

National Taxpayer Advocate delivers Annual Report to Congress; focuses on taxpayer impact of COVID-19 and IRS funding needs

WASHINGTON — National Taxpayer Advocate Erin M. Collins today released her [2020 Annual Report to Congress](#), focusing on the unprecedented challenges taxpayers faced in filing their tax returns and receiving refunds and stimulus payments during a year consumed by the COVID-19 pandemic. The report also finds that a roughly 20% inflation-adjusted reduction in the IRS's budget since fiscal year (FY) 2010 has left the agency with antiquated technology and inadequate staffing levels to meet taxpayers' needs.

As part of the report, Collins released the fourth edition of the [National Taxpayer Advocate's "Purple Book,"](#) a compilation of 66 legislative recommendations designed to strengthen taxpayer rights and improve tax administration.

"During 2020, the COVID-19 pandemic affected almost all facets of our lives, and U.S. tax administration was no exception," Collins said in releasing the report. "Taxpayers could not meet in person with their tax return preparers. IRS personnel who open and process tax returns and answer the toll-free telephone lines had to follow social distancing guidelines and stay-at-home orders, limiting their ability to assist taxpayers. And Congress assigned the IRS the task of issuing two rounds of stimulus payments, stretching its resources even further."

The 2020 filing season and Economic Impact Payments

The report says the IRS in most cases "can effectively handle whatever it can automate," and as a result, most taxpayers were well served. As of Nov. 20, 2020, the IRS had received about 169 million individual income tax returns, including about 8.4 million that were filed solely to claim stimulus payments (referred to by the IRS as "economic impact payments" or "EIPs"). About 90% of returns were e-filed and therefore were not delayed by the pandemic. Similarly, the overwhelming majority of EIPs were issued by direct deposit or automated mailings and were successfully and timely transmitted.

However, the report says millions of taxpayers experienced major problems, including the following:

- **Refund delays due to COVID-19 processing backlogs.** About 16 million individual income taxpayers filed paper tax returns. Because the IRS could not fully staff its mail facilities, some taxpayers have waited six months or longer for the IRS to process their returns. Most taxpayers receive refunds, which in recent years have averaged more than \$2,500. On Dec. 31, the IRS website indicated there were still 7.1 million unprocessed individual returns and 2.3 million unprocessed business returns as of Nov. 24.

- **Refund delays due to IRS fraud detection filters.** The IRS passes all returns claiming refunds through a series of filters designed to detect fraudulent income or identity theft-based claims. These fraud detection filters in recent years have generated “false positive” rates substantially greater than 50% (meaning that most refund claims frozen by the filters are ultimately found to be legitimate). This problem was compounded in 2020 because the IRS notifies taxpayers of refund holds by written correspondence, and the IRS was delayed both in sending notices and in processing taxpayer responses. For about 25% of the returns flagged for income verification, refunds took longer than 56 days. For about 18% of the returns flagged for identity verification, refunds took longer than 120 days.
- **EIP underpayments.** In accordance with the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the IRS issued more than 160 million EIPs. However, millions of eligible individuals did not receive some or all of the EIPs for which they were eligible despite a statutory directive that the IRS issue the payments “as rapidly as possible.” Initially, the IRS took the position that it generally would not correct EIP mistakes in 2020. As the year progressed, the IRS agreed to fix some categories of EIP problems, mostly those it could fix via automation. Still, the IRS was unable to resolve many cases in 2020, requiring eligible individuals to wait until they file their 2020 tax returns in 2021 to receive their payments.
- **Late notices.** During 2020, taxpayers were sent more than 20 million notices bearing dates that had passed and, in many cases, response or payment deadlines that also had passed. This happened because on two occasions during the year, IRS computers automatically generated notices that the IRS did not have the capacity to mail at the time. Rather than reprint the notices with new dates, the IRS decided to include “inserts” with about 1.8 million notices explaining that taxpayers would have additional time to respond. But the IRS failed to include these inserts with other notices that should have contained them and had to issue supplemental letters informing taxpayers of additional extensions. For affected taxpayers, this caused confusion and, in some cases, undue stress and concern. Among the late notices were collection notices and math error notices, where the failure to timely respond could mean loss of rights.
- **Lack of information about backlogs, notices, and other problems.** The report says the IRS should have done a better job of keeping the public informed about COVID-19-related delays by creating a regularly updated “COVID-19 Dashboard” and issuing weekly news releases to ensure the information was widely disseminated. While the IRS did post limited information on IRS.gov during the latter part of the year, it was not well-promoted and it was not regularly updated. As mentioned above, for example, the IRS website on Dec. 31 contained an update posted on Dec. 1 that stated the numbers of unprocessed individual and business returns as of Nov. 24 were 7.1 million and 2.3 million, respectively, and that some unprocessed returns dated back to April 15. The report says the public will benefit if the IRS

begins to update its backlog information weekly, and the IRS and TAS consequently will receive fewer calls from taxpayers reaching out solely to obtain that information.