United States Government Accountability Office

Report to the Committee on Ways and Means, House of Representatives

March 2021

TAX FILING

Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season

Accessible Version

A Century of Non-Partisan Fact-Based Work

GAO-21-251

GAO Highlights

Highlights of GAO-21-251, a report to the Committee on Ways and Means, U.S. House of Representatives

March 2021

TAX FILING

Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season

Why GAO Did This Study

During the annual tax filing season, generally from January to mid-April, IRS processes more than 150 million individual and business tax returns and provides telephone, correspondence, online, and in-person services to tens of millions of taxpayers. Due to the COVID-19 pandemic and to provide relief to taxpayers, IRS extended the 2020 filing and payment deadline by 3 months to July 15, 2020.

GAO was asked to review IRS's performance during the 2020 filing season. This report (1) describes the changes IRS made to operations and services for the 2020 filing season due to the COVID-19 pandemic; (2) assesses IRS's performance on providing customer service and processing individual and business income tax returns during the 2020 filing season and compare to prior filing seasons, where appropriate; and (3) evaluates IRS's plans to prepare for the 2021 filing season.

GAO analyzed IRS documents, filing season performance data, and employee timecard data; assessed IRS's plans for the 2021 filing season; and interviewed cognizant officials.

What GAO Recommends

GAO is making seven recommendations, including that IRS revise estimates for addressing its backlog; identify and address barriers to e-filing for business taxpayers; identify and consider implementing alternative work assignments for returns processing staff on paid leave; and identify and assess risks to the 2021 filing season. IRS agreed with four recommendations and disagreed with three. GAO believes that the recommendations remain warranted.

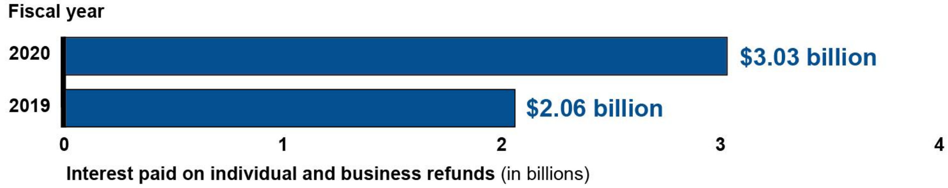
View GAO-21-251. For more information, contact Jessica Lucas-Judy at (202) 512-6806 or lucasjudyj@gao.gov.

What GAO Found

The 2020 filing season occurred during the global COVID-19 pandemic, introducing challenges that the Internal Revenue Service (IRS) had to respond to quickly to fulfill its mission-essential functions. IRS took steps to protect the integrity of its operations, help ensure the health and safety of its employees, and provide relief to taxpayers. For example, IRS closed all its processing and service facilities for several weeks before re-opening with health and safety measures and extended the filing season deadline to July 15, 2020.

IRS's 2020 processing of e-filed returns was generally on par with prior years. However, IRS's overall 2020 performance was significantly impacted by its reliance on manual processes such as for paper returns, and its limited ability to process returns remotely while processing centers were closed. As a result, as of December 2020, IRS had a significant backlog of unprocessed returns and taxpayer correspondence. Additionally, costs increased including interest on delayed refunds which exceeded $3 billion in fiscal year 2020. IRS has not revised its estimates for addressing all of the backlog due to operational uncertainties created by the pandemic. Doing so would help IRS determine how best to address the backlog and perform 2021 filing season activities.

Refund Interest Paid to Taxpayers, Fiscal Years 2019 and 2020



Source: GAO analysis of Internal Revenue Service data. | GAO-21-251

GAO also found that about 23 percent of business tax returns were filed on paper even though an e-file option is available. IRS has not comprehensively identified barriers to business-related e-filing nor taken specific actions to increase e-filing. Doing so would help reduce the volume of costly paper-based work and improve services to business filers. Further, during the filing season, IRS transitioned nearly two-thirds of its phone customer service staff to telework, but was unable to do so for returns processing staff because most of its paper-based work is not set up to be performed remotely. As of late October 2020, about one-third of these staff remained on paid leave. Identifying and implementing alternative work assignments for staff that remain on paid leave would better support IRS operations and reduce costs.

IRS has not fully identified and assessed all risks to the 2021 filing season—including those exacerbated by the COVID-19 pandemic—consistent with enterprise risk management practices. IRS identified some risks in October 2020 after GAO raised concerns, but did not fully address all essential elements of enterprise risk management, such as identifying options for risk response. Doing so would better position IRS to respond to risks during the 2021 filing season. In early 2021, after receiving a draft of this report, IRS provided additional information on its risk management efforts. GAO will review this information to determine if these efforts are sufficient to address its recommendation.

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Abbreviations

AM	Accounts Management
COOP	continuity of operations
COVID-19	Coronavirus Disease 2019
e-file	electronic filing
FTE	full-time equivalent
HCO	IRS Human Capital Office
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
OMB	Office of Management and Budget
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury
W&I	Wage and Investment Division
W-2	Form W-2, Wage and Tax Statement
WSL	weather and safety leave

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March 1, 2021

The Honorable Richard E. Neal
Chairman
The Honorable Kevin Brady
Republican Leader
Committee on Ways and Means
House of Representatives

The Internal Revenue Service (IRS) enforces tax laws, provides service to tens of millions of taxpayers, and processes over 150 million individual and business tax returns during the filing season. IRS has experienced several challenges in recent years, including difficulty hiring tax season workers to process returns, implementing significant tax law changes, and, most recently, managing the 2020 filing season during the Coronavirus Disease 2019 (COVID-19) pandemic. In addition, during the 2020 filing season, IRS and the Department of the Treasury (Treasury) were required to quickly identify eligible recipients of economic impact payments, which provide direct payments of up to $1,200 per qualifying adult and up to $500 per qualifying child, as directed by the CARES Act.[1] The agencies faced difficulties delivering payments to some individuals, and faced additional risks related to making improper payments to ineligible individuals, such as decedents, and fraud.[2]

IRS's modernized electronic filing system allows individuals and businesses to meet a number of their tax return obligations online. However, several key filing season functions remain paper-based,

[1]Pub. L. No. 116-136, 134 Stat. 281 (2020). To help individuals and households deal with the financial stress caused by the pandemic, the CARES Act included a credit for tax year 2020 of up to $1,200 per eligible individual or $2,400 for individuals filing a joint tax return, plus up to $500 per qualifying child (as defined in section 24(c) of the Internal Revenue Code). The act also provided for an advance refund of the credit. Pub. L. No. 116-136, 134 Stat. 281 at 335–40 (2020). The CARES Act refers to the credit and the advance payments as Recovery Rebates. IRS refers to the advance refunds as economic impact payments. The credit phases out gradually based on adjusted gross income.

[2]See GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention,* GAO-21-265 (Washington, D.C.: Jan. 28, 2021); *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response,* GAO-21-191 (Washington, D.C.: Nov. 30, 2020); *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions,* GAO-20-701 (Washington, D.C.: Sept. 21, 2020); *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts,* GAO-20-625 (Washington, D.C.: June 25, 2020).

including about 40 percent of business-related tax forms that cannot be electronically filed and must be mailed to IRS for processing.[3] Other functions require manual intervention by IRS staff. For example, when IRS identifies issues with a taxpayer's return—such as errors or suspected identity theft—the taxpayer is typically required to provide supporting documents via correspondence or appear in person at an IRS office.

You asked us to assess IRS's performance during the 2020 filing season. In this report, we (1) describe the changes IRS made to operations and services for the 2020 filing season due to the COVID-19 pandemic; (2) assess IRS's performance on providing customer service and processing individual and business income tax returns during the 2020 filing season and compared to prior filing seasons, where appropriate; and (3) evaluate IRS's plans to prepare for the 2021 filing season.

To describe the changes IRS made to operations and services for the 2020 filing season in response to COVID-19, we reviewed IRS documents related to policy and procedural changes for the extended filing season, IRS operational status, and expanded employee flexibilities for telework and leave. We also reviewed continuity of operations (COOP) documentation specific to the pandemic and interviewed relevant IRS officials. Additionally, we reviewed documentation on how, and how often, IRS communicated filing season changes to taxpayers, employees, and industry stakeholders.

For additional context, we interviewed five tax industry organizations for their perspectives on IRS's changes to the filing season and sufficiency of communication from IRS. We selected the organizations based on their different roles in the annual filing season, including tax return preparers and businesses, and state revenue representatives. These organizations' views are not generalizable to all the organizations that IRS worked with during the filing season.

To address our second objective, we reviewed IRS reports that provided weekly data on filing season processing and customer service. We used this information to compare IRS's performance in 2020 against IRS's average performance during the prior 3 years (2017 through 2019). We averaged 3 years of performance data to ensure a broader comparison

[3]The term business-related refers to both business and employment tax forms. Both of these types of forms require an Employer Identification Number—a unique nine-digit number that IRS assigns to a business for tax purposes—when filing a return.

across years and to account for variations or anomalies potentially introduced by the extended filing season and the pandemic.

We also reviewed IRS reports on correspondence inventory to analyze and report on IRS's performance responding to written communications within prescribed time frames. Additionally, we reviewed IRS's plans and interviewed officials on how IRS addressed the backlog. We determined that the information and communication component of internal control was significant to this objective, along with the underlying principle that management should use quality information to achieve the agency's objectives.[4] We assessed IRS's information on its backlog inventory and estimates to resolve it as well as data on refund processing and how IRS used this information to determine whether it was able to achieve its objectives.

To help identify the extent of the financial impact from the backlog of delayed refunds to taxpayers, we analyzed IRS data on interest paid to taxpayers and on revenue collections for fiscal years 2019 and 2020. In addition, we analyzed IRS timecard data for returns processing and taxpayer services staff to determine the extent to which IRS staff were working on-site, teleworking, or on weather and safety leave during the extended filing season (January through October 2020).[5]

We interviewed officials from IRS's Wage and Investment (W&I) division to identify contextual factors contributing to changes in performance, including COVID-19 challenges and the impact of closing IRS processing centers, telephone lines, in-person services, and other operations. This included interviews with IRS officials from the Chief Financial Officer's Office to determine the effect of the filing season deadline extension and other operation changes on revenue collections and other costs.

We also reviewed our prior related reports, including those on filing season performance. We compared IRS actions and performance against

[4]GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

[5]In December 2016, the Administrative Leave Act of 2016 was enacted (as part of the National Defense Authorization Act for Fiscal Year 2017, Pub. L. No. 114-328), which mandated new categories of paid leave including "weather and safety leave." Office of Personnel Management guidance states that agencies may use this leave category if any condition prevents employees from safely traveling to or performing work at an approved location.

federal guidelines for improving customer service, IRS performance measures and goals related to timeliness in processing returns and responding to taxpayers, IRS's telework policies and procedures, and Office of Management and Budget (OMB) guidance on telework and leave flexibilities during COVID-19.[6]

To evaluate IRS's plans for the 2021 filing season and how IRS plans to address potential new challenges related to COVID-19 or other disruptions, we reviewed IRS's planning documents and documents on W&I's risk management efforts. We also interviewed W&I officials and officials from IRS's Office of the Chief Risk Officer on potential risks to the 2021 filing season. We compared IRS's efforts against leading practices on enterprise risk management.[7]

The data we used in this report were the most recent sets of data at the time of our review. To assess the reliability of this data, we interviewed IRS officials, and assessed documentation for any data limitations, which we note, as applicable, within the report. We compared those results to our data reliability standards and determined that the data presented in this report are sufficiently reliable for our purposes.

We conducted this performance audit from December 2019 to March 2021 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[6]See, for example, Office of Management and Budget, *Preparation, Submission and Execution of the Budget*, Circular No. A-11, pt. 6, § 280 (Washington, D.C.: July 2020); *Updated Guidance on Telework Flexibilities in Response to Coronavirus*, Memorandum M-20-13 (Washington, D.C.: Mar. 12, 2020); *Federal Agency Operational Alignment to Slow the Spread of Coronavirus, Memorandum* M-20-16 (Washington, D.C.: Mar. 17, 2020); and *Harnessing Technology to Support Mission Continuity*, Memorandum M-20-19 (Washington, D.C: Mar. 22, 2020).

[7]GAO, *Enterprise Risk Management: Selected Agencies' Experiences Illustrate Good Practices in Managing Risk,* GAO-17-63 (Washington, D.C.: Dec. 1, 2016). We compared IRS's efforts to four of the six essential elements for enterprise risk management because these were the elements IRS had taken steps to implement at the time of our review. These essential elements included aligning the enterprise risk management process to goals and objectives, identifying a comprehensive list of risks, assessing risks, and selecting a risk response.

Background

COVID-19 and Related Legislation

The Congress and the executive branch have taken various steps to respond to the COVID-19 pandemic.[8] On March 13, 2020—two days after the World Health Organization declared a global pandemic—the President determined the pandemic to be an emergency under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. About a week after the emergency declaration, Treasury and the IRS extended the April 15, 2020, payment and tax filing deadline to July 15, 2020.[9]

In March and April 2020, several supplemental appropriations were enacted to assist in the nation's pandemic response, totaling about $2.6 trillion. For example, Congress passed, and the President enacted, the CARES Act which funded various loans, grants, and other forms of assistance for businesses, industries, states, local governments, and hospitals; provides direct payments to certain individuals; temporarily expands unemployment benefits; and suspended payments and interest on federal student loans.[10] See appendix I for IRS's appropriations for fiscal years 2000 through 2020.

In addition to extending the filing deadline, IRS implemented the People First Initiative to help taxpayers manage financial challenges during COVID-19. From April 1 to July 15, 2020, IRS paused taxpayer payment agreements and temporarily postponed compliance actions such as forwarding delinquent accounts to private collection agencies. IRS reported that as it resumed its tax administration responsibilities, it would

[8]GAO-21-265; GAO-21-191; GAO-20-701; and GAO-20-625.

[9]IRS Notice 2020-23, 2020-18 IRB 742 (Apr. 27, 2020). Notice 2020-23 amplified relief provided in Notice 2020-18 and Notice 2020-20. 2020-15 IRB 590 (Apr. 6, 2020); 2020-16 IRB 660 (Apr. 13, 2020). The Secretary of the Treasury has statutory authority to postpone filing and payment deadlines for taxpayers affected by a "federally declared disaster," which is any disaster determined by the President to warrant assistance by the federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. 26 U.S.C. §§ 7508A, 165(i)(5)(A). The President's March 13 determination instructed the Secretary of the Treasury to provide relief from tax deadlines to Americans who have been adversely affected by the COVID-19 emergency, as appropriate, pursuant to 26 U.S.C. § 7508A(a).

[10]CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020).

continue to factor in the ongoing impacts of COVID-19 on the health and safety of taxpayers and IRS employees.

Return Processing and Customer Service

IRS's annual tax filing season activities include processing over 150 million individual and business tax returns electronically or on paper, issuing hundreds of billions in refunds, and providing customer service to tens of millions of taxpayers on return processing issues, such as suspected identity theft and errors. Some filing season activities rely on automated, electronic processes, including electronically filed (e-file) individual and business-related tax returns; scheduling and making tax payments via IRS's online taxpayer account; and online customer service through IRS's website. Other filing season activities are primarily paper-based or require manual processing by IRS staff, such as processing paper returns; providing telephone or in-person customer service; or resolving taxpayer account issues via correspondence (see table 1).

Table 1: Estimated Percentages of Manual and Automated Key Tax Filing Season Operations, 2020

	Filing Season Operation	Manual[a] (percent)	Automated (percent)
Returns Processing & Collections	Individual return processing	8	92
	Business return processing	31	69
	Deposits	22	78
Customer Service	Telephone service	32	68
	Taxpayer assistance centers	100	Not applicable
	Taxpayer correspondence	100	Not applicable
	Amended returns	96	4[b]
	Online	Not applicable	100

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-251

Notes: Estimates are based on 2020 filing season data as of mid-October 2020. Manual operations represent paper-based functions and those that primarily require support from an IRS employee; automated operations are self-service and generally do not require intervention from an IRS employee.

[a]Percentages for 2020 manual operations do not include tax returns, paper deposits, and taxpayer correspondence in IRS's backlog of unopened mail. In addition, during the 2020 filing season the percentage of manual telephone service declined by about 8 percentage points compared to 2019 due to office closures and limited in-person staff during the pandemic.

[b]IRS implemented e-filing for amended returns in August 2020, which was only available for 2019 tax returns that were e-filed. According to IRS officials, during the 2021 filing season, IRS will expand the service to include both 2019 and 2020 tax returns that were e-filed. IRS staff are still required to review the return and adjust the taxpayer's account.

Automated processes are generally more efficient and cost-effective than paper-based processes, and any delays in issuing refunds can increase costs to IRS and burden the taxpayer. For example, IRS generally is required to process a tax refund within 45 days after the due date, otherwise it owes the taxpayer interest on the refund.[11]

IRS Modernization Efforts

IRS has struggled to modernize its tax filing information technology systems and processes.[12] For example, in September 2020, we reported that IRS's longstanding efforts to modernize its 60 year-old legacy core tax processing system has faced numerous challenges and delays. We reported that IRS's replacement system, Customer Account Data Engine 2, was re-baselined seven times from 2016 to 2019 due to a number of factors, including budget cuts, hiring freezes, and changes in scope.

In 2018, we made six recommendations related to IRS's efforts to manage the risks associated with its core tax processing system, including implementing key risk management practices. IRS did not state whether it agreed or disagreed with our recommendations, but the agency acknowledged the importance of strengthening its risk management process by implementing the key leading practices we identified. As of December 2020, these recommendations had not been implemented.

[11]IRS is generally required to pay interest on refunds of overpayment of taxes. 26 U.S.C. § 6611. In general, interest starts to accrue on overpayments when the overpayment is made. 26 U.S.C. § 6611(b). By statue, tax deducted or withheld, such as on wages, is deemed to have been paid on April 15 of the following year. 26 U.S.C. § 6513(b)(1). However, if IRS issues a refund within 45 days of the later of when a return is due or when it is filed, no interest is owed. 26 U.S.C. § 6611(e)(1). Special rules apply for overpayments when the statutory authority to postpone filing and payment deadlines pursuant to a Presidential disaster declaration is used. 26 U.S.C. §§ 7508A(c), 7508(b). Under these rules, IRS owes interest on refunds to individuals even if the refund is made within 45 days of the filing deadline. 26 U.S.C. §§ 7508(b), 6611(e).

[12]GAO, *Information Technology: Key Attributes of Essential Federal Mission-Critical Acquisitions,* GAO-20-249SP (Washington, D.C.: Sept. 8, 2020); and *Information Technology: IRS Needs to Take Additional Actions to Address Significant Risks to Tax Processing,* GAO-18-298 (Washington, D.C.: June 28, 2018).

Further, while the e-file rate for individual tax returns was about 89 percent during fiscal year 2019, e-filing for business-related returns lagged behind at about 60 percent, resulting in a paper-based workload that is slow to process and costly to IRS. In addition, IRS continues to rely on mail-based correspondence to resolve taxpayer account issues including tax return errors, suspected identity theft, and overdue collections.[13]

We have also previously reported that IRS has struggled to balance competing demands for maintaining quality customer service levels via telephone and timely written correspondence because many IRS staff who respond to taxpayer phone calls are also responsible for taxpayer correspondence.[14]

IRS's strategic plan states that the agency plans to expand secure digital options for taxpayers and tax professionals to interact efficiently with the IRS while maintaining and improving traditional service options. IRS planned to implement one-way digital communications with taxpayers through its online taxpayer account by fiscal year 2021, but has delayed its efforts and estimates completion in fiscal year 2022. Similarly, IRS stated that it intends to implement two-way digital communications with

[13]In December 2019, we reported that IRS's efforts to determine whether current online services meet taxpayer needs have not yet been sufficient to make decisions about how to move forward. We recommended that IRS ensure that taxpayer input is included as an element of IRS's identification and prioritization process for new online services. IRS agreed with this recommendation, and in June 2020 described initial steps it has taken to address it. See GAO, *Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services,* GAO-20-71 (Washington, D.C.: Dec. 19, 2019).

[14]See GAO, *2019 Tax Filing: IRS Successfully Implemented Tax Law Changes but Needs to Improve Service for Taxpayers with Limited-English Proficiency,* GAO-20-55 (Washington, D.C.: Jan. 15, 2020); and *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies,* GAO-16-151 (Washington, D.C.: Dec. 16, 2015). To improve the management of taxpayer services, in 2015 we recommended that the Secretary of the Treasury update the department's performance plan to include overage rates for handling taxpayer correspondence as a part of its performance goals. Treasury neither agreed nor disagreed with the recommendation and, as of October 2020, it had not included correspondence overage rates as a performance goal in its performance plan. We continue to believe that including overage rates as a performance goal would enhance its efforts to create a complete set of customer service performance metrics for IRS and provide Congress and other stakeholders with information to monitor IRS's performance in handling correspondence from taxpayers.

taxpayers, but as of January 2021, does not plan to do so until fiscal years 2023 to 2025.

IRS Took Steps to Manage Disruptions to the 2020 Filing Season Due to COVID-19

IRS Relied on its Continuity of Operations Framework with Some Changes

IRS identified three mission-essential IRS functions: (1) processing tax payments, (2) processing tax refunds, and (3) processing tax returns.[15] These functions are to continue in the event of a disruption or disaster.

IRS's Human Capital Office (HCO) leads IRS COOP annual planning, with input from Treasury and IRS business operating divisions. HCO compiles IRS's COOP plan, oversees yearly updates to the plan, and otherwise ensures that IRS follows federal requirements on COOP planning, such as those from the Federal Emergency Management Agency. HCO also coordinates with business divisions within IRS to ensure continuity of operations in the event of a disruption, such as the COVID-19 pandemic.

As part of its ongoing COOP planning efforts, IRS has established roles and processes, and developed documents outlining its plans to continue operations in the event of a pandemic, natural disaster, or other external disruption. For example, IRS's *Continuity of Operations Plan* includes appendices for each business operating division with planned responses to various disruptions. Among other things, the appendices identify a clear chain of command to ensure that there is no lapse in essential decision-making and provide guidance on communication.

During COVID-19, IRS modified existing COOP roles, processes, and documents. IRS officials said that they made these changes because of the unprecedented scope and duration of this pandemic. For example:

- Instead of activating nine separate Incident Management Teams across the country, IRS activated a centralized executive steering

[15]IRS identified mission-critical functions in the Internal Revenue Manual, Part 10. Security, Privacy and Assurance, Chapter 6. Continuity Operations, Section 1. Overview of Continuity Planning (10.6.1.2.3.1).

committee to manage IRS's agency-wide response to the pandemic. The committee is responsible for ensuring that IRS-wide COOP policies are implemented, and providing executive-level oversight for COOP-related activities. According to IRS officials, this structure was set up to give operating divisions direct access to senior executives and to expedite requests for resources.

- IRS officials stated they have begun to document lessons learned from COVID-19. Specifically, IRS officials told us that they are updating their *Pandemic Incident Management Plan*, which provides some of IRS's plans for responding to a pandemic situation, based on lessons learned from the current COVID-19 pandemic. Similarly, IRS updated its *Infectious Disease in the Workplace* document in April 2020 to reflect lessons learned from the COVID-19 pandemic. This document provides guidance to IRS employees on handling various infections and diseases, including guidance related to reporting processes and employee privacy and safety issues.
- IRS officials have developed new documents related to lessons learned, such as resources to help managers answer employee questions on different types of leave and telework options.[16]

IRS Reduced Filing Season Operations and Taxpayer Services Early in the Pandemic

From late March to April 9, 2020, IRS closed all four return processing sites, all customer service sites, and all Taxpayer Assistance Centers (TAC) due to local stay-at-home orders, and directed all employees with portable work to telework. IRS officials said that among filing season staff, initially only managers and a small group of customer service representatives who were part of an ongoing telework pilot were able to telework.

Officials stated that, in general, telework was not a viable option for returns processing employees due to the manual nature of their work. We discuss the extent to which IRS employees were able to telework, work on-site, or use leave flexibilities during the pandemic later in this report.

[16]Telework is a work arrangement that allows an employee to perform work at an approved alternative worksite such as the employee's home or a telework center. We have ongoing reviews of federal agencies' use of telework and plans for workforce re-entry in response to the COVID-19 pandemic.

Starting in mid-March 2020, IRS urged taxpayers to e-file tax returns and to use automated phone lines and IRS's website and self-service tools. During this same period, IRS took the following actions:

- Suspended in-person taxpayer services as of late March. IRS began phasing in in-person services in late June 2020. As of late September, IRS had reopened 222 of 358 (62 percent) of its TACs. IRS told us that, as of early December 2020, 76 percent (272) of TACs were open and 24 percent (86) remain closed.
- Closed all live telephone service lines between late March and late April. IRS resumed live telephone assistance for taxpayers with identity theft-related issues on April 27, 2020, and began opening additional phone lines in mid-May 2020. In late June, IRS reported that all telephone lines were reopened but with reduced staffing.
- Stopped, resumed, and again stopped sending mail-based balance due notices to taxpayers.[17] IRS reported that it resumed sending notices to taxpayers in late October 2020.

IRS Communicated Service Change Updates to Taxpayers, Employees, and Industry Partners

IRS regularly updated multiple COVID-related, taxpayer-focused web pages, including a landing page for Coronavirus Tax Relief and economic impact payments that linked to various resources. IRS also maintained a web page with updates on its operational status of various taxpayer services. For example, from late March through August 2020, IRS generally posted weekly updates on (1) the status of tax processing operations, (2) availability of different taxpayer customer services, and (3) how taxpayers could access online services to check the status of their refund.

IRS informed taxpayers to expect delays in processing paper returns and long wait times on the telephone due to reduced numbers of customer

[17]IRS reported that prior to offices closing in March 2020, it was unable to mail some previously printed balance due notices to taxpayers. As IRS began to reopen offices in June 2020, it stated that previously printed notices would be delivered to taxpayers with an insert providing a revised due date because it would take too long to reprogram IRS systems and generate updated notices. However, IRS stopped sending notices again in late August 2020 to address potential taxpayer confusion with the revised due dates and because it could not verify the status of taxpayer payments due to the backlog of unopened mail.

service staff. In addition, IRS provided taxpayer updates on the status of services through news releases and social media.

During the first several months of the pandemic, IRS provided regular operational and policy updates to its employees through news announcements and online updates. IRS also posted employee-centered resources, notices, and Frequently Asked Questions to its public website. Both the IRS Commissioner and Chief Human Capital Officer have also sent periodic updates to employees during the pandemic, such as to communicate new policies related to leave.

Representatives of each of the five tax industry organizations we talked with said that IRS shared information directly with them about changes related to IRS guidance due to the COVID-19 pandemic, and how taxpayers could use IRS's online non-filer tool to determine eligibility for an economic impact payment. Further, representatives from four of the five organizations noted taxpayer confusion in understanding the many changes and updates from IRS in response to the pandemic, such as how IRS planned to prioritize refund processing or responses to taxpayer correspondence.

IRS's Reliance on Manual Processing Resulted in a Significant Backlog, Delays for Taxpayers, and Increased Costs During the 2020 Filing Season

Part of IRS's Backlog Will Carry Over into the 2021 Filing Season, Increasing Delays and Costs

For the first 9 weeks of the 2020 filing season—January 27, 2020 through March 27, 2020—IRS's return processing activities and customer service were generally on par with last year. As of the end of the filing season in mid-July 2020, IRS had received and processed more e-filed returns than it did by the end of the 2019 filing season.[18] Specifically:

- IRS received about 8 percent (10.1 million) more e-filed individual returns and 23 percent (5 million) more business returns compared to the end of the 2019 filing season.
- IRS processed about 98 percent (134.1 million of 136.3 million) of the e-filed individual returns it received, similar to its performance in 2019 (124.6 million of 126.2 million).
- IRS processed nearly all of the e-filed business returns it received during the 2020 filing season (26.57 million of 26.61 million), similar to its performance in 2019 (21.59 million of 21.62 million) (see appendix II, table 4).

However, IRS struggled to process returns filed on paper and provide customer service during the 2020 filing season, due to long-standing challenges that were exacerbated by changes related to the COVID-19 pandemic. Specifically:

- By the end of the 2020 filing season, IRS had received about 23.6 percent (2.6 million) fewer paper individual returns and 26.2 percent (2.7 million) more business paper returns compared to the end of the 2019 filing season.
- As of the July 15th filing season deadline, IRS had processed about 53 percent (4.5 million) of the individual paper returns and 58.7 percent (7.6 million) of business paper returns it had received. In comparison, as of the end of the 2019 filing season, IRS processed about 56 percent (6.1 million) individual paper returns and 81.8 percent (8.4 million) paper business returns. We discuss IRS's backlog of paper-based returns below.
- Due to office closures and limited staffing during COVID-19, IRS's telephone, in person, and correspondence customer service levels declined from late March 2020 to the end of the filing season. For example, by the end of the 2020 filing season, IRS's level of service for live telephone assistance was about 42 percent, compared to an average of about 78 percent for the end of filing seasons 2017 through 2019 (see app. II, fig. 10).

[18]Unless otherwise stated, we compare weekly data as of the end of the 2020 filing season, July 15, 2020, to weekly data as of the end of the 2019 filing season, April 15, 2019.

See appendix II for additional data on return processing and customer service performance during the 2020 filing season.

When IRS began re-opening processing centers in late April, employees faced a significant backlog of paper-based and manual work including unopened mail, unprocessed tax returns, and suspended returns that required manual review before IRS could process them and issue a refund. Since then, IRS has made progress in addressing parts of its backlog.

As shown in table 2, from July to December 2020, IRS addressed its backlog of unopened mail. Our analysis of IRS data showed that as of mid-October 2020, IRS's backlog of unprocessed returns decreased by about 19 percent (2.2 million). However, from mid-October to December 2020, the unprocessed returns backlog increased by about 39 percent (3.7 million) due to IRS opening its remaining mail which included paper returns.

Table 2: Selected IRS Backlog Inventory and Volume as of July and December 2020

Inventory type	Description	Volume as of July 2020	Volume as of December 2020
Unopened mail	Mail that IRS has not yet opened, which includes tax returns, payments, and taxpayer correspondence.	7.9 million	None *IRS reported that it had opened all mail from the 2020 filing season.*
Unprocessed returns	Tax returns that IRS received but had not completed processing. This includes individual and business returns filed on paper or electronically and returns suspended due to errors, such as math errors, or potential fraud.	11.6 million *Total includes:* *6.2 million individual* *5.4 million business* *(80% paper returns)*	13.1 million *Total includes:* *5.5 million individual* *7.6 million business* *(92% paper returns)*
Taxpayer correspondence	Written correspondence from taxpayers requiring IRS to review and respond.	2.8 million	4.0 million

Source: GAO analysis of Internal Revenue Service (IRS) documents and data. | GAO-21-251

In July 2020, IRS officials reported that they anticipated resolving much of the total backlog—including unopened mail and unprocessed returns—by the end of 2020. However, in November 2020, IRS officials stated that they would not meet this goal and revised their estimate to open all remaining mail by December 2020. At that time, IRS officials stated that they could not provide an updated estimate for resolving the remainder of the backlog, such as unprocessed individual and business returns and taxpayer correspondence. According to IRS, this was due to the conditions created by the pandemic, including uncertainty about the number of staff available to process paper returns.

In November 2020, IRS officials told us that they planned to stop processing a portion of the backlog if IRS had not addressed it by the end of 2020. Specifically, IRS planned to prioritize processing business returns and would not continue processing paper information returns (forms filed by third parties with information on taxable transactions) remaining in its inventory after December 2020. IRS had initially estimated that it would take until September 2021 to complete that work. As of late January 2021, IRS reported that it had about 30 million unprocessed information returns. Information returns assist IRS with other IRS processes, such as tax return audits and enforcement. Without processing this information, these efforts could be delayed or reduced.

According to the *Standards for Internal Control in the Federal Government*, management should use quality information to make informed decisions and evaluate the agency's performance in achieving key objectives and addressing risks.[19] Revising its estimates for when the different areas of its backlog will be resolved would help IRS determine how best to address the backlog of 2020 returns and correspondence and perform 2021 filing season activities.

IRS's Sequential Manual Processes Compounded Delays

Several sequential manual processes delayed IRS's return processing and customer service-related correspondence during the 2020 filing season. For example, IRS staff must first open taxpayer mail, which includes paper tax returns and correspondence, before passing it along to other staff to review the information and enter it into IRS systems for processing. Delays at any point in this process have downstream effects. For example, IRS's mail backlog delayed paper-based return processing, which in turn resulted in delayed refunds to taxpayers in 2020; these delayed refunds will likely continue until IRS resolves its backlog of unprocessed and suspended returns.

Unopened mail. While IRS processing centers were closed, IRS continued to receive mail. It stored unopened mail from taxpayers including tax returns, payments, and other correspondence, in trailers. According to IRS officials, when IRS staff returned to work at processing

[19] GAO-14-704G.

centers, they resumed opening mail on a first in, first out basis—opening mail with the earliest received date. At the end of the filing season, IRS's mail backlog was significant—a volume of nearly 8 million—with IRS returns processing staff opening mail received months prior. For example, in late July, officials reported that IRS's processing center in Ogden, UT was opening and batching mail from March 2020.

IRS officials stated that as of November 2020, two of its four processing centers had addressed their backlogs of unopened mail, and that IRS was shipping unopened mail to these centers to assist with the remaining backlog at the other two centers. IRS reported that as of mid-December 2020, all four of its processing centers had opened remaining mail from the 2020 filing season. Officials also stated that as of late January 2021, unopened mail for the 2021 filing season had increased to about 700,000 pieces at two of its processing centers. Officials stated that they were leveraging resources from other areas of IRS to reduce that volume.

Unprocessed paper returns. IRS's paper-based return processing is inherently slow compared to electronic return processing because it involves manual tasks, such as staff sorting and batching, reviewing, and transcribing return data into IRS's information technology systems, all work that is conducted by staff on-site. For example, once reviewed, IRS staff correct errors on tax returns and transcribe return data into IRS's systems to begin processing them. These manual processes are time consuming and prone to human error compared to e-filed returns, which IRS information technology systems automatically review for errors and anomalies upon submission. As discussed below, paper-based return processing was severely limited during the 2020 filing season due to processing center closures and reduced staffing.

As of late October 2020, IRS processed individual paper returns in 102 days on average compared with IRS's target time frame of 13 days during a typical filing season. Similarly, processing times for businesses returns, generally longer than for individual returns, also increased. For example, as of late October 2020, IRS processed employers' quarterly tax returns in 71 days on average compared with IRS's target time frame of 32 days during a typical filing season.

Unresolved suspended returns. As of the end of the filing season (July 2020), IRS faced a backlog of unresolved suspended returns totaling about 6.6 million. This includes returns stopped for potential identity theft, errors, or indicators of noncompliance such as misreported income. For example, throughout the filing season, IRS's fraud filters continued to suspend returns suspected of individual or business identity theft.

Generally, upon suspension, IRS sends an identity verification letter to the taxpayer requesting that they authenticate their identity in person, via telephone, or using an online tool. However, when processing centers closed in late March due to the pandemic, IRS stopped mailing notification letters and all other correspondence because staff could not print and send letters to taxpayers from home.

Likewise, returns that IRS suspended because they contain errors require IRS staff to manually review the return. If possible, staff can correct the error and continue processing the return. However, some errors require correspondence to request additional information from the taxpayer. As of late December 2020, IRS had 4.1 million suspended returns with errors, which is about a 500 percent increase compared to the same time in 2019.

We previously suggested to Congress that it consider providing IRS broader math-error authority to correct errors during tax return processing, with appropriate safeguards against misuse of that authority to help IRS prevent costly and lengthy reviews.[20] Doing so would allow IRS to make certain summary adjustments to a taxpayer's return using quality data and could reduce processing delays. As of February 2021, this authority has been expanded in certain circumstances by law, but not as broadly as we suggested.

Delayed correspondence processing. Throughout the 2020 filing season, IRS was unable to keep its business correspondence inventory below what it calls a "critical level" of volume. IRS officials explained that levels of correspondence inventory are critical when they reach the point where resulting increases in IRS's response time prompts taxpayers to mail additional correspondence or call IRS customer service lines. This creates additional strain on IRS's resources and further delays responses to taxpayers.

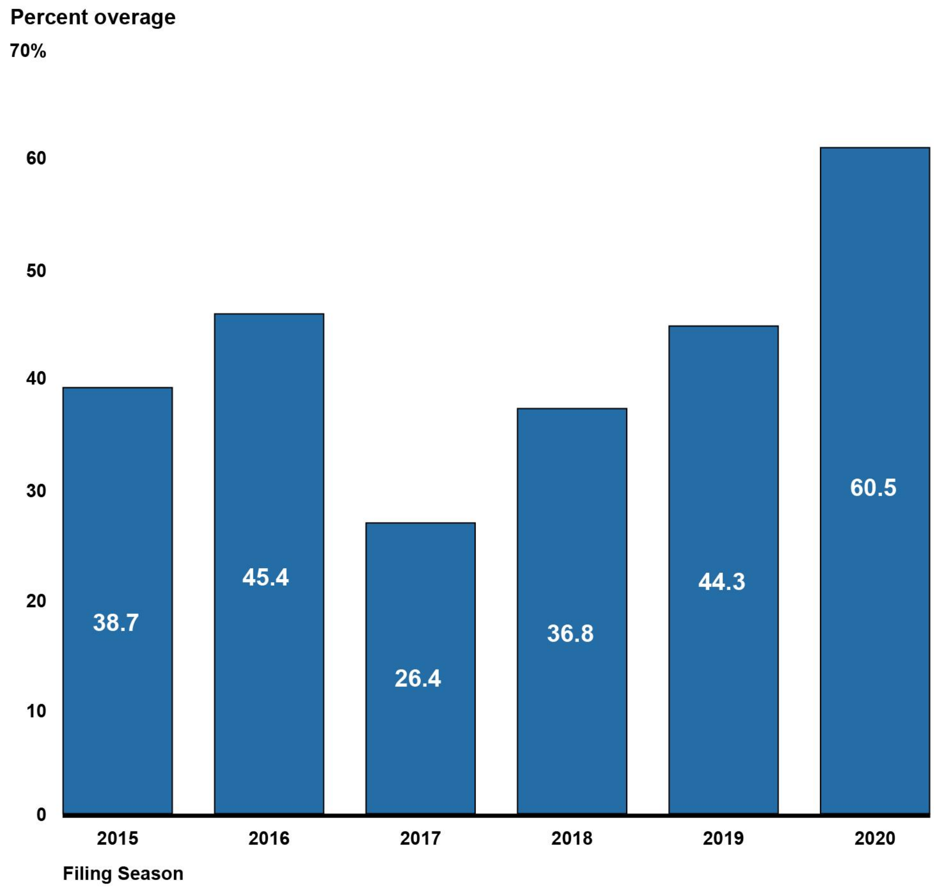
[20]GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: Feb. 10, 2010). The Internal Revenue Code provides IRS with math error authority to assess additional tax or correct other tax return errors in limited circumstances when an adjustment is the result of mathematical or clerical errors on the return. 26 U.S.C. § 6213(b).

Our review of IRS's data found that IRS's individual taxpayer correspondence inventory exceeded its critical level of 900,000 in August 2020. Further, as we reported in January 2020, IRS's business taxpayer correspondence inventory exceeded its critical level of 600,000 before the 2020 filing season opened.[21] As of the end of the 2020 filing season in mid-July, IRS's business taxpayer correspondence inventory was at least 841,000, 40 percent above the critical level.

In addition, after mail is processed, IRS's policy is to generally respond to correspondence within 45 days; responses that take longer than this are considered late or overage. By the end of the 2020 filing season, IRS had more than 1.7 million cases of overage correspondence—60.5 percent of the total 2.8 million correspondence inventory (see fig. 1). This is an increase of about 90 percent compared to the end of the 2019 filing season, and the highest percentage of overage correspondence in recent years.

[21] GAO-20-55.

Figure 1: Internal Revenue Service (IRS) Correspondence Overage Rates (Late Responses), October 1 through the End of the Filing Season, 2015-2020



Source: GAO analysis of Internal Revenue Service data. | GAO-21-251

Data table for Figure 1: Internal Revenue Service (IRS) Correspondence Overage Rates (Late Responses), October 1 through the End of the Filing Season, 2015-2020

Overage Rates

- FY 2015 = 38.7
- FY 2016 = 45.4
- FY 2017 = 26.4
- FY 2018 = 36.8
- FY 2019 = 44.3
- FY 2020 = 60.5

Note: Correspondence that IRS identifies as “overage” ranges from 30 to 180 days depending on the type of work it represents. Data cover the beginning of the fiscal year (October 1) through April 25, 2015; April 23, 2016; April 22, 2017; April 21, 2018; April 20, 2019; and July 18, 2020, respectively, and reflect all correspondence cases received from taxpayers and scanned into IRS's Correspondence Imaging System. The 2020 filing season was extended to July 15 due to the COVID-19 pandemic.

To improve the management of taxpayer services, in 2015 we recommended that the Secretary of the Treasury update the department's performance plan to include overage rates for handling taxpayer correspondence as a part of its performance goals.[22] Treasury neither agreed nor disagreed with the recommendation and did not include correspondence overage rates as a performance goal in its fiscal year 2021 performance plan. We continue to believe that doing so would enhance its efforts to create a complete set of customer service performance metrics for IRS and provide Congress and other stakeholders with information to monitor IRS's performance in handling correspondence from taxpayers.

Processing Delays Resulted in Late Refunds for Taxpayers and Increased Spending

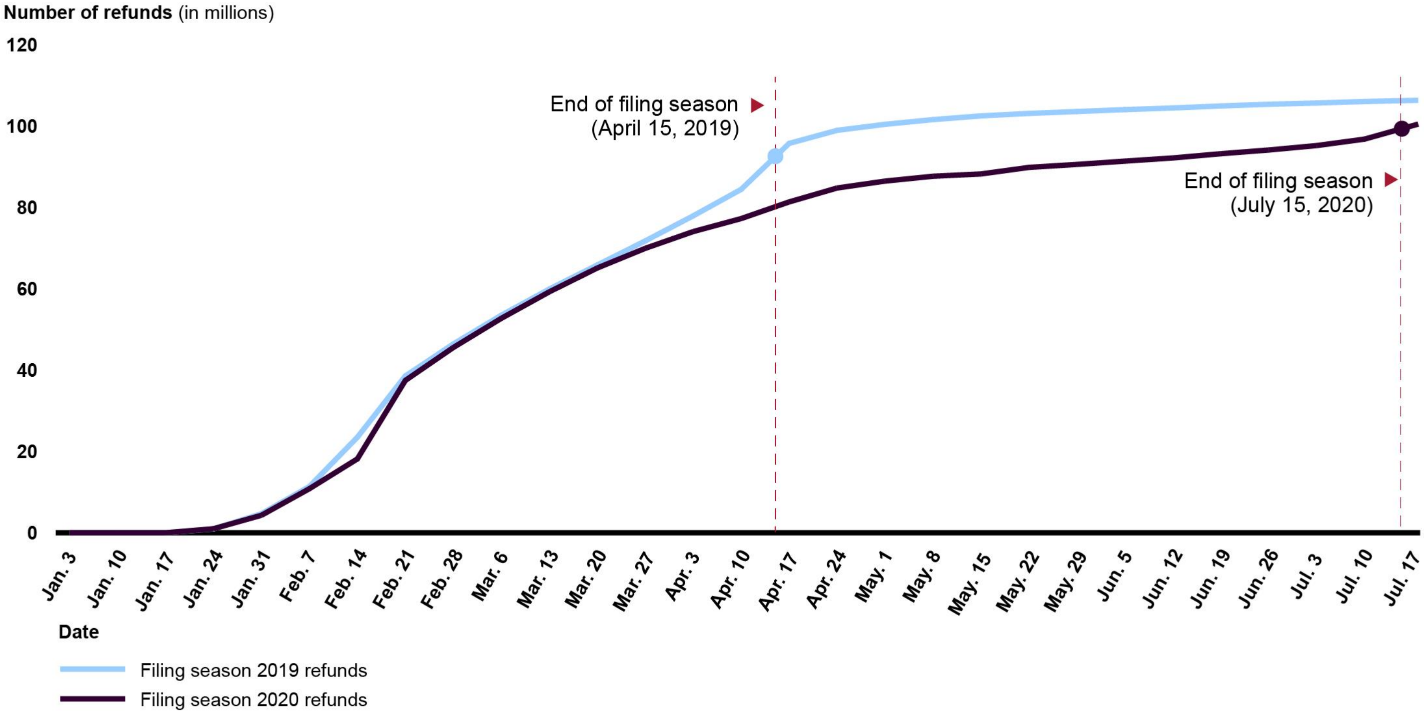
We found that during the 2020 filing season, the returns processing and customer service challenges detailed above, along with the extended filing season, delayed refunds to taxpayers and revenue collection to IRS. These delays, in turn, led to increased costs to the government in the form of interest payments on taxpayer refunds.

Refund delays. For the reasons discussed above, including delays in processing returns filed on paper and those suspended for review, IRS issued fewer refunds to individuals compared to the 2019 filing season (see fig. 2).[23] As of the end of the 2020 filing season, IRS had processed over 100 million individual refunds totaling approximately $276.1 billion. This is a 5.5 percent decrease (5.9 million) in number of refunds and a 5.3 percent decrease ($15.4 billion) in dollars refunded.

[22]GAO, *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies*, GAO-16-151 (Washington, D.C.: Dec. 16, 2015).

[23]In some cases, delays in processing taxpayer returns may have also delayed a taxpayer's economic impact payment. We did not review the extent to which this occurred. For our reports on IRS's processing of economic impact payments, see GAO-21-265; GAO-21-191; GAO-20-701; and GAO-20-625.

Figure 2: Individual Refunds Processed by the Internal Revenue Service, 2019 and 2020 Filing Seasons



Source: GAO analysis of Internal Revenue Service data. | GAO-21-251

Note: Due to a state holiday, filers in Massachusetts and Maine had until April 17, 2019, to file their federal returns.

IRS does not know the extent to which business tax refunds have been delayed because it does not monitor and report on the refunds issued to business taxpayers as it does for individual taxpayers in its weekly status reports. IRS officials told us in July 2020 that they did not know why they do not monitor this information. Timely issuance of refunds is important because, if late, IRS is required to pay interest on the amount owed, as discussed below. According to IRS data, the average fiscal year 2019 tax refund for businesses was about $162,800 and the average individual refund was about $2,800.[24]

IRS sets performance goals for how much refund interest it expects to pay each year for both individual and business refunds. However, this goal is a rolling 12-month average based on the refund interest IRS paid

[24]The average business tax refund includes refunds of taxes on corporation income (Form 1120 series) and on unrelated business income from tax-exempt organizations (Form 990–T).

rather than its expected performance in processing timely refunds. *Standards for Internal Control in the Federal Government* state that management should use quality information to achieve the agency's objectives, including obtaining data on a timely basis so that they can be used for effective monitoring.[25] By not tracking how many business refunds are processed throughout the year, IRS does not know how well it is processing business refunds or the extent to which it will have to pay refund interest.

Reduced collections. As of September 2020, IRS collected about $2.7 trillion in revenue from tax payments, about 3 percent less than in the same time frame in 2019 ($2.8 trillion). IRS officials said these collections were delayed due to the filing deadline extension and the backlog of mail, which includes payments from taxpayers. In addition, due to the significant delays opening mail, our review of IRS's data show that IRS has encountered more check payments from taxpayers that were not honored by the banks. IRS officials stated that this has not been a significant issue, citing a low volume of bounced checks. In addition, IRS had suspended associated taxpayer fees for bounced checks.

However, our review of IRS data shows that the volume of checks IRS received in 2020 that were not honored by the bank was substantially higher compared to 2019. As of December 25, 2020, IRS had more than 29,000 checks totaling about $760 million that had not been resolved for at least 22 days. This is more than 24 times the volume and more than 50 times the dollar amount compared to the same time in 2019.

Refund interest. The return processing backlog and delays in issuing refunds resulted in IRS paying significantly more refund interest to individual and business taxpayers in fiscal year 2020. As previously discussed, this is because IRS is generally required to pay interest on refunds paid later than 45 days after the filing deadline.[26] Specifically, in fiscal year 2020, IRS paid about $3.03 billion in refund interest, compared to $2.06 billion paid in fiscal year 2019, about a 50 percent increase (see fig. 3).

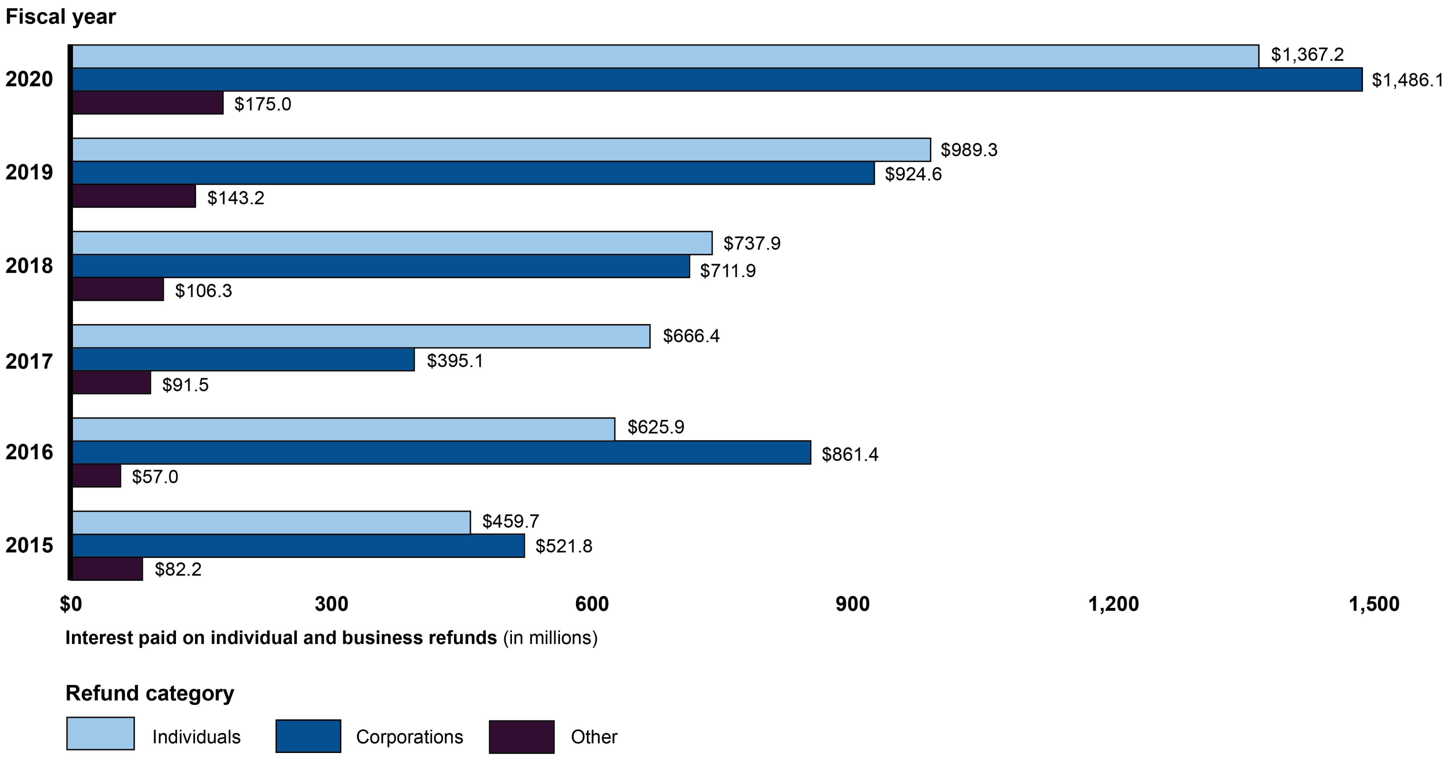
The increase is largely amongst individual and corporate tax refunds and, for individual taxpayers, is in part a result of the extended tax filing season. IRS also paid more interest to individual and corporate taxpayers

[25] GAO-14-704G.

[26] 26 U.S.C. § 6611.

due to delays in returns processing during the 2020 filing season. However, our review of IRS data shows that increasing refund interest payments has been an ongoing issue for the past several years. Refund interest payments associated with the 2020 filing season will likely continue to increase until IRS addresses its backlog of unprocessed and suspended returns.

Figure 3: Interest Paid on Individual and Business Refunds (in Millions), Fiscal Years 2015-2020



Source: GAO analysis of Internal Revenue Service data. | GAO-21-251

Data table for Figure 3: Interest Paid on Individual and Business Refunds (in Millions), Fiscal Years 2015-2020

	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Individuals	$459.7	$625.9	$666.4	$737.9	$989.3	$1,367.2
Corporate	$521.8	$851.4	$395.1	$711.9	$924.6	$1,486.1
Other	$82.2	$57.0	$91.5	$106.3	$143.2	$175.0

Business Taxpayers Do Not Fully Utilize Electronic Filing Options

Our review of IRS's 2020 filing season data shows that taxpayers are not making full use of IRS's electronic options for filing business-related returns. As of the end of calendar year 2020, IRS had received about 23 million business-related paper returns, which represents about 37 percent of all returns IRS had received for business income taxes and employment taxes as of that date.

From 2017 to 2020, e-file rates for business-related tax returns increased by about 7 percentage points, or 6 million returns, while paper filing rates decreased by about 7 percentage points, or 2 million returns (see table 3).

Table 3: Business-Related Tax Returns Received by IRS, Calendar Years 2017-2020

	2017	2018	2019	2020
Number of business-related tax returns submitted electronically	32 million	35 million	37 million	38 million
Percentage of total	*56%*	*59%*	*61%*	*63%*
Number of business-related tax returns submitted on paper	25 million	24 million	24 million	23 million
Percentage of total	*44%*	*41%*	*39%*	*37%*

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-251

Note: Taxpayers filed business-related tax returns on the following forms, among others: employment forms in the 94X series, fiduciary form 1041, partnership form 1065, corporation forms in the 1120 family, excise tax forms 720 and 2290, tax exempt form 990, political organization taxable income form 1120POL, and extension forms 7004 and 8868. Numbers may not add to 100 percent due to rounding. Data are based on IRS's receipts as of the end of each calendar year.

As of the 2020 filing season, IRS provided an e-file option for about 58 percent (25 out of 43) of its business-related tax forms.[27] The forms available for e-file include forms for which IRS received at least 1 million submissions during filing seasons 2017 through 2020, such as those for income taxes from corporations, partnerships, estates and trusts, and quarterly employment taxes.

[27]The 43 business-related tax forms we discuss are parent forms. When filing taxes using these parent forms, taxpayers may have to file other forms or schedules associated with the parent forms. The associated schedules and forms may or may not be available for e-filing.

However, among those business-related tax returns that have an e-file option, our analysis of data IRS provided as of mid-October 2020 showed that about 23 percent (about 11.5 million) of the returns IRS received during the 2020 filing season were filed on paper even though taxpayers had the option of filing electronically. For example,

- For *Form 941, Employer's Quarterly Federal Tax Return*, about 44 percent (8 million) of the submissions IRS received during the 2020 filing season were on paper. On average, during filing seasons 2017 through 2019, IRS received about 55 percent (about 14 million) of Form 941 submissions on paper.
- *Form 1120, U.S. Corporation Income Tax Return*, accounts for over 1.6 million submissions during the 2020 filing season; IRS received about 25 percent (419,359) of Form 1120 submissions on paper. On average, during filing seasons 2017 through 2019, IRS received about 35 percent (762,563) of Form 1120 submissions on paper.
- *Form 720, Quarterly Federal Excise Tax Return*, and *Form 943, Employer's Annual Tax Return* for Agricultural Employees, are two business-related tax forms for which IRS received a low volume of submissions from taxpayers during the 2020 filing season; almost all were submitted on paper. Specifically, about 99 percent (147,967) of Forms 720, and about 93 percent (164,544) of Forms 943 were filed on paper during the 2020 filing season. For filing seasons 2017 through 2019, the paper filing rates for these forms are similar (within three percentage points); the number of forms submitted on paper ranges from about 192,601 to about 197,023 for Form 720, and from about 180,390 to about 185,770 for Form 943.

Paper filing and e-filing options have different requirements, which may affect business taxpayers' decisions on how to file. For example, to file employment tax returns electronically—including Form 941 highlighted above—taxpayers must either (1) pay a tax professional who is authorized by the IRS to e-file the forms for them, or (2) purchase IRS-approved software. To use the software, taxpayers may be required to pay a filing fee, and must provide their signature by either scanning and attaching a form, or using an IRS-provided PIN that taxpayers initially obtain through a process that takes at least 45 days to complete. Further, taxpayers may be required to pay filing fees several times a year if, for example, they are filing quarterly employment tax returns.

In contrast, IRS does not require filing fees or special signature procedures when filing paper tax returns. Several members of one industry group we interviewed stated that they choose to file on paper because the cost is lower than e-filing. Other members of the industry group stated that their payroll service provider handles e-filing of their returns.[28]

Another reason that a taxpayer may opt to file a business-related return on paper is that they owe taxes rather than expect a refund. While taxpayers that e-file generally receive a refund faster, paper filing may be more appealing to taxpayers if they owe IRS because the return is considered timely as long as it is postmarked by the filing deadline.

We requested information from IRS on characteristics of business taxpayers who file electronically and on paper, and on any barriers IRS has identified that may prevent businesses from e-filing. In response, IRS officials stated that larger businesses, such as those with more than 50 employees, have higher e-filing rates than smaller businesses. In addition, IRS officials stated that two barriers to e-filing which may contribute to taxpayers filing on paper are (1) a lack of benefits to taxpayers and (2) cost. In January 2021, after receiving a draft of our report, IRS provided information on research it conducted from 2015 to 2017 on this issue for three business-related tax forms. IRS officials stated that as of January 2021, it had not taken specific actions to address barriers to e-filing highlighted in this research due to competing priorities.

During the 2020 filing season, IRS implemented temporary digital capabilities on selected business tax forms that previously could only be filed on paper.

- **Electronic fax.** To implement provisions of the CARES Act, in mid-April 2020 IRS established temporary faxing for business taxpayers to submit two business-related forms for tentative refunds.[29] IRS established a dedicated fax line for these two forms due to the significant delay in opening mail and to accelerate delivering refunds

[28]A payroll service provider is a third party that can help an employer administer payroll and employment tax obligations, including preparing paychecks for the employees of the employer, and submitting employment-related tax forms to the IRS on behalf of the employer.

[29]The CARES Act, sections 2303 and 2305, made modifications to net operating loss deductions and credits for prior-year minimum tax liability of corporations.

to taxpayers. This capability was in place through the end of calendar year 2020.

- **Electronic signature.** In an effort to help protect the health of taxpayers and tax professionals and reduce in-person contact, in August 2020, IRS began accepting electronic signatures on several business-related forms, including returns for real estate investment trusts and returns for cooperative associations. Taxpayers must still mail these forms to IRS for processing. In late December 2020, IRS announced that taxpayers can use electronic signatures on these forms through June 30, 2021.

IRS's current strategic planning documents emphasize the importance of providing a high-quality customer experience to taxpayers and tax professionals, in part by enhancing the digital options the agency provides to them.[30] For example, one of the goals identified in IRS's fiscal year 2018-2022 strategic plan is to empower and enable all taxpayers to meet their tax obligations by making it easier to meet their filing, correction, and payment obligations.

To this end, IRS identified the action of "increasing electronic filing" to support its customer service-focused goal. The plan also notes that e-filing allows taxpayers to receive refunds faster, and is less costly to IRS compared to paper filing. However, IRS's strategic planning documents do not include additional details on how IRS intends to increase e-filing for business taxpayers.

In late July 2020, IRS established a program office to help improve digitalization efforts and modernize aging systems.[31] In November 2020, IRS provided us a draft strategy to achieve these objectives, which includes a goal of reducing IRS's volume of paper documents.[32] The document states that IRS intends to achieve this goal, in part, by

[30]Internal Revenue Service, *IRS Strategic Plan, Fiscal Years 2018-2022* (Washington, D.C: April 2018); *IRS Integrated Modernization Business Plan* (Washington, D.C.: April 2019); and *IRS Integrated Modernization Business Plan Companion Document* (Washington, D.C.: April 2019).

[31]IRS defines "digitalization" as the process of converting text, pictures, or sound into a digital form that can be processed by a computer, easily shared, and accessed. Digitalization could involve, for example, performing optical character recognition on a digitized file to extract machine-readable text, or policy updates to reduce or eliminate paper.

[32]Internal Revenue Service, *IRS Digitalization Strategy (Draft)* (Washington, D.C.: July 24, 2020).

providing taxpayers with digital options for easily and quickly submitting documents electronically. However, like IRS's strategic planning documents discussed above, the digitalization strategy does not include details on how IRS intends to accomplish this objective.

In addition, the program office has several pilot projects underway to modernize some of its paper-based processes, including for business-related tax filing. However, IRS officials stated that none of these ongoing pilot projects involve making additional business-related tax forms available for e-filing, due to limited resources and competing priorities.

In the coming years, a higher proportion of business taxpayers will likely be required to file taxes electronically due to provisions in the Taxpayer First Act.[33] For example, the act requires tax-exempt organizations to file several tax forms electronically and requires IRS to develop e-filing capabilities for Form 1099-MISC, *Miscellaneous Income*, by January 1, 2023. The act also allows IRS to impose e-filing requirements on more business taxpayers than under prior law, based on the number of tax returns business taxpayers file in a given year.[34] In November 2020, IRS officials told us that they are in the process of developing regulations on e-filing requirements for business taxpayers.

OMB Circular A-11 provides guidance to agencies on evaluating and improving the customer experience, which may help IRS identify and address barriers to e-filing business-related tax forms.[35] For example, the guidance details how agencies can collect feedback from their customers through surveys and use this information to improve the customer experience. According to the guidance, improving federal government customers' experience can increase their satisfaction with, and trust in, the federal government.

[33]Pub. L. No. 116-25, 133 Stat. 981 (2019).

[34]Prior to the Taxpayer First Act, the Secretary of the Treasury was prohibited from instituting any requirement that taxpayers who file fewer than 250 returns during a calendar year do so electronically. Under the act, the number of returns is reduced from 250 to 100 in calendar year 2021, and from 100 to 10 after 2021. Furthermore, in the case of a partnership, the number of returns is 200 for calendar year 2018, 150 for calendar year 2019, 100 for calendar year 2020, and 50 for calendar year 2021. Pub. L. No. 116-25, § 2301.

[35]Office of Management and Budget, *Preparation, Submission and Execution of the Budget*, Circular No. A-11, pt. 6, § 280 (July 2020).

Comprehensively identifying and addressing barriers to e-filing faced by business taxpayers may help IRS reduce costs of processing paper returns and potentially reduce overall refund interest payments. It could also increase the e-file rate for business-related tax returns, and provide a better customer experience to business taxpayers.

Staffing Challenges and Limited Telework Inhibited IRS's Operations during COVID-19 and Led to Unplanned Costs

Federal agencies have relied on telework during the COVID-19 pandemic to both help protect employees and ensure that agencies can continue mission-critical work. In March 2020, OMB issued several memoranda on telework flexibilities and supporting government operations during COVID-19.[36] Among other things, this guidance directs federal agencies to use telework—and the technologies required to support it—to the maximum extent possible to deliver mission critical services and minimize disruptions, and help protect the health and safety of all employees, particularly those at higher risk of serious complications from COVID-19.

OMB's guidance also provides agencies with the flexibility to reassign employees to different tasks or work units to support higher priority agency functions. Further, the OMB guidance gives agencies discretion in granting the use of paid weather and safety leave (WSL) during the pandemic. This includes, but is not limited to, instances where an employee is not eligible to telework and is required to quarantine per a local or public health directive, or is in a high-risk population.[37]

Accounts Management (AM) customer service. Our analysis shows that from late March to the end of the filing season in mid-July, on

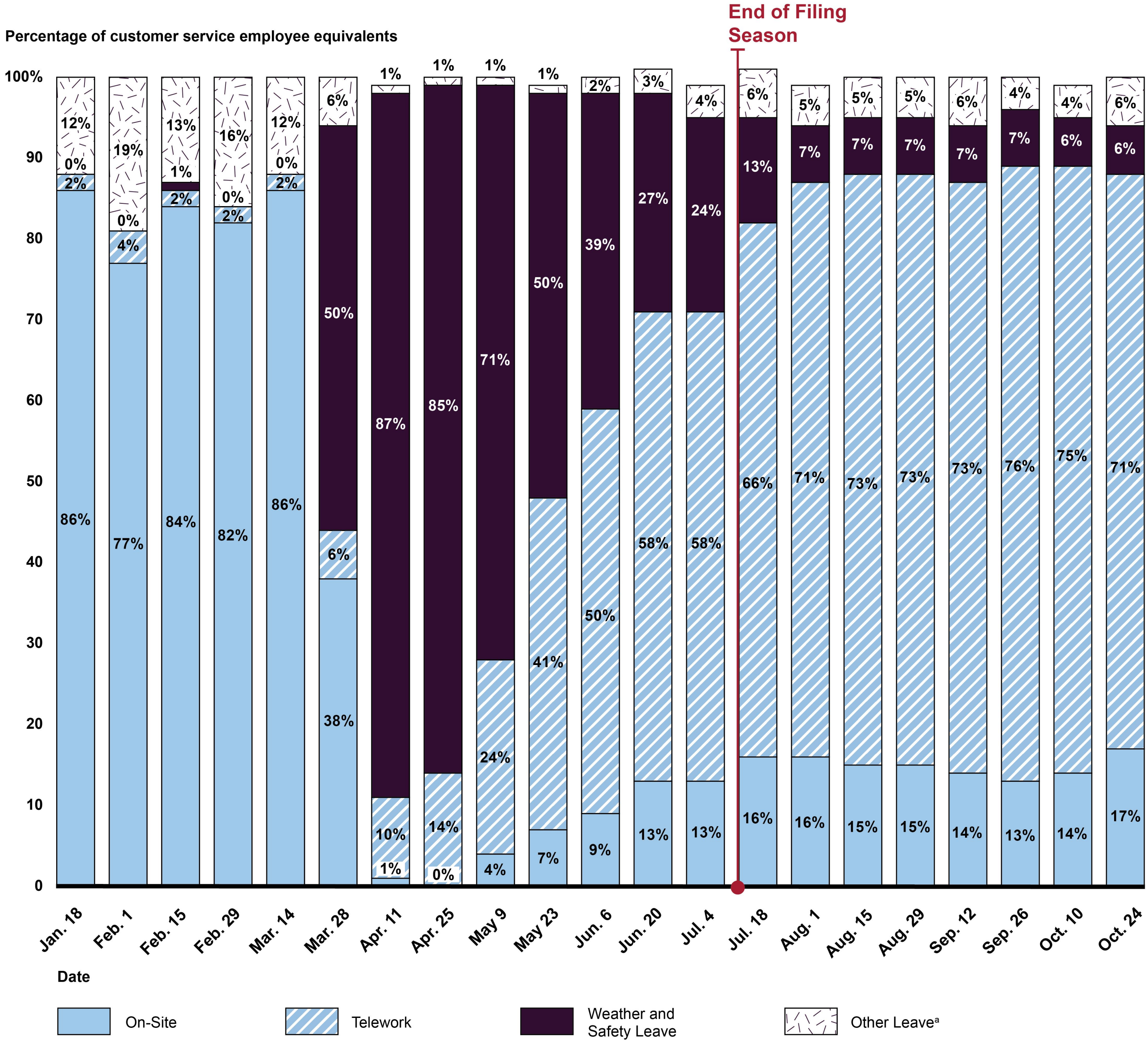
[36]Office of Management and Budget, *Updated Guidance on Telework Flexibilities in Response to Coronavirus*, Memorandum M-20-13 (Washington, D.C.: Mar. 12, 2020); *Updated Guidance for the National Capital Region on Telework Flexibilities in Response to Coronavirus,* Memorandum M-20-15 (Washington, D.C.: Mar. 15, 2020); *Federal Agency Operational Alignment to Slow the Spread of Coronavirus*, Memorandum M-20-16 (Washington, D.C.: Mar. 17, 2020); and *Harnessing Technology to Support Mission Continuity*, Memorandum M-20-19 (Washington, D.C: Mar. 22, 2020).

[37]The Office of Personnel Management has clarified OMB's guidance on telework and leave flexibilities. For example, see Office of Personnel Management, *Questions and Answers on Human Resources Flexibilities and Authorities for Coronavirus Disease 2019 (COVID-19)* (Washington, D.C.: Mar. 7, 2020).

average, about 36 percent of AM campus-based customer service staff hours were in telework status, 11 percent were on-site work hours, and 51 percent of hours were charged to WSL (see fig. 4 below).[38] Further, as of the end of the filing season, AM transitioned about 63 percent of its customer service staff from on-site work or WSL to telework. AM gradually increased the percentage of customer service staff working on site as IRS reopened sites and restarted taxpayer services from late April to mid-July 2020. These efforts allowed AM to resume critical telephone customer service and reduce the number of customer service staff on WSL.

[38]When discussing workforce status, we use the term “staff” to refer to the percentage of IRS employee equivalents in each category as shown in figures 4, 5 and 6. Campus-based AM staff primarily assist taxpayers via telephone and mail. Staff answer tax and account-related inquiries, respond to taxpayer correspondence, and adjust taxpayer accounts, among other things.

Figure 4: IRS Filing Season Customer Service, Employee Equivalents by Workforce Status, January through October 2020



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-251

Data table for Figure 4: IRS Filing Season Customer Service, Employee Equivalents by Workforce Status, January through October 2020

	Jan. 18	Feb. 1	Feb. 15	Feb. 29	Mar. 14	Mar. 28	Apr. 11	Apr. 25	May. 9	May.23	Jun. 6	Jun. 20	Jun. 4	Jul. 18	Aug. 1	Aug. 15	Aug. 29	Sept. 12	Sept. 26	Oct. 10	Oct. 24
Telework	2%	4%	2%	2%	2%	6%	10%	14%	24%	41%	50%	58%	58%	66%	71%	73%	73%	73%	76%	75%	71%
On-Site Work	86%	77%	84%	82%	86%	38%	1%	0%	4%	7%	9%	13%	13%	16%	16%	15%	15%	14%	13%	14%	17%
Weather & Safety Leave	0%	0%	1%	0%	0%	50%	87%	85%	71%	50%	39%	27%	24%	13%	7%	7%	7%	7%	7%	6%	6%
Other Leave	12%	19%	13%	16%	12%	6%	1%	1%	1%	1%	2%	3%	4%	6%	5%	5%	5%	6%	4%	4%	6%

Note: Total N=302,136 IRS Accounts Management customer service employee equivalents based on biweekly timecard data from January 18, 2020 through October 24, 2020. Employee equivalents were calculated by dividing total hours by 80 in each category and rounding to the nearest whole number. Data may not add up to 100 percent due to rounding. Customer service employees provide live telephone assistance and respond to written correspondence at IRS campuses.

[a]"Other leave" category includes time charged to annual leave or sick leave.

Prior to IRS's late March evacuation order, about 2 percent of AM staff were teleworking. IRS officials stated that these staff were primarily participants in a limited telework pilot for customer service representatives. AM officials stated that the results of this pilot—and AM's preliminary plans to further expand telework for customer service representatives—helped inform AM's efforts to transition more staff to telework during the pandemic. In addition, IRS officials said that they repurposed laptops for customer service representatives working from home and relied on a database with customer service employees' skills to determine the number of staff available to support various customer support lines once IRS resumed operations.

By the end of the filing season, IRS had reopened all live-assistance telephone lines but the level of service remained below average compared to performance for the last three filing seasons (see app. II). Further, even with the expansion of telework, AM staff were unable to work on correspondence-based customer service cases, including corresponding with taxpayers on potential identity theft and account adjustments. According to IRS officials, this is because they could not print or mail outgoing letters to taxpayers from home due, in part, to the risk of disclosing taxpayer information. Also, incoming responses from taxpayers were delayed in IRS's backlog of unopened mail.

Our analysis of IRS's timecard data show that as of late October 2020, about 71 percent (8,256) of AM campus-based customer service staff were teleworking, about 17 percent (2,019) were working on-site, 6 percent (662) were on WSL, and 6 percent (751) were on other leave. In October 2020, AM officials stated that they have continued to identify opportunities for additional remote work, particularly for employees on WSL.

For example, officials stated that in October 2020 IRS implemented electronic file storage capabilities for IRS's Centralized Authorization File program, enabling AM staff to perform remote clerical and technical work and help reduce the backlog of third-party authorizations.[39] In November 2020, IRS reported that the current time frame for approving these third-party authorizations was about 25 business days, significantly higher than its target goal of 5 business days for approval.

In-person taxpayer customer service. As of late March 2020, IRS closed all Taxpayer Assistance Centers (TAC) and halted in-person customer service functions; IRS began to reopen TACs in late June, bringing some Field Assistance staff back to work on-site.[40] As of late September 2020, IRS reported that about 62 percent (222) of its 358 TACs were open by appointment only, and 38 percent (136) were closed primarily due to staffing challenges related to COVID-19, including a high number of staff with high-risk medical conditions.[41]

Our analysis of IRS data show that IRS was less capable of transitioning Field Assistance staff from on-site work to telework than it was for AM

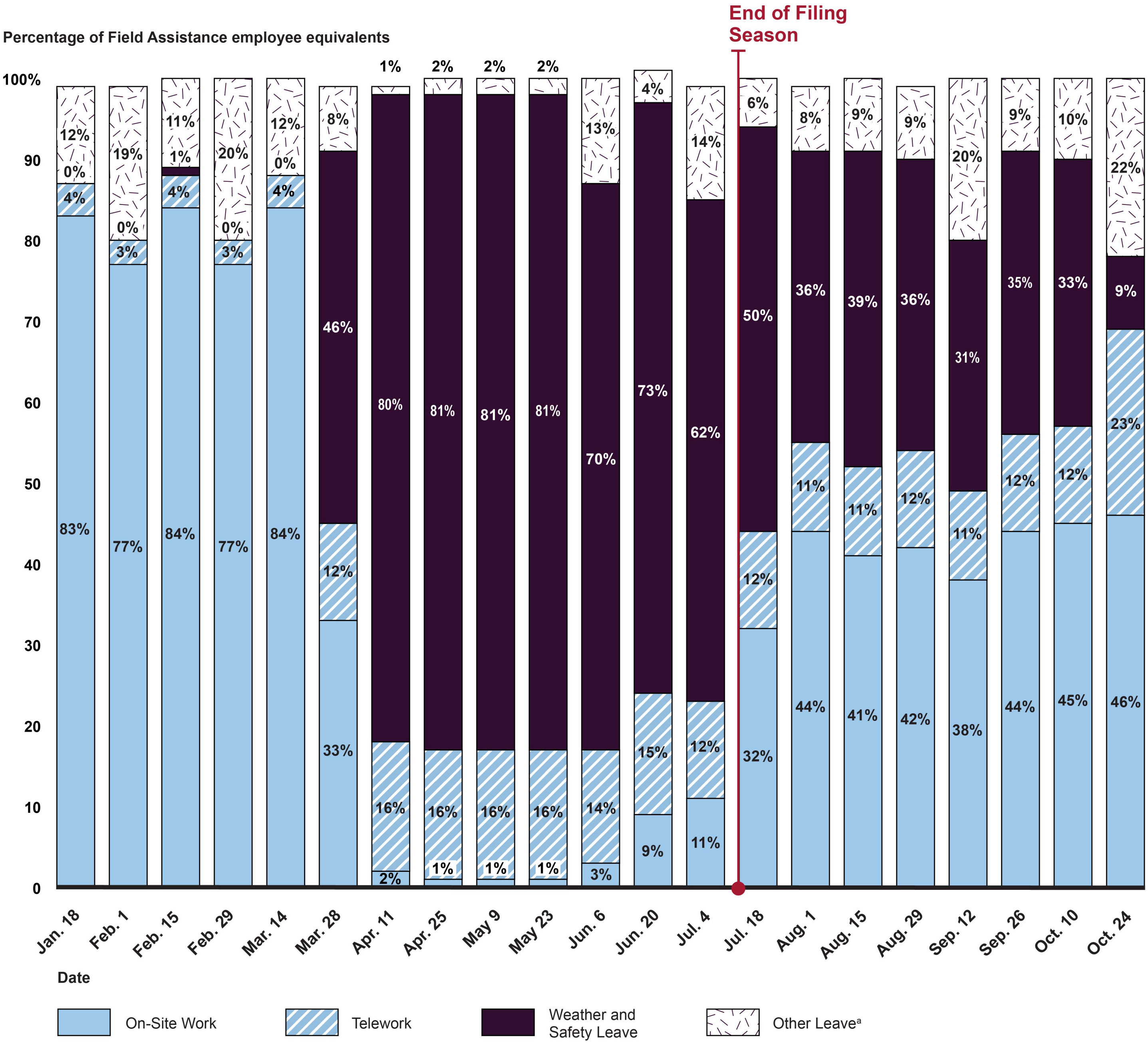
[39]Taxpayers can submit a form to IRS to designate a third-party representative to act on their behalf, such as a power of attorney, or authorize a designee to receive confidential tax information. Information on such taxpayer authorizations are stored in IRS's Centralized Authorization File.

[40]Field Assistance staff provide in-person authentication for taxpayers whose returns have been held for potential identity theft and taxpayers applying for an Individual Taxpayer Identification Number, issue overseas travel permits, handle cash payments from taxpayers, and provide taxpayer assistance with economic impact payments. IRS officials explained that when not working directly with taxpayers, on-site Field Assistance staff help address paper-based correspondence, print balance due notices, and process taxpayer payment plans.

[41]IRS officials reported that they could not reopen 115 TACs due to the number of staff with high-risk medical conditions who could not safely perform on-site work. IRS officials reported that the remaining 21 TACs were closed due to staffing issues unrelated to the pandemic. IRS provided us an update on TAC status in early December 2020, noting that 76 percent (272) of TACs were open, and 24 percent (86) remain closed due to the issues described above.

staff (see fig. 5). For example, between late March and the end of the filing season, on average about 14 percent of Field Assistance staff hours were in telework status, 11 percent were on-site work hours, and 69 percent of hours were charged to WSL.

Figure 5: IRS Field Assistance, Employee Equivalents by Workforce Status, January through October 2020



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-251

Data table for Figure 5: IRS Field Assistance, Employee Equivalents by Workforce Status, January through October 2020

	Jan. 18	Feb.1	Feb. 15	Feb. 29	Mar. 14	Mar. 28	Apr. 11	Apr. 25	May. 9	May23	Jun.6	Jun. 20	Jul.4	Jul.18	Aug.1	Aug. 15	Aug. 29	Sept. 12	Sept. 26	Oct. 10	Oct. 24
Telework	4%	3%	4%	3%	4%	12%	16%	16%	16%	16%	14%	15%	12%	12%	11%	11%	12%	11%	12%	12%	23%
On-Site Work	83%	77%	84%	77%	84%	33%	2%	1%	1%	1%	3%	9%	11%	32%	44%	41%	42%	38%	44%	45%	46%
Weather & Safety Leave	0%	0%	1%	0%	0%	46%	80%	81%	81%	81%	70%	73%	62%	50%	36%	39%	36%	31%	35%	33%	9%
Other Leave	12%	19%	11%	20%	12%	8%	1%	2%	2%	2%	13%	4%	14%	6%	8%	9%	9%	20%	9%	10%	22%

Note: Total N=26,256 IRS Field Assistance employee equivalents based on biweekly timecard data from January 18, 2020, through October 24, 2020. Employee equivalents were calculated by dividing total hours by 80 in each category and rounding to the nearest whole number. Data may not add up to 100 percent due to rounding. Field Assistance employees provide in-person customer service at IRS Taxpayer Assistance Centers.

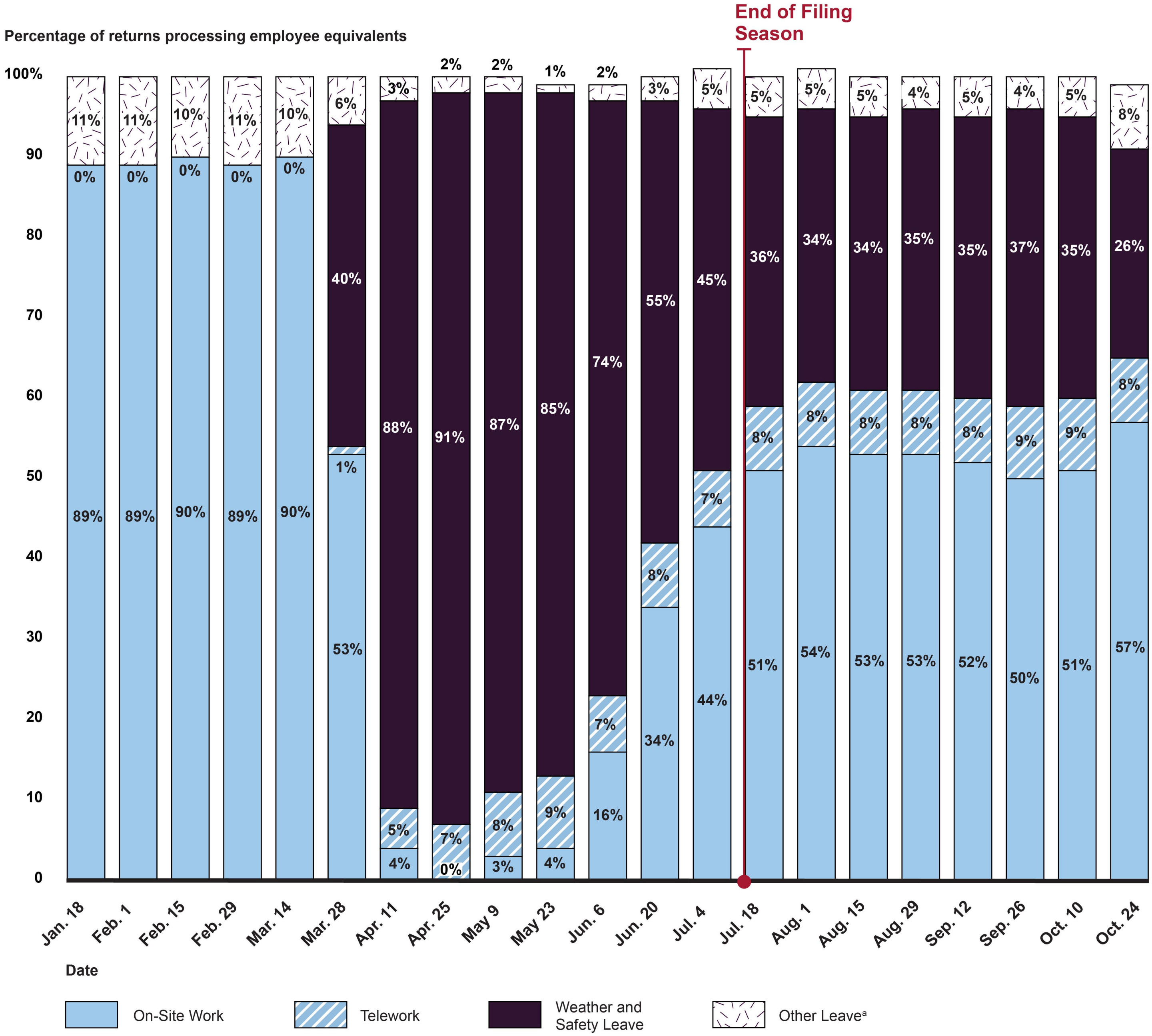
[a]"Other leave" category includes time charged to annual leave or sick leave.

As of late October, about 23 percent of Field Assistance staff were teleworking, and about 46 percent had returned to on-site work. Our analysis also shows that from mid-October to late October, about 11 percent of Field Assistance staff transitioned from WSL to telework and about 12 percent more staff were using other leave.

IRS officials described limitations to expanding telework for these staff. Officials stated that prior to IRS's late March evacuation order, Field Assistance staff were generally not eligible for telework under the national bargaining unit agreement because their core work is to provide in-person assistance. IRS officials also said that the information technology systems at TACs are generally configured for staff to work on-site with desktop computers, and staff did not have IRS laptops to work from home. As a result, Field Assistance staff were not positioned to transition from on-site to remote work, even if remote work was available. In October 2020, IRS officials stated that they were upgrading TAC desktop computers to laptops to facilitate telework and working to identify additional remote work for Field Assistance staff.

Returns processing. Between late March and the end of the filing season in mid-July 2020, IRS returns processing staff were primarily on WSL or working on-site (see fig. 6 below). Our analysis of IRS's data show that during this period, on average about 7 percent of staff hours were in telework status, 22 percent were on-site work hours, and 68 percent of hours were charged to WSL. In late May 2020, returns processing staff hours hit a peak with about 9 percent (914 employee equivalents) in telework status.

Figure 6: IRS Filing Season Returns Processing, Employee Equivalents by Workforce Status, January through October 2020



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-251

Data table for Figure 6: IRS Filing Season Returns Processing, Employee Equivalents by Workforce Status, January through October 2020

	Jan. 18	Feb. 1	Feb. 15	Feb. 29	Mar. 14	Mar. 28	Apr. 11	Apr. 25	May.9	May.23	Jun. 6	Jun. 20	Jul. 4	Jul. 18	Aug. 1	Aug. 15	Aug. 29	Sept. 12	Sept. 26	Oct. 10	Oct. 24
Telework	0%	0%	0%	0%	0%	1%	5%	7%	8%	9%	7%	8%	7%	8%	8%	8%	8%	8%	9%	9%	8%
On-Site Work	89%	89%	90%	89%	90%	53%	4%	0%	3%	4%	16%	34%	44%	51%	54%	53%	53%	52%	50%	51%	57%
Weather & Safety Leave	0%	0%	0%	0%	0%	40%	88%	91%	87%	85%	74%	55%	45%	36%	34%	34%	35%	35%	37%	35%	26%
Other Leave	11%	11%	10%	11%	10%	6%	3%	2%	2%	1%	2%	3%	5%	5%	5%	5%	4%	5%	4%	5%	8%

Note: Total N=177,877 IRS returns processing employee equivalents based on biweekly timecard hours from January 18, 2020, through October 24, 2020. Employee equivalent calculated by dividing total hours by 80 in each category and rounding to the nearest whole number. Data may not add up to 100 percent due to rounding. Returns processing employees open and batch mail, process tax returns, and perform other on-site work at IRS campuses.

[a]"Other leave" category includes time charged to annual leave or sick leave.

From late March to late October 2020, IRS transitioned a limited number of returns processing staff to telework status due to a lack of electronic or otherwise remote-ready work. IRS officials reported that these teleworkers primarily reviewed e-filed returns stopped for errors. In October 2020, IRS officials stated that they have identified additional returns processing work for telework, and will initiate pilot tests in the near future. These telework pilots include scanning paper documents, data entry for taxpayer letters, and developing training courses. IRS officials also said they worked with IRS's Information Technology division to acquire internet hotspots for returns processing staff who are able to telework but do not have internet access at home. IRS officials noted challenges with expanding its telework efforts, including the need to negotiate with employee unions to ensure fairness for all employees, including those currently working on-site.

IRS has taken steps to implement telework; however, much of the returns processing work—opening and sorting mail, bundling paper tax returns received by date, and scanning and processing paper tax returns—must be performed on site at IRS processing centers. This is because the mail and documentation IRS receives from taxpayers typically includes federal taxpayer information and other sensitive data. Paper returns and correspondence first must be scanned and secured in IRS's information technology systems before IRS staff can process them, whether staff are working on-site or remotely. Further, according to officials, IRS must fully consider the risks and benefits of making returns processing work ready for telework. Sending documents via email or printing documents at home places IRS records at greater risk for loss and improper disclosure, according to IRS officials.

As IRS resumed on-site processing center operations from late April to mid-July, IRS began increasing the number of returns processing staff working in person to address the backlog of unopened mail and unprocessed returns. As of late October, about 57 percent (4,692) of returns processing staff were working on site. IRS officials said that they have implemented social distancing protocols as required and acquired additional physical space on IRS campuses to accommodate more in-person staff under the new guidelines. IRS officials stated that they expect these adjustments to IRS's physical space and staffing status to continue indefinitely.

Nevertheless, as shown in figure 6 above, about one-third of IRS's returns processing staff remained on WSL from the end of the filing season through October 2020. In mid-September, IRS issued a new policy requiring staff on WSL to provide medical certification from a physician for medical conditions that put them at increased risk for severe illness from COVID-19. IRS employees were required to provide this documentation to their supervisor, or otherwise report back to the office, on October 13, 2020. Our analysis shows that from mid- to late October 2020, the percentage of returns processing staff on WSL decreased from about 35 percent (3,181) to 26 percent (2,166). IRS officials stated that this decrease was primarily due to IRS's new policy for staff to provide medical certification. According to IRS, as of late November about 23 percent (1,852) of returns processing staff remain on WSL.

We recognize that not all government work can be quickly or easily converted to telework—nor should it be—particularly when the work involves protecting sensitive taxpayer information. Nevertheless, as discussed above, the 2021 filing season will likely begin with a backlog of unprocessed returns and taxpayer correspondence, and a reduced returns processing workforce. Further, from early March to late October 2020, IRS reported that it paid about $460 million in WSL for customer service and returns processing staff who were unable to return to in-person work due to health or other considerations, or because IRS did not have enough telework-ready work to provide them while IRS processing centers were closed. These costs will continue to rise until additional IRS staff can safely return to full- or part-time work at IRS processing centers or at an alternate location that meets IRS's requirements for working with taxpayer data.

Current OMB guidance provides federal agencies with flexibilities for reassigning employees to other agency functions, and calls on agencies to adjust operations to minimize face-to-face interactions by using telework, identifying alternate work site locations if telework is not possible, and implementing flexible work schedules. Identifying specific and actionable steps to transition staff off of WSL, as appropriate, may help IRS balance its efforts to continue its mission-critical functions, protect the health and safety of IRS staff, and minimize additional costs to the Treasury.

IRS Has Not Fully Identified and Assessed Risks to the 2021 Filing Season

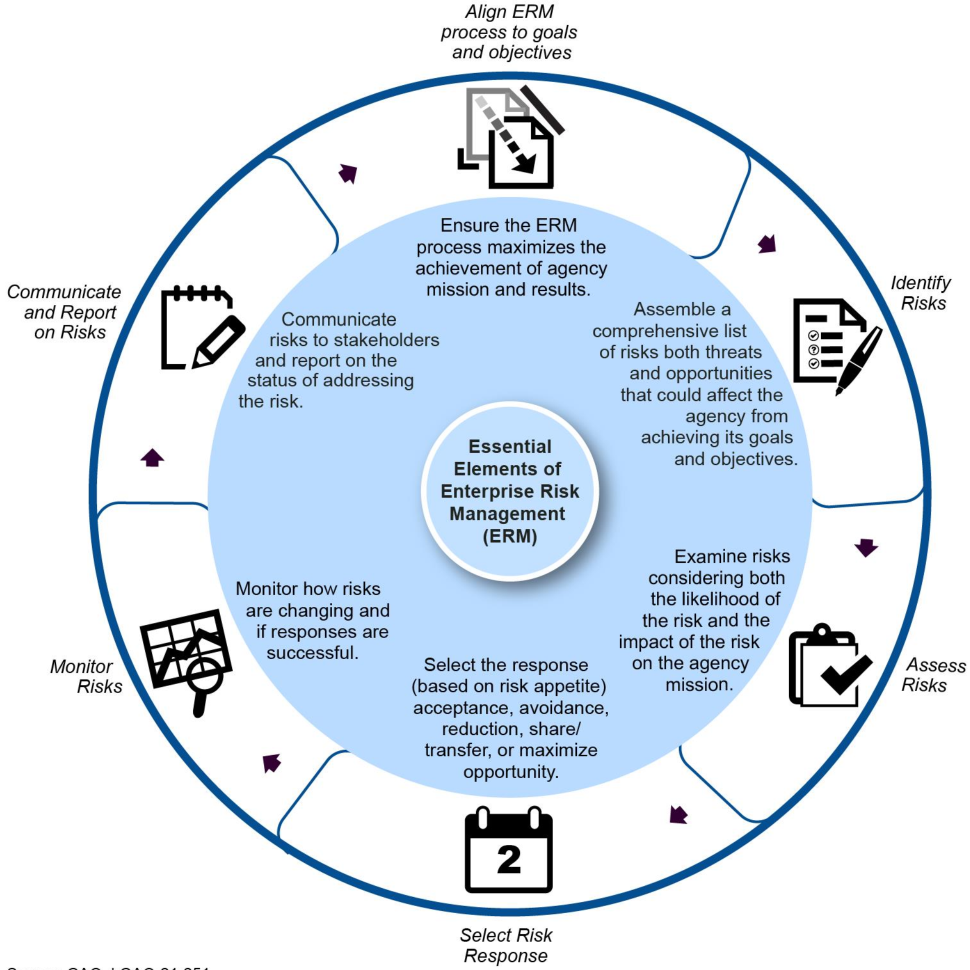
IRS's ability to fulfill its annual filing season responsibilities lies, in part, in planning ahead for the next filing season and in proactively identifying and managing risks that may impact IRS operations and services to taxpayers.[42] Our prior work on enterprise risk management has identified six essential elements to help agencies adopt a forward-looking approach to anticipating and managing risks.[43]

The six essential elements include aligning the enterprise risk management process to agency goals and objectives, identifying a comprehensive list of risks that could impact the agency's ability to meet its mission, assessing risks to determine the likelihood and impact of their occurrence, and selecting a risk response while considering the level of risk an agency is willing to tolerate (see fig. 7). As agencies face ongoing challenges brought on or heightened by the COVID-19 pandemic, following the essential elements of enterprise risk management can help leaders understand how multiple risks across the agency can present even greater challenges or opportunities when examined as a whole.

[42]Risk is the effect of uncertainty on objectives with the potential for either a negative outcome or a positive outcome or opportunity. A risk may be inherent to a program due to its complexity, among other factors, or may originate from external sources, such as a natural disaster.

[43]GAO, *Enterprise Risk Management: Selected Agencies' Experiences Illustrate Good Practices in Managing Risk,* GAO-17-63 (Washington, D.C.: December 2016).

Figure 7: Essential Elements of Federal Government Enterprise Risk Management (ERM)



Source: GAO. | GAO-21-251

Figure 7: Essential Elements of Federal Government Enterprise Risk Management (ERM)

1. Align ERM process to goals and objectives.
   Ensure the ERM process maximizes the achievement of agency mission and results

2. Identify Risks.
   Assemble a comprehensive list of risks both threats and opportunities that could affect the agency from achieving its goals and objectives.

3. Access Risks.
   Examine risks considering both the likelihood of the risk and the impact of the risk on the agency mission.
4. Select Risk Response.
   Select the response (based on risk appetite) acceptance, avoidance, reduction, share/transfer, or maximize opportunity.
5. Monitor Risks.
   Monitor how risks are changing and if responses are successful.
6. Communicate and report on risks.
   Communicate risks to stakeholders and report on the status of addressing the risk.

Based on our review of IRS's 2021 filing season preparation documents and discussions with IRS officials, we found that IRS followed processes to prepare for the 2021 filing season that generally meet the first essential element of enterprise risk management—aligning its efforts to the overall filing season goals and objectives. According to IRS officials, IRS's annual process to ensure readiness for the upcoming filing season begins in June and concludes before the filing season starts, typically in January. IRS's Submission Processing leads preparation efforts, with assistance from other business units that conduct or support filing season functions including Accounts Management, Customer Assistance Relationships and Education, and Information Technology.

Throughout the preparation phase, each business unit is responsible for documenting key filing season activities including action items, timelines to complete them, and current status. According to IRS officials, business units are also responsible for identifying potential challenges or risks to the filing season and developing actions to manage them. IRS officials told us that these activities typically include reviewing recent legislation and updating agency processes as needed, testing IRS's information technology systems to ensure that they function properly, and hiring and training seasonal staff, along with timelines for completing the activities. For example, IRS's preparation documents identified activities to review IRS's Internal Revenue Manual to ensure it included appropriate updates from the Taxpayer First Act.[44] In addition, IRS's documentation identified activities to test its data transcription system and perform annual updates

[44]The Internal Revenue Manual is IRS's primary, official policy and source of instructions for its staff.

and maintenance on electronic payment systems. As of November 2020, these activities were on track to be completed in a timely way.

In addition, IRS officials told us that IRS's Filing Season Readiness Executive Steering Committee is responsible for overseeing the business units' efforts to prepare for the filing season, ensuring coordination between stakeholders, and helping to manage risks.[45] According to IRS officials, the committee meets monthly from June through September, and then every other week until filing season preparations conclude in January.

IRS's planning documents for the 2021 filing season as of August and September 2020 also identified several potential risks to carrying out its mission-essential functions. For example, IRS identified risks that certain information technology systems may not be completely ready for use at the beginning of the 2021 filing season due to delays in completing testing activities and lack of funding approval for software licenses. IRS's planning documents generally described when IRS expected to resolve these risks, but did not include specific actions to manage them.

While identifying these risks is a positive step, IRS had not comprehensively identified and assessed risks to the 2021 filing season consistent with the essential elements of enterprise risk management. Specifically, IRS's planning documents as of September 2020 did not identify risks to filing season operations and customer service, such as those we described earlier in this report. These risks include a significant backlog of unprocessed individual and business-related returns, delayed refunds to taxpayers and increased refund interest, and reduced numbers of returns processing staff due to staff on WSL and lack of telework-ready work.

The essential elements of our enterprise risk management framework call for agencies to develop a comprehensive list of risks and fully document details such as the source of the risk and entity responsible for managing the risk. Further, our enterprise risk management framework calls for agencies to assess risks to determine both the likelihood of the risk occurring and the impact of the risk on the agency's mission. These steps

[45]According to IRS officials, this committee is chaired by four IRS senior executives—three from W&I and one from Information Technology.

help an agency determine its tolerance for risk, and identify and prioritize risk responses.

In October 2020, we asked IRS officials about the lack of comprehensive risks identified in their 2021 filing season planning documents. In particular, we asked officials why risks related to COVID-19, ongoing 2020 filing season challenges, and other potential risks for 2021—such as closures of processing centers and another extended filing season—were not part of their planning efforts. In response, IRS officials told us that they would take another look at their planning and risk assessment documents, and subsequently provided the following information:

- **Updated filing season planning documents.** After we raised concerns that IRS did not identify comprehensive risks to the 2021 filing season, IRS's 2021 planning documents as of November 2020 included some additional risks to the upcoming filing season. These risks included the need to hire sufficient staff, lack of sufficient space to conduct 2021 filing season activities given social distancing needs, and completing 2020 filing season work before the start of the new filing season. IRS also identified high-level potential actions to address risks, such as expanding the use of telework to mitigate physical space limitations and using overtime to decrease the backlog of 2020 filing season work.

  However, as we described earlier, IRS relied on similar strategies during the 2020 filing season with mixed success. For example, while IRS increased levels of telework in AM, it was generally not possible to do so for returns processing staff because much of their work cannot be performed remotely. Further, in our review of the 2019 filing season, we found that IRS increasingly relied on overtime to meet processing and service goals; however, we found that IRS lacked a strategy for efficiently using overtime.[46] We recommended that IRS's Wage and Investment (W&I) division develop and implement such a strategy, in collaboration with its strategic workforce planning initiative. While IRS agreed with the recommendation, it stated that its existing process within W&I for the use and approval of overtime is sufficient. We continue to believe that such a strategy, in collaboration with IRS's strategic workforce planning initiative, would help ensure an efficient use of overtime.

[46]GAO-20-55.

- **IRS enterprise risk management.** In our review of IRS's documents on its annual risk management process, we identified one risk that could directly impact the 2021 filing season that was not included in IRS's filing season planning documents. The risk was that IRS may face increased demand for telephone customer service due to questions about economic impact payments. According to the document, IRS plans to address this risk by providing specific communications to taxpayers about how to handle economic impact payments when filing their 2020 return. In November 2020, IRS began implementing this strategy by communicating with taxpayers through its "Get Ready" campaign, an annual outreach effort to help taxpayers prepare for the upcoming tax filing season.

However, based on documents IRS provided us as of November 2020, we found that neither IRS's 2021 filing season planning documents nor the enterprise risk management documents reflected all of the essential elements for enterprise risk management. This includes developing a comprehensive list of risks that could impact the agency's ability to meet its mission, an assessment of risks to determine the likelihood and impact of their occurrence, and options for risk response. Given the challenges IRS continues to face due to COVID-19, IRS is likely to face risks to achieving its mission-critical functions during the 2021 filing season. These risks include those that IRS experienced during 2020: closures of processing centers, the potential need to extend the 2021 filing deadline, and delayed processing of returns and payment of refunds.[47]

IRS officials told us that they believe their risk assessment and preparations for the 2021 filing season are sufficient. Officials we spoke with said that they will address any challenges during the 2021 filing season as they occur, as they did during the 2020 filing season. However, IRS may not have fully identified and assessed 2021 filing season risks due, in part, to assumptions about the agency's operating posture.

For example, in late July 2020, IRS officials told us that they did not expect the operational impact of the COVID-19 pandemic to last as long as it had and assumed that IRS would return to full staffing levels by fall 2020. However, our analysis shows that as of late October 2020, Submission Processing was at about 65 percent operating capacity due to the number of staff on WSL or other leave.

[47]IRS officials have not indicated that they intend to extend the 2021 filing deadline.

As IRS continued to plan for the 2021 filing season, it did not fully consider current staffing trends to better identify risks, assess their impact, and identify potential options for mitigating all of them. In addition, IRS's enterprise risk management documents included a request for all business units to identify risks related to COVID-19 that might affect their operations over the next 1 to 3 years, but W&I did not provide a response to this request.

In addition, essential elements of enterprise risk management call for agencies to monitor risks, communicate risks with stakeholders, and report to stakeholders on the status of addressing them.[48] Without comprehensively identifying and assessing all potential risks to the 2021 filing season, their likelihood and potential impacts—including those introduced or exacerbated by the COVID-19 pandemic—IRS is not well-positioned to respond to risks or monitor the effectiveness of its responses.

After implementing a risk response, essential elements of enterprise risk management call for agencies to then monitor the risk to help ensure that the risk management process remains current and relevant. Furthermore, until IRS takes action to identify and assess all risks to the 2021 filing season, it will be unable to communicate its plans or progress to stakeholders—including tax industry partners, paid preparers, taxpayers, and Congress. Communicating and reporting risk information promotes transparency and informs agency stakeholders about the status of IRS's efforts to address identified risks. It also helps assure stakeholders that agency leaders are managing risk effectively.

Conclusions

The COVID-19 pandemic had significant effects on IRS's 2020 filing season operations and customer service. Faced with an unprecedented crisis, IRS took steps to manage disruptions to the filing season while protecting the integrity of its mission and health of its employees. Nonetheless, IRS's reliance on manual processing led to a significant backlog of paper-based and manual work. IRS has not revised estimates for addressing its backlog of returns and correspondence due to operational uncertainties created by the pandemic. Revising its estimates would help IRS determine how best to address the backlog and perform

[48]GAO-17-63.

2021 filing season activities, given that changes to filing season operations created by the pandemic will continue into 2021.

Further, it is unclear the extent to which business taxpayers faced delays in receiving refunds because IRS does not regularly monitor its progress in processing business tax refunds. As a result, IRS does not know how well it is serving business taxpayers and the extent to which it will pay refund interest on business-related refunds. IRS also has not comprehensively assessed why business filers continue to file on paper when electronic options are available. Identifying barriers to e-filing business returns could help IRS reduce the volume of more costly paper-based work and improve services to business filers.

IRS was able to transition its customer service staff to telework, particularly those staff who provide live telephone assistance. However, IRS was unable to transition a significant portion of returns processing staff to telework due to reliance on paper-based, manual, and in-person processes that could not be performed remotely, such as processing mail containing taxpayer data. IRS officials stated that they are working to identify additional processing functions that can be performed remotely. Identifying alternate work assignments for staff who are currently on weather and safety leave would help IRS to maintain operations and reduce costs during the ongoing pandemic and other filing season disruptions.

Finally, IRS has not fully identified and assessed all risks to the 2021 filing season and continues to struggle with addressing challenges from the 2020 filing season, including reduced staffing and delayed processing of returns and issuing refunds. Identifying current risks, assessing the likelihood they could occur and their potential impact to IRS operations, and then determining how best to manage and monitor these risks would better prepare IRS to respond to ongoing—or new—risks during the 2021 filing season. By informing both internal and external stakeholders of its plans to address identified risks IRS could promote transparency and confidence that the agency is effectively managing risks.

Recommendations for Executive Action

We are making the following seven recommendations to IRS:

The Commissioner of Internal Revenue should revise IRS's estimates for resolving its backlog of work from the 2020 filing season. (Recommendation 1)

The Commissioner of Internal Revenue should track business refund processing, such as through IRS's weekly performance tracking. (Recommendation 2)

The Commissioner of Internal Revenue should conduct an assessment to comprehensively identify barriers taxpayers face to e-filing business-related returns. (Recommendation 3)

The Commissioner of Internal Revenue should, after completing the barrier assessment in recommendation 3, determine what actions IRS could take to address the barriers and implement those actions, as feasible. (Recommendation 4)

The Commissioner of Internal Revenue should identify and consider implementing actions to transition staff currently on weather and safety leave to active work status, as appropriate. This could include reassigning staff to other tasks that can be performed remotely. (Recommendation 5)

The Commissioner of Internal Revenue should identify and document all risks to the 2021 filing season; conduct a comprehensive risk assessment, including determining the likelihood of these risks occurring and potential impact of these risks on IRS's ability to carry out its mission-essential functions; and identify options to respond to each identified risk. (Recommendation 6)

The Commissioner of Internal Revenue should, after completing the comprehensive risk assessment in recommendation 6, monitor risks, and communicate IRS's plans to manage risks and provide status updates to stakeholders. (Recommendation 7)

Agency Comments and Our Evaluation

We provided a draft of this report to IRS for review and comment. IRS provided written comments, which are summarized below and reproduced in appendix III. IRS also provided technical comments, which we incorporated as appropriate.

In its written comments, IRS agreed with four recommendations and disagreed with three. Specifically, IRS agreed with the recommendations to comprehensively identify barriers taxpayers face to e-filing business-related returns (recommendation 3), and determine what actions IRS could take to remove those barriers and implement them, as feasible (recommendation 4). IRS indicated general steps it plans to take to address recommendations 3 and 4, including conducting an assessment to identify barriers to e-filing for business taxpayers.

IRS also agreed with the recommendations to identify and assess all risks to the 2021 filing season (recommendation 6) and to monitor risks and communicate IRS's plans to manage them to stakeholders (recommendation 7); however, IRS stated that it plans no further actions to address these recommendations. In its letter, IRS said that it had implemented actions to document risks to the 2021 filing season and had completed a risk assessment. For example, IRS stated that the Filing Season Readiness Executive Steering Committee had developed a risk register statement and corresponding strategies to address items that could impact the integrity of the 2021 filing season. After receiving our draft report, in January 2021, IRS provided us with several monthly reports describing the impact of COVID-19 on its filing season operations and its recovery efforts. According to IRS officials, these documents indicate that IRS considered some COVID-19-related risks to the 2021 filing season prior to October that it did not document in the filing season planning documents that it previously provided us. In addition, in February 2021, we followed up with IRS to obtain more information on its recent risk management efforts. We will continue to review the additional information IRS provided to determine if the agency's actions are sufficient to address recommendation 6.

For recommendation 7, IRS stated that its monthly reports provide opportunities for continued risk management of the 2021 filing season. However, IRS did not indicate how it would communicate its plans to manage risks and provide status updates to stakeholders. As we noted in our report, informing both internal and external stakeholders of its plans to address identified risks promotes transparency and confidence that the agency is effectively managing risks.

IRS disagreed with the recommendation to revise its estimates for resolving the backlog of work from the 2020 filing season (recommendation 1). IRS said it continues to monitor and assess the 2020 filing season carryover paper inventory daily, and that it adjusts processing priorities based on constantly changing variables that affect the paper inventory backlog, such as social distancing requirements and shutdowns in functional areas due to reported positive COVID-19 tests.

We agree that monitoring inventory levels is a useful management tool. However, as we stated in our report, the backlog of work includes more than paper inventory, such as e-filed returns suspended for errors or potential identify theft. In addition, in late July 2020, IRS provided us estimates for addressing its backlog which are now out of date.[49] IRS addressed its unopened mail backlog in mid-December 2020, and is now in a position to better estimate the effort required to resolve the backlog of unprocessed returns, returns held for review due to errors or suspected identity theft, and taxpayer correspondence. Doing so would help IRS identify potential resource needs including staffing, and provide taxpayers and stakeholders, including Congress, critical information about when taxpayers' 2020 returns could be processed.

IRS also disagreed with the recommendation to track business refund processing, such as through IRS's weekly performance tracking (recommendation 2). IRS said that it tracks, and management uses, information on the timeliness of business refund processing, and that a report to track business refunds will not be a useful mechanism for reducing interest on business refunds.

In its letter, IRS stated that there are factors that affect the payment of interest that are beyond the control of the IRS and are unrelated to return processing, such as the extended 2020 filing deadline which led to higher amounts of refund interest for individual taxpayers. However, as we stated in our report, the delay in processing business returns contributed to IRS paying $1.5 billion in corporate refund interest during fiscal year 2020, not the extended 2020 filing season deadline.[50] Further, the data in figure 3 above show that refund interest has grown annually since fiscal year 2017, a trend that will likely continue in fiscal year 2021 due to the backlog of unprocessed returns.

During our review, IRS could not tell us the extent to which business tax refunds were delayed during the 2020 filing season because it does not monitor and report on this information. As a result, IRS does not know how well it is processing business returns with refunds, or the extent to

[49] GAO-20-701.

[50] In our final report, we clarified these statements about contributing factors to refund interest in fiscal year 2020.

which it will have to pay refund interest. Having quality, timely information on business refund delays will help IRS estimate the extent of refund interest payments it may need to make, provide more transparency on the extent of these payments, and will help management make more informed decisions on prioritizing its inventory.

Finally, IRS disagreed with the recommendation to identify and consider implementing actions to transition staff currently on weather and safety leave to active work status, as appropriate, which could include reassigning staff to other tasks that can be performed remotely (recommendation 5). In its response, IRS said that it has taken all reasonable steps to identify work that can be made portable and have assigned it to employees that had previously been on WSL and could not report to IRS facilities due to their inclusion in medically certified high-risk categories.

We acknowledge the challenges IRS has faced in balancing the safety of employees while meeting operational demands. As we stated in our report, about a quarter (2,166) of IRS's returns processing staff remained on WSL as of late October 2020. IRS's continued efforts to identify alternate work assignments for staff who cannot report to the office but are able to telework—such as performing administrative tasks, other operational functions, or training—will help ensure that IRS is positioned to meet additional demands as the 2021 filing season begins.

We are sending copies of this report to the appropriate congressional committees, the Commissioner of Internal Revenue, the Secretary of the Treasury, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or lucasjudyj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix IV.

Jessica Lucas-Judy
Director, Tax Issues
Strategic Issues

Appendix I: IRS Appropriations

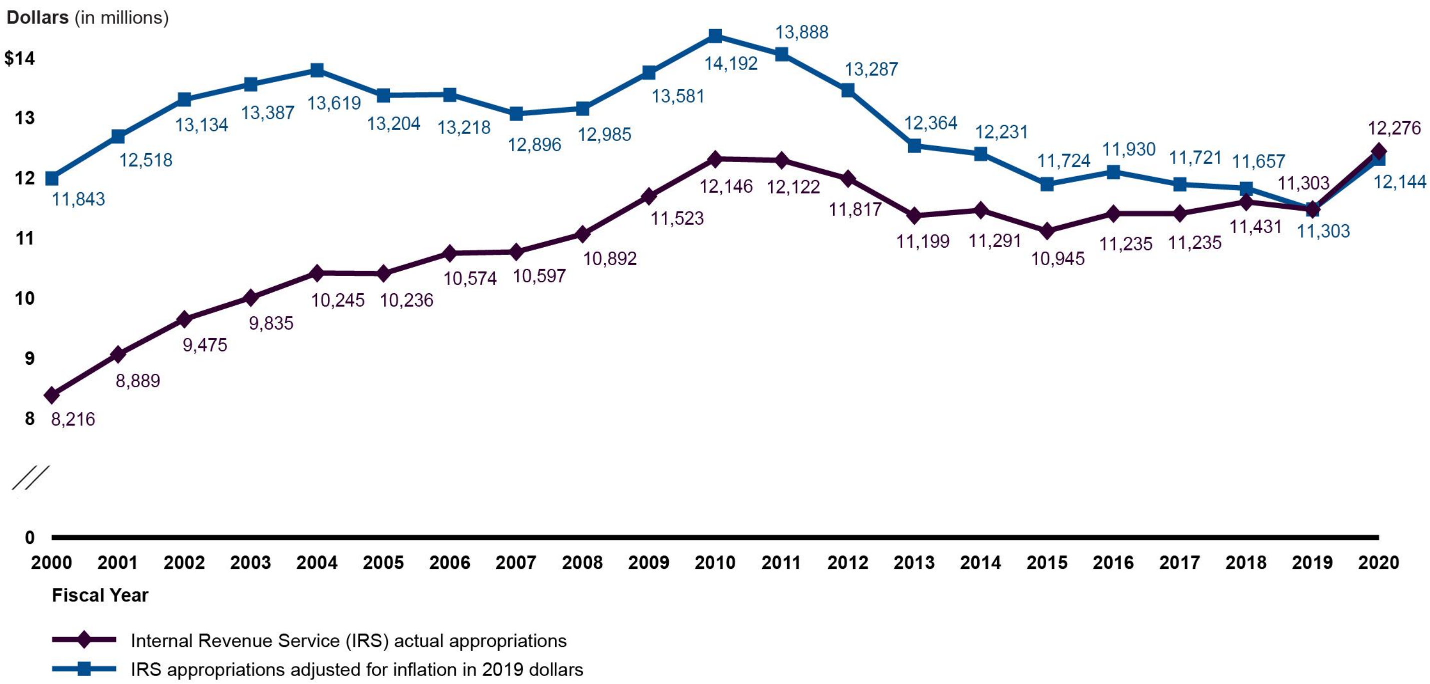
The Internal Revenue Service's (IRS) fiscal year 2020 budget of $11.51 billion supports taxpayer services, enforcement, operations, and business system modernization efforts. In addition, in March 2020, the Families First Coronavirus Response Act and the CARES Act appropriated a total of $765.7 million to the IRS to respond to Coronavirus Disease 2019 (COVID-19), including supporting operations for the extended filing season.[1]

IRS's budget declined by about $2.9 billion (20.4 percent) from fiscal year 2010 to 2019, and remained below the 2000 level from fiscal year 2017 to 2019, after adjusting for inflation (see fig. 8). Furthermore, full-time equivalents funded with annual appropriations declined by 22,035 (23.3 percent) in that same period.[2] IRS's fiscal year 2020 budget increased by about $207.5 million (1.8 percent) from fiscal year 2019, not including the additional $765.7 million Congress appropriated to IRS in response to the COVID-19 pandemic. The president's fiscal year 2021 budget request for IRS was about $12 billion.

[1]Pub. L. No. 116-127, 134 Stat. 178 (2020); Pub. L. No. 116-136, 134 Stat. 281 (2020).

[2]A full-time equivalent represents the total number of hours worked based on IRS payroll data divided by the number of compensable hours applicable to each fiscal year.

Figure 8: IRS Appropriations for Fiscal Years 2000 to 2020



Sources: GAO analysis of Congressional Research Service reports for fiscal years 2000 through 2004, Internal Revenue Service Congressional Justifications for fiscal years 2005 through 2020. Fiscal year 2020 includes an additional $765.7 million in appropriations from Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020) and CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020). | GAO-21-251

Note: Inflation adjustments were made using Bureau of Economic Analysis data and Congressional Budget Office projections of the fiscal year chain weighted gross domestic product price index.

Appendix II: IRS's 2020 Tax Filing Season Performance

In the early weeks of the 2020 filing season, the Internal Revenue Service's (IRS) return processing activities and customer service were generally on par with the previous year. However, IRS struggled to process returns filed on paper and provide customer service during the 2020 filing season.[1] Below are key performance data points on processing tax returns and providing customer service.

Processing

E-file

IRS's performance processing e-filed returns by the end of the filing season was largely consistent with the performance at the end of the 2019 filing season. As of the end of the 2020 filing season:

- IRS had processed about 98 percent (134.1 million of 136.3 million) of individual returns, compared to 99 percent (124.6 million of 126.2 million) in 2019 (see table 4).
- For business returns, IRS had processed nearly all the returns it received (26.57 million of 26.61 million), similar to its performance in 2019 (21.59 million of 21.62 million).

Paper

IRS's performance declined in processing paper filed returns during the 2020 filing season, compared with its performance during the 2019 filing season. As of the end of the 2020 filling season, IRS had processed 53 percent of the individual paper returns and about 59 percent of business paper returns it had received.

As discussed in this report, IRS's backlog of unopened mail means that the full extent of its performance on paper processing is not reflected in

[1]Unless otherwise stated, we compare weekly data as of the end of the 2020 filing season, July 15, 2020, to weekly data as of the end of the 2019 filing season, April 15, 2019.

table 4 below due to paper returns that IRS had received but not yet opened as of July 2020.

Table 4: Tax Returns Received and Processed from 2017 through 2020 by the End of the Filing Season (in millions)

	2017		2018		2019		2020	
	Received	**Processed**	**Received**	**Processed**	**Received**	**Processed**	**Received**	**Processed**
Individual Electronic	122.0	120.9 (99.1%)	124.5	123.1 (98.8%)	126.2	124.6 (98.8%)	136.3	134.1 (98.3%)
Individual Paper	13.5	7.9 (58.3%)	12.4	7.4 (59.7%)	11.0	6.1 (56.0%)	8.4	4.5 (53.0%)
Individual *Total*	*135.5*	*128.8 (95.1%)*	*136.9*	*130.5 (95.3%)*	*137.1*	*130.8 (95.4%)*	*144.7*	*138.5 (95.7%)*
Business Electronic	16.9	16.9 (99.8%)	20.4	20.4 (99.9%)	21.6	21.6 (99.8%)	26.6	26.6 (99.8%)
Business Paper	10.8	8.5 (79.0%)	10.8	8.4 (78.1%)	10.3	8.4 (81.8%)	13.0	7.6 (58.7%)
Business *Total*	*27.7*	*25.4 (91.7%)*	*31.2*	*28.8 (92.3%)*	*31.9*	*30 (94.0%)*	*39.6*[a]	*34.2 (86.3%)*

Source: GAO analysis of Internal Revenue Service data. | GAO-21-251

Notes: Values may not sum to totals due to rounding. Filing season end dates were April 18, 2017, April 18, 2018, April 15, 2019, and July 15, 2020.

[a]Total increase for business returns is higher than prior years because there were additional business filing deadlines included through July 15, 2020, such as quarterly employment tax returns. Given the delays in opening mail, total paper returns for businesses with a due date of July 15, 2020, may not be included in the total, likely skewing the ratio of e-file and paper business returns.

Fraud Detection

As of November 2020, IRS had an inventory of 1.7 million suspended individual and business returns caught by fraud and noncompliance filters, an increase of 352 percent compared to the same time frame in 2019. IRS officials told us that it continued to hold refunds selected for potential fraud during the 2020 filing season. For taxpayers required to verify their identities, where possible, IRS offered alternative authentication channels online or over the phone since in-person service was extremely limited.

As we reported in January 2020, part of IRS's fraud detection efforts includes systemic verification of the information from taxpayers' returns against Form W-2, *Wage and Tax Statement* (W-2), reported to IRS by employers.[2] In addition, as required by the Protecting Americans from Tax Hikes Act of 2015, IRS must hold refunds for all taxpayers claiming the Earned Income Tax Credit (EITC) or Additional Child Tax Credit (ACTC) until February 15.[3] This holding period allows IRS time to receive W-2s to use in verifying eligibility for these credits before releasing the refunds.

Taxpayers with EITC or ACTC must wait for their refunds to be released until February 15 regardless of IRS's systemic verification results. Before February 15, 2020, for those returns where IRS had verified the return against W-2 information, IRS held about 7.1 million tax returns with $38.12 billion in refunds (including EITC and ACTC) that it otherwise did not select for review based on its fraud filters and systemic verification results.

Finally, consistent with our January 2018 recommendation for IRS to assess the benefits and costs of modifying the February 15 refund hold, in the 2020 filing season, IRS began holding additional refunds with indicators of potential noncompliance that do not claim the EITC or ACTC until W-2 data are available.[4] According to IRS, this action protected an estimated $25 million in noncompliant refunds.

Customer Service

Telephone

During the 2020 filing season, live telephone assistance was completely unavailable between late March and late April due to IRS closing all processing and customer service sites during the Coronavirus Disease 2019 (COVID-19) pandemic (see fig. 9).[5] During that period, automated telephone services remained available for taxpayers. As IRS re-opened

[2]Systemic verification is one element of IRS's Return Review Program, its primary system to detect fraud and noncompliance. The Return Review Program is a platform that runs individual tax returns through a set of rules and models to detect potential taxpayer fraud and other noncompliance. During systemic verification, IRS checks information that taxpayers report on their returns against Form W-2, *Wage and Tax Statement* (W-2) to verify wage and withholding information and identify discrepancies. See GAO-20-55.

[3]Pub. L. No. 114-113, div. Q, § 201, 129 Stat. 2242, 3076 (2015).

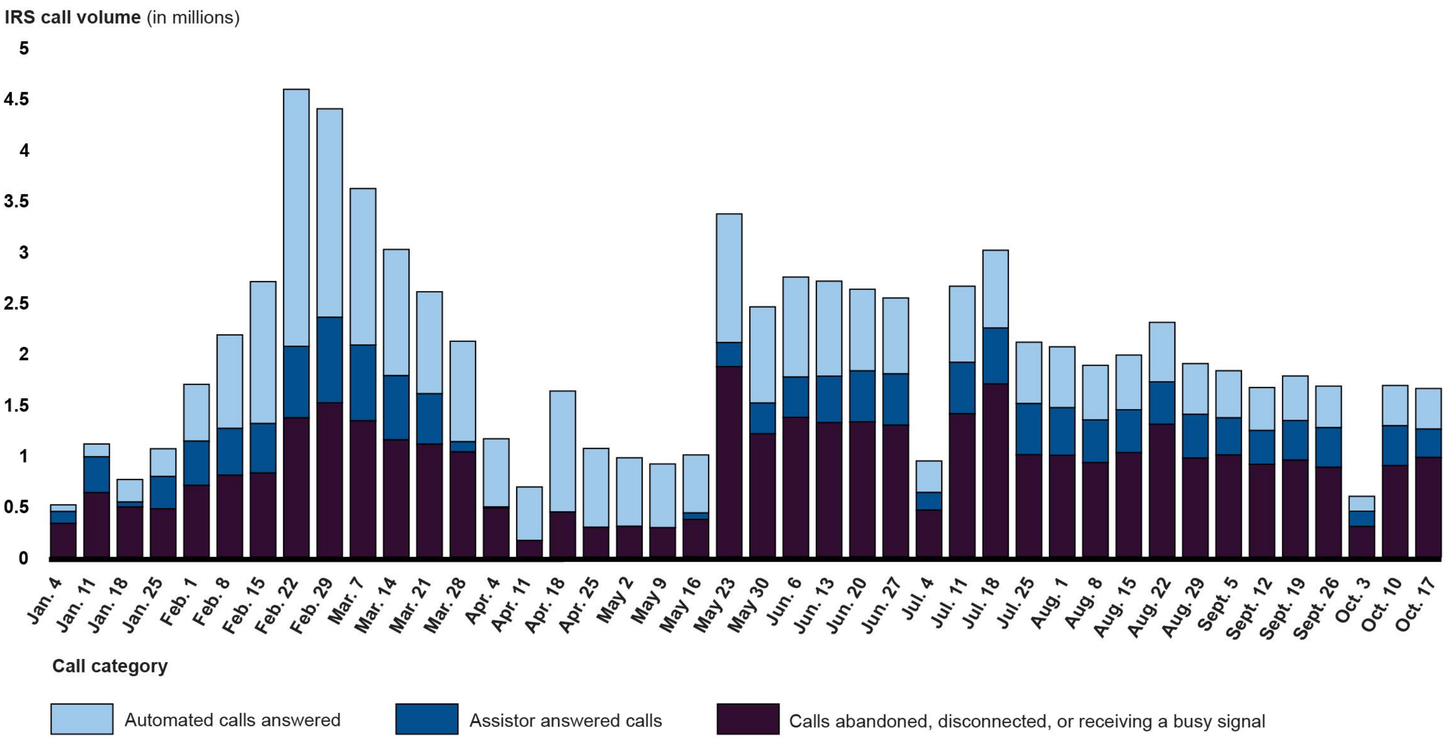
[4]GAO-18-224.

[5]IRS re-opened live telephone assistance for identity theft-related issues on April 27, 2020, and officials stated that they began opening additional phone lines on May 11, 2020.

its offices, it worked to expand telework access for assistors to answer telephone calls remotely. This allowed IRS to open some telephone lines, but taxpayers had reduced access to assistors. Furthermore, as the filing season continued, IRS data show that there were more calls that were abandoned, received busy signals, or were disconnected.

As of late June 2020, IRS had reopened all of its live assistance phone lines. However, IRS stated that due to reduced numbers of customer service staff, IRS expected taxpayers would have longer wait times. Since IRS began answering telephone calls again, the average weekly phone wait times through the end of the filing season in mid-July were between 7 and 32 minutes, compared with 9 and 18 minutes in 2019.

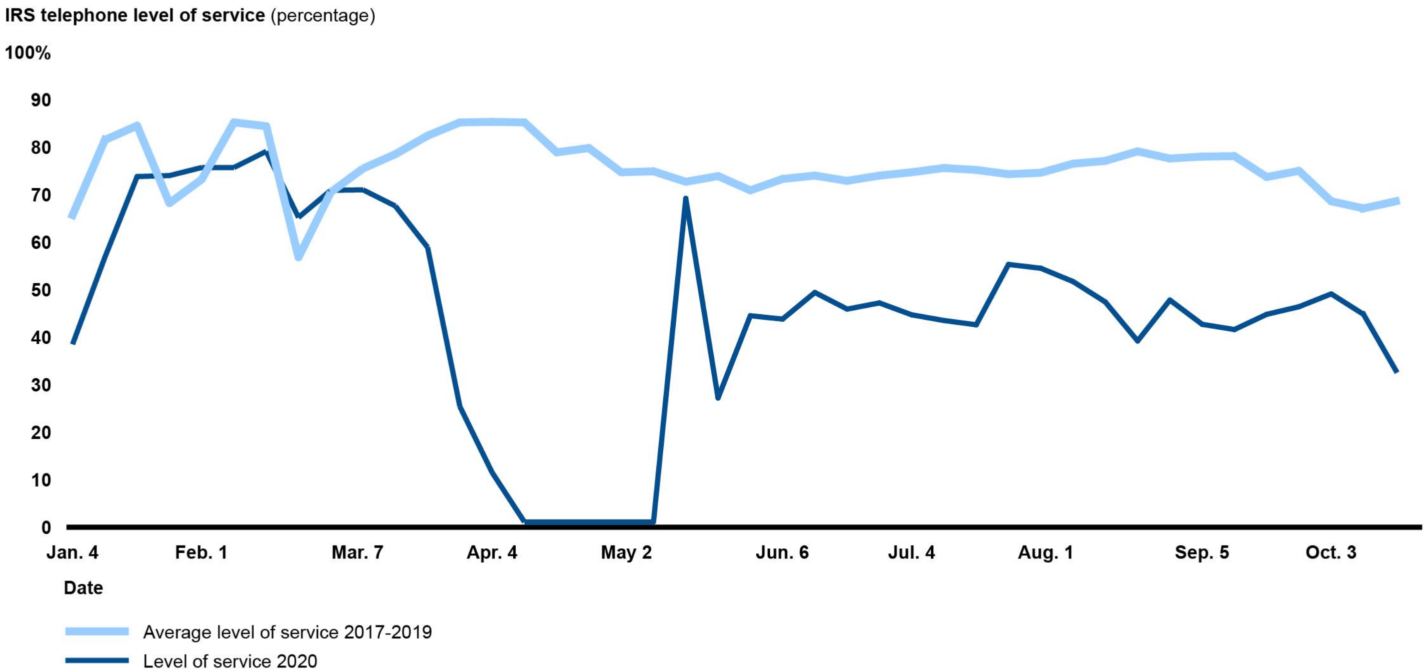
Figure 9: IRS Telephone Call Volume during the 2020 Filing Season



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-251

The level of service on the telephones—defined as the percentage of taxpayers seeking and reaching live assistance—varied significantly throughout the 2020 filing season and when compared to the average level of service for the prior 3 years (see fig. 10). In addition, the level of service generally remained below 50 percent through the end of the 2020 filing season, even as IRS opened the telephone lines and customer service representatives became available through telework.

Figure 10: IRS Telephone Level of Service, 2017-2019 Filing Season Average Compared to 2020 Filing Season



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-21-251

Online

Throughout the 2020 filing season, taxpayers and non-filers had access to, and frequently used, IRS's website for online customer service. IRS's website was accessed about three times as much during the 2020 filing season compared to 2019. From January 2020 to mid-July 2020:

- IRS.gov received about 1.4 billion visits, an increase of 165 percent, compared to about 527 million visits during the same time in 2019; and

- IRS.gov received about 8 billion page views, an increase of 203 percent, compared to about 2.6 billion page views during the same time in 2019.[6]

Further, based on our review of IRS data, the increased use of IRS.gov was generally to access information related to COVID-19. For example, according to IRS officials, during fiscal year 2020 about 35 percent (3.2 billion) of all page views were COVID-19 related pages. In addition, to assist individuals during the pandemic, IRS added online tools to its website dedicated to providing information on economic impact payments and the latest updates on coronavirus tax relief that affected taxpayers. For example, individuals not required to file taxes (non-filers) had access to an online tool to allow them to provide information that IRS required in order to receive their economic impact payment.

In addition, IRS developed a "Get My Payment" application in mid-April, which provided eligible individuals with the status of their economic impact payment, payment types, and payment delivery options. As a result, traffic on IRS's website increased, according to IRS officials. For example:

- Six of the top 10 most viewed IRS.gov pages in fiscal year 2020 were pages IRS launched in late March or early April in response to COVID-19 and economic impact payments.
- When the "Get My Payment" application launched on April 15, taxpayers visited IRS.gov 78.8 million times, more than half of which accessed the Get My Payment tool. According to IRS officials, visits to IRS.gov that day were more than six times higher than the previous most visited day in the website's history.
- The "Get My Payment" webpage received 579 million page views in fiscal year 2020.
- Taxpayers searched for "get my payment", "stimulus", and "stimulus check" more than 3 million times.

In-person

IRS data show that from January to mid-March 2020, about 512,000 taxpayers received in-person customer service at Taxpayer Assistance

[6]A visit is a series of actions that begins when a visitor views the first page from the server and ends when the visitor leaves the site. Visitors are not unique. Page views are the total number of web pages viewed on IRS.gov.

Centers (TAC), about 18 percent more visits compared to the same time frame during the 2019 filing season.

- IRS suspended in-person taxpayer appointments and closed TACs in late March 2020 and gradually reopened TACs starting in late June. As of the end of the filing season in mid-July 2020, IRS reported that a total of 537,000 taxpayers received in-person customer service since January, a 63 percent decrease compared to the same time frame in 2019.
- IRS reported that as of late September 2020, about 62 percent (222) of its 358 TACs were open, and 38 percent (136) were closed primarily due to staffing challenges related to COVID-19, including a high number of staff with high-risk medical conditions. IRS provided us an update on TAC status in early December 2020, noting that 76 percent (272) TACs were open, and 24 percent (86) remain closed due to the issues described above.

Appendix III: Comments from the Internal Revenue Service

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEPUTY COMMISSIONER

February 5, 2021

Ms. Jessica Lucas-Judy
Director, Strategic Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Lucas-Judy:

I have reviewed the draft report entitled 2020 *Tax Filing: Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season* (GAO-21-251) and appreciate the opportunity to provide comments.

In 2020, together with the rest of the country, the IRS faced an unprecedented pandemic that threatened the health and safety of every person on earth. We were confronted with the need to balance concerns for the safety and welfare of taxpayers and our employees with our tax administration responsibilities to our country and every American. As part of the 2020 Filing Season, the IRS remained dedicated to its mission of helping taxpayers understand and meet their tax responsibilities while successfully addressing many unique challenges, including the Coronavirus Disease (COVID-19) pandemic and an extended filing season. Beginning in mid-March, IRS employees worked to implement major provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act,[1]. which was enacted on March 27, 2020. One of the CARES Act's relief provisions was the authorization of the Recovery Rebate Credit for tax year 2020, with advance payment on the credit statutorily required to be issued "as rapidly as possible." On April 10, 2020, within two weeks of enactment, the IRS began issuing the advance payments, known as Economic Impact Payments (EIPs). More than 81 million EIPs totaling over $147 billion were disbursed on April 10, 2020. By May 22, 2020, almost 155 million payments, totaling more than $262 billion, had been issued. In June, the Treasury Inspector General for Tax Administration issued a report indicating that 98 percent of the initial 157 million payments were accurate as to the amount. By December 18, 2020, more than 168 million payments had been issued, totaling $280 billion.

A top priority for the IRS during the COVID-19 outbreak has been protecting the health and safety of taxpayers, our partners in the community, and the IRS workforce. For that reason, we temporarily scaled back operations, taking such steps as closing our Submission Processing Centers and Taxpayer Assistance Centers, discontinuing face-

[1] H.R. 748 — 116th Congress: H.R. 748: Coronavirus Aid, Relief, and Economic Security Act

2

to-face operations and suspending our telephone help lines. However, throughout, we continued to process electronic tax returns, issue direct deposit refunds and accept electronic payments. In June, the IRS started reopening our operations when and where it was safe to do so. As our operations have increased, we are continuing to follow and, where possible, exceed applicable safety guidelines and measures.

The temporary closures of the Submission Processing Centers impacted our ability to timely process incoming mail, which included paper tax returns, some payments, and correspondence. While the centers were closed, we evaluated processes that could be fully or partially supported by teleworking employees. We acquired and distributed laptop computers to tens-of-thousands of employees so that our campus accounting and pipeline operations could continue remotely, to the greatest extent possible. Since reopening the centers, we have aggressively addressed the accumulated receipts, including reallocating work among the centers and lockbox bank operations to maximize processing speed and efficiency. We continue to identify work processes that may be converted from an on-site to a teleworking environment should the current threat worsen, or similar conditions occur in the future. We are monitoring the volume of residual paper inventory as the 2021 Filing Season unfolds and following risk mitigation strategies.

We are extremely proud of the dedicated IRS employees who provided extraordinary service to our country during the unprecedented pandemic, at a time when they shared the same health and safety concerns as every other American. In addition to issuing the foregoing 168 million CARES Act EIPS totaling more than $280 billion, during 2020 the IRS also processed more than 163 million individual returns and issued more than 125 million refunds totaling more than $320 billion. Further, in late December within two days following enactment of the Consolidated Appropriations Act, 2021, the IRS issued a second round of EIPs totaling more than 147 million payments, exceeding $142 billion.

Processing of business returns and refund interest. We disagree with the report's supposition that by not specifically tracking the volume of business refunds processed throughout the year, we would not know how well we are processing business returns with refunds due or the extent to which we will pay refund interest. All returns are tracked by our inventory monitoring systems virtually from the time they are received until they post to taxpayer accounts. Electronic returns are tracked immediately upon receipt and paper returns are logged into the tracking system shortly after receipt at the loading dock. We rely on inventory tracking reports to monitor timeliness of return processing, not the amount of refunds or credit interest paid. We take actions to minimize the amount of interest payable; however, there are factors that affect the payment of interest that are beyond the control of the IRS and, specifically, are unrelated to return processing.

3

The due date for filing and paying individual income taxes was extended to July 15, 2020, after a nationwide disaster had been declared due to the COVID-19 pandemic. This action, by law, changed the way refund interest is normally calculated and paid. The 45-day interest-free processing window provided by law was no longer applicable.

Any individual return claiming a refund that was timely filed by July 15, 2020, was due interest on that refund from April 15, 2020, generally, through the date of payment. Therefore, delayed processing contributed to the interest due but was not the sole cause. Additionally, amended individual and business returns that reduce previously assessed tax may trigger credit interest from the due date of the original return without regard to processing time.

2021 Filing Season. We are not in agreement with the statement that the IRS has not fully identified and assessed risks to the 2021 Filing Season. We have updated the fiscal years 2020-2021 Enterprise Risk Profile to reflect the incorporation of the CARES Act, the IRS Integrated Modernization Business Plan, the Taxpayer First Act and anticipated disruptions to operations related to the COVID-19 pandemic. Additionally, at the Enterprise level, a known risk we have accounted for is “Impaired Operations,” which addresses significant disruptions, such as a pandemic, that may impact our manual and in-person processes and result in halted or slowed operations. The Filing Season Readiness Executive Steering Committee is the cornerstone for managing filing season risks. The committee developed a risk register statement and corresponding strategies to address items that could impact the integrity of the 2021 filing season. Monthly Impact and Restart reports provide opportunities for continued risk management. We are continuing to monitor the risks to the 2021 Filing Season and are actively working to mitigate them.

We appreciate your reference to Congressional consideration of granting IRS broad math-error authority, subject to appropriate procedural safeguards. We also note that at times the draft report sets forth various IRS challenges without also identifying the source as being, in significant part, attributable to demands for the allocation of limited resources among numerous competing challenges.

4

Our responses to your specific recommendations are enclosed. If you have any questions, please contact Kevin Morehead, Director, Operations Support, Wage and Investment Division, at (470) 639-2701.

Sincerely,

Sunita B. Lough Digitally signed by Sunita B. Lough Date: 2021.02.05 16:53:40 -05'00'

Sunita Lough
Deputy Commissioner for
Services and Enforcement

Enclosure

Enclosure

Recommendations for Executive Action

We are making the following seven recommendations to IRS

RECOMMENDATION 1
The Commissioner of Internal Revenue should revise IRS's estimates for resolving its backlog of work from the 2020 Filing Season.

COMMENT
We disagree with this recommendation. The IRS continues to monitor and assess the 2020 Filing Season carryover paper inventory daily. We adjust processing priorities based on constantly changing variables, taking into consideration staffing issues, social distancing requirements, and shutdowns in functional areas due to reported positive Coronavirus Disease 2019 tests, all of which impact the paper inventory backlog.

RECOMMENDATION 2
The Commissioner of Internal Revenue should track business refund processing, such as through IRS's weekly performance tracking.

COMMENT
We disagree with this recommendation. We track the timeliness of business refund processing and that information is used by management. The recommendation to create a business refund report will not be a useful mechanism for reducing refund interest on business refunds.

RECOMMENDATION 3
The Commissioner of Internal Revenue should conduct an assessment to comprehensively identify barriers taxpayers face to e-filing business-related returns.

COMMENT
We agree with this recommendation. We will conduct an assessment to identify barriers taxpayers face regarding e-filing business-related returns.

RECOMMENDATION 4
The Commissioner of Internal Revenue should, after completing the barrier assessment in recommendation 3, determine what actions IRS could take to address the barriers and implement those actions, as feasible.

COMMENT
We agree with this recommendation. After the assessment in Recommendation 3 is completed, we will evaluate the actions the IRS might take to address the barriers taxpayers face when e-filing business-related returns. We will then determine what actions the IRS can implement, as feasible.

2

RECOMMENDATION 5
The Commissioner of Internal Revenue should identify and consider implementing actions to transition staff currently on weather and safety leave to active work status, as appropriate. This could include reassigning staff to other tasks that can be performed remotely.

COMMENT
We disagree with this recommendation. The IRS already monitors weather and safety leave (WSL) usage and its impact on production. We are coordinating across the IRS to balance the safety of employees while meeting taxpayer's needs. We have taken all reasonable steps to identify work that can be made portable and have assigned it to employees that had previously been on WSL and could not report to our facilities due to their inclusion in medically certified high-risk categories.

RECOMMENDATION 6
The Commissioner of Internal Revenue should identify and document all risks to the 2021 Filing Season; conduct a comprehensive risk assessment, including determining the likelihood of these risks occurring and potential impact of these risks on IRS's ability to carry out its mission-essential functions; and identify options to respond to each identified risk.

COMMENT
We agree with this recommendation and have implemented actions to document risks to the 2021 Filing Season. A risk assessment has been completed and multiple reports and processes are in place to address potential impacts to mission-essential functions. Documentation was provided to the audit team after receipt of the draft report. We do not intend to implement any additional actions.

RECOMMENDATION 7
The Commissioner of Internal Revenue should, after completing the comprehensive risk assessment in recommendation 6, monitor risks, and communicate IRS's plans to manage risks and provide status updates to stakeholders.

COMMENT
We agree with this recommendation and have implemented actions to document risks to the 2021 Filing Season. A risk assessment has been completed and multiple reports and processes are already in place to address potential impacts to mission-essential functions. Documentation was provided to the audit team after receipt of the draft report. We do not intend to implement any additional actions.

Text of Appendix III: Comments from the Internal Revenue Service

Page 1

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U.S. Government Accountability Office 441 G Street, N.W.

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Sincerely,

Sunita Lough

Deputy Commissioner for Services and Enforcement

Enclosure

Page 5

Recommendations for Executive Action

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The Commissioner of Internal Revenue should revise IRS's estimates for resolving its backlog of work from the 2020 Filing Season.

COMMENT

We disagree with this recommendation. The IRS continues to monitor and assess the 2020 Filing Season carryover paper inventory daily. We adjust processing priorities based on constantly changing variables, taking into consideration staffing issues, social distancing requirements, and shutdowns in functional areas due to reported positive Coronavirus Disease 2019 tests, all of which impact the paper inventory backlog.

RECOMMENDATION 2

The Commissioner of Internal Revenue should track business refund processing, such as through IRS's weekly performance tracking.

COMMENT

We disagree with this recommendation. We track the timeliness of business refund processing and that information is used by management. The recommendation to create a business refund report will not be a useful mechanism for reducing refund interest on business refunds.

RECOMMENDATION 3

The Commissioner of Internal Revenue should conduct an assessment to comprehensively identify barriers taxpayers face to e-filing business-related returns.

COMMENT

We agree with this recommendation. We will conduct an assessment to identify barriers taxpayers face regarding e-filing business-related returns.

RECOMMENDATION 4

The Commissioner of Internal Revenue should, after completing the barrier assessment in recommendation 3, determine what actions IRS could take to address the barriers and implement those actions, as feasible.

COMMENT

We agree with this recommendation. After the assessment in Recommendation 3 is completed, we will evaluate the actions the IRS might take to address the barriers taxpayers face when e-filing business-related returns. We will then determine what actions the IRS can implement, as feasible.

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RECOMMENDATION 5

The Commissioner of Internal Revenue should identify and consider implementing actions to transition staff currently on weather and safety leave to active work status, as appropriate. This could include reassigning staff to other tasks that can be performed remotely.

COMMENT

We disagree with this recommendation. The IRS already monitors weather and safety leave (WSL) usage and its impact on production. We are coordinating across the IRS to balance the safety of employees while meeting taxpayer's needs. We have taken all reasonable steps to identify work that can be made portable and have assigned it to employees that had previously been on WSL and could not report to our facilities due to their inclusion in medically certified high-risk categories.

RECOMMENDATION 6

The Commissioner of Internal Revenue should identify and document all risks to the 2021 Filing Season; conduct a comprehensive risk assessment, including determining the likelihood of these risks occurring and potential impact of these risks on IRS's ability to carry out its mission-essential functions; and identify options to respond to each identified risk.

COMMENT

We agree with this recommendation and have implemented actions to document risks to the 2021 Filing Season. A risk assessment has been completed and multiple reports and processes are in place to address potential impacts to mission-essential functions. Documentation was provided to the audit team after receipt of the draft report. We do not intend to implement any additional actions.

RECOMMENDATION 7

The Commissioner of Internal Revenue should, after completing the comprehensive risk assessment in recommendation 6, monitor risks, and communicate IRS's plans to manage risks and provide status updates to stakeholders.

COMMENT

We agree with this recommendation and have implemented actions to document risks to the 2021 Filing Season. A risk assessment has been completed and multiple reports and processes are already in place to address potential impacts to mission-essential functions. Documentation was provided to the audit team after receipt of the draft report. We do not intend to implement any additional actions.

Appendix IV: GAO Contact and Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Tom Gilbert, Assistant Director; Erin Saunders Rath, Assistant Director; Heather A. Collins, Analyst-in-Charge; Colenn Berracasa; Kimberly Bohnet; Jacqueline Chapin; Steven Flint; Kirsten B. Lauber; Hannah Laufe; Peter Nguyen; Robert Robinson; Peter Verchinski; and Alicia White made significant contributions to this report.