion was shortened in November 2021. The enactment and each law change included components that were retroactive to prior tax periods. Employers file payroll tax returns quarterly and typically make payroll tax payments within a few days or less of when payroll is paid to employees. The retroactive tax changes resulted in many more employers than is typical filing amended returns on paper. The refund delays for these businesses were significant and particularly challenging for small businesses that lost revenue due to pandemic restrictions.

Like individual returns, the major payroll returns can be filed using the MeF system. We encourage the IRS to implement MeF improvements that allow PDF uploads and amended e-filing, and work to add other features to MeF that will make e-filing of these returns easier for small businesses.

²⁹ TIGTA, Report No. 2022-40-036, A Service-Wide Strategy Is Needed to Address Challenges Limiting Growth of Business Tax Return Electronic Filing (May 2022).

Closing Thoughts

In the midst of the challenges that the IRS and taxpayers have faced through the pandemic years, the IRS leadership is poised, perhaps like no other time in history, to successfully implement initiatives that will put taxpayers first. We have highlighted a handful of projects that demonstrate the IRS's competence and skill in tax administration. Adequate, flexible, multi-year funding is needed.

With an adequate and flexible budget enacted before October 1 of each year, and appropriate multi-year funding consistent with technology plans provided by the IRS to Congress, the IRS can:

- **Collaborate with Stakeholders** to plan and design processes and systems that improve the taxpayer experience to empower taxpayers to get information when and how it is most convenient for them.
- **Use Modern, Iterative, Flexible Design** in processes and technology to allow the IRS to nimbly adapt to changes in the law and taxpayer needs as they arise.
- **Prioritize projects** that address the root cause of taxpayer challenges.
- **Balance Machines & People** to ensure that repetitive tasks are assigned to machines so that the IRS can attract and retain a service-oriented workforce equipped to assist taxpayers in achieving their tax obligations.

By leveraging the IRS's existing strengths, meeting taxpayers' expectations for service becomes realistic and achievable.

APPENDIX A: ETAAC Member Biographies

Dmitri Alexeev – Alexeev is a Tax Partner at BPM LLP and has worked with private and public companies in the financial services, life science and technology industries for over two decades. Along with his tax advisory and compliance experience, Alexeev co-leads BPM's Blockchain and Digital Assets practice and is the Chair of the Accounting Blockchain Coalition's Taxation Working Group.

Jared Ballew (Vice Chair) – Ballew is Director of Government Relations at Drake Software, where he has developed his tax industry experience over 18 years. He currently serves as the President of the National Association of Computerized Tax Processors ("NACTP"), promoting standardization and simplification between government tax agencies and the tax processing industry. Ballew is also actively engaged in Council for Electronic Revenue Communications Advancement ("CERCA") and the Security Summit, serving as a co-lead for the Tax Pro Working Group. He holds a Master of Business Administration from East Carolina University.

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

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

Latryna Carlton – Carlton is Founder and President of Committed Citizens of Waverly in Waverly, Fla., a community-based organization dedicated to self-help and volunteering. Carlton also founded the Polk Prosperity Campaign Inc. where serves as a Volunteer Income Tax Assistance ("VITA") site coordinator and trainer. In 2006, Carlton received Special Congressional Recognition from former Congressman Adam Putnam for her work serving her community.

Daniel Eubanks – Eubanks is a Director for Federal Government Relations at Intuit. He served as an Industry co-lead on the Security Summit Authentication Working Group and Senior Executive Board of the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (the "IDTTRF ISAC"). Eubanks also serves on the Board of Directors for CERCA. He has over 15 years of experience in tax administration.

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

Larry Gray – Gray is a certified public accountant with his own firm, Alfermann Gray & Co. Gray serves on the Security Summit Tax Professionals Working Group. He is the National Government Liaison as well as an instructor for the National Association of Tax Professionals (“NATP”) and speaks regularly at the IRS Nationwide Tax Forums and various other organizations.

Eric Inkrott – Inkrott is Tax Risk Officer at Green Dot, where his key role is combatting stolen identity tax refund fraud. Inkrott is engaged with the IRS Security Summit and partners with the IRS, state departments of revenue and the tax industry to develop new tools and strategies against identity theft and refund fraud. He is a member of the Senior Executive Board of the IDTTRF ISAC.

Jihan Jude – Jude is an attorney and counselor at law with the Davey Law Group in Maitland, Florida. She previously worked with ComplyRight, where she focused on business employment tax compliance, information return reporting requirements from the IRS and Social Security Administration and labor law legal issues. Jude also reviewed company guidance for business clients who used ComplyRight’s tax solutions (paper and electronic filing of tax and information returns and proprietary tax filing software). Jude is also a Senior Tax Professional at H&R Block during the tax season and served as an IRS VITA volunteer in 2020 and 2021.

Courtney Kay-Decker (Chair) – Kay-Decker is of counsel at Lane & Waterman LLP in Davenport, Iowa and is an Adjunct Lecturer in State and Local Tax at the University of Iowa College of Law. She served as Director of the Iowa Department of Revenue from 2011 until 2019. In January 2020, Kay-Decker became a VITA site coordinator. She has previously served as state co-chair of the Senior Executive Board of the IDTTRF ISAC. Kay-Decker received her Bachelor of Arts in Economics from Northwestern University. She holds a Doctor of Jurisprudence with distinction from the University of Iowa College of Law. She served as a member of the quasi-judicial Iowa State Board of Tax Review from 2000-2007; and was Chair of the Board from 2003-2007.

John Kreger – Kreger is Vice President of Product Management at Sovos, where he leads the team responsible for Sovos’ tax and regulatory reporting software solutions. He has experience as a software developer, solution engineer and information systems manager. Kreger holds his Master of Business Administration from the University of Minnesota Carlson School of Management and his Bachelor of Science in Management Information Systems from Winona State University.

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

Jonathan Lunardini – Lunardini is Section Manager of the California Franchise Tax Board’s (“FTB”) Identity Theft/Fraud Program. He has been a member of the Security Summit since its inception in 2015, and has participated in its Information Sharing, Authentication and Financial Services working groups. Lunardini engages with the IDTTRF-ISAC as a participating member of the metrics sub-team and participates in the National Automated Clearinghouse Association and the NACTP. In his role with the FTB, Lunardini has partnered with the IRS, other states, and industry partners on nationwide anti-fraud efforts.

Julie Magee – Magee is Tax Regulatory Affairs Lead at Cash App Taxes, Inc. She is a founding participant in the Security Summit and the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center. She serves on several Summit working groups and is currently Co-Lead of the

Communications Committee. Magee was previously Commissioner of the Alabama Department of Revenue and held leadership roles at the Federation of Tax Administrators, the Multistate Tax Commission, and the Southeastern Association of Tax Administrators.

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

James Paille – Paille works for Thomson Reuters and has over 40 years of experience in the payroll industry, including front line, treasury, and management experience. Paille is a member of the board of directors of the American Payroll Association and the Independent Payroll Providers Association. He is also an active member of the National Automated Clearinghouse Association, National Association of Computerized Tax Processors, and the IRS Reporting Agents Forum.

Kimberly Pederzani – Pederzani is Compliance Manager for the Employee Cloud business unit at Toast, Inc. and serves as lead on a subcommittee for tax forms & publications on the Taxpayer Advocacy Panel and on several subcommittees for the American Payroll Association. She holds a law degree from Florida Coastal School of Law, a bachelor's degree in Legal Studies with certifications in Criminal Profiling and Women's Studies from the University of Central Florida. She has received numerous awards for public speaking, assistance with non-profit organizations and for providing pro bono services to underprivileged individuals.

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

Terri Steenblock – Steenblock is Compliance Director at the Federation of Tax Administrators. She supports state revenue agencies across the United States by providing compliance outreach, education and support to tax administrators focused on audit, collections, criminal investigations, fraud, and electronic filing. Prior to working at FTA, she spent 15 years at the Minnesota Department of Revenue where she held various roles including serving as an Assistant Commissioner. Steenblock has been active in the IDTTRF ISAC since its inception.

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

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

APPENDIX B:

Examples of Real-Time Collaboration

Throughout the year, various members of ETAAC worked collaboratively with the IRS to provide our feedback and perspectives and to engage in brainstorming sessions with the goal of accelerating communications that make tax administration better. The following examples provide a flavor of these interactions.

Taxpayer Experience Prioritization – July 2, 2021

At the request of the Taxpayer Experience office, we provided informal feedback as to prioritizing taxpayer service initiatives. We offered our perspective as to which planned improvements would provide the biggest impact. Many improvements required more funds or technology resources than were ultimately unavailable due to delays in budget approval.

Increase Digital Intake of Returns with Certain Errors – Beginning November 2021

ETAAC provided feedback regarding the 2021 manual Error Resolution System delays arising primarily from taxpayer errors in reconciling the Economic Impact Payments and the Recovery Rebate Credit. Certain members of ETAAC worked with the IRS to begin brainstorming solutions that could help taxpayers make corrections, ultimately allowing the taxpayer to file electronically instead of on paper. The discussions related to this issue were a springboard for this year's Recommendation # 3.

Increase Transparency to Taxpayers and Their Chosen Trusted Providers and Platforms –February 17, 2022

ETAAC provided preliminary information about what information taxpayers expect their chosen, authenticated service providers (including states) to know. The information starts with Where's My Refund data points. We provided information to assist the IRS in evaluating the various consent and authorization issues that are relevant to this process. ETAAC recognizes that this is a complex issue and requires participation of states, software providers, financial institutions, and practitioners to ensure that processes improve access while continuing to protect confidential taxpayer information.

Improve Communications Regarding Updates to E-file Publications – Delivered April 27, 2022

ETAAC believes protecting the tax ecosystem requires all participants in the tax ecosystem to understand their security obligations. Tax practitioners are a diverse group that benefits from clear communication and guidance to help them protect their clients' and their own information. Members met with IRS staff to discuss the existing process employed by the agency when updating practitioner-centric publications. The group requested the addition of user-friendly features such as "what's new" and a "quick start guide" for various user types. ETAAC appreciates the IRS's receptiveness to these suggestions, and we look forward to seeing them come to fruition.

APPENDIX C: Status of Prior Year Recommendations

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

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

- Expand or continue collaboration with stakeholders,
- Continuously evaluate and pilot promising technology initiatives, and
- Enhance communication to taxpayers and other stakeholders.

We have removed most of these from the list of open recommendations because the material thrust of each of those recommendations has generally been addressed. Communication, Collaboration, and Process Improvement require near-constant attention. Regardless of whether a specific recommendation remains open, we appreciate the IRS's continued openness to engage in dialogue for continuous process improvement about the multiple ongoing facets of electronic tax administration.

2021 Recommendations

Recommendation #1: Congress should provide the IRS with flexible, predictable multi-year funding.

The most important of our recommendations from 2021 remains open. We appreciate the funding that Congress has provided through the pandemic, in particular the specific funding for pandemic-required projects. However, the regular annual appropriations remain insufficient to deliver the service that taxpayers expect and deserve. The summary of last year's recommendation is worth repeating:

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

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

Summary from 2021 Report

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

deadlines ensure that relevant data is available when it is most needed, improving the filing season for taxpayers, tax preparers, issuers, the IRS, and states.

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

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

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

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

Recommendation #5: Increase the electronic filing goals.

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

Recommendation #6: Enhance the taxpayer experience in the IRS Identity Theft Tax Refund Fraud (IDTTRF) resolution process.

We have included additional recommendations on this topic, particularly IP PIN communication and enhancements. We appreciate that the IRS continue to improve this important workflow for the benefit of the real taxpayers who are impacted.

Recommendation #7: Allow for greater transparency into return processing status. This year's report provides additional discussion and suggestions in this area.

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

This recommendation was repeated with variations over several years, with the 2021 recommendation being the most recent. We understand that the IRS is ready to implement real-time EFIN validation capabilities, but this project has not been funded.

Recommendation #9: Enhance security plan guidance for tax practitioners. ETAAC has provided real-time feedback on this issue during the year. We look forward to seeing process improvements in communication with tax practitioners, including indicators that highlight new or changed guidance.

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

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

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

Earlier Recommendations:

2018 Recommendation #8

Require security continuing education.

2017 Recommendation #3

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