



April 2022

TAX FILING 2021 Performance Underscores Need for IRS to Address Persistent Challenges

Accessible Version

GAO Highlight

Highlights of [GAO-22-104938](#), a report to congressional committees

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. To accommodate new legislation and provide additional relief to taxpayers, IRS postponed the 2021 individual filing and payment deadline by 1 month to May 17, 2021.

GAO was asked to review IRS's performance during the 2021 filing season. This report assesses IRS's performance during the 2021 filing season on (1) processing individual and business income tax returns and (2) providing customer service to taxpayers.

GAO analyzed IRS documents and data on filing season performance, refund interest payments, hiring, and employee overtime. GAO also interviewed cognizant officials.

What GAO Recommends

GAO is making six recommendations, including that IRS assess reasons for tax return errors and refund interest payments and take action to reduce them; modernize its "Where's My Refund" application; address its backlog of correspondence; and assess its in-person service model. IRS agreed with four recommendations and disagreed with two. IRS said its process for analyzing errors is robust and that the amount of interest paid is not a meaningful business measure. GAO believes that these recommendations remain warranted.

View [GAO-22-104938](#). For more information, contact Jessica Lucas-Judy (202) 512-6806 or lucasjudj@gao.gov.

April 2022

TAX FILING

2021 Performance Underscores Need for IRS to Address Persistent Challenges

What GAO Found

The Internal Revenue Service (IRS) experienced multiple challenges during the 2021 filing season as it struggled to respond to an unprecedented workload that included delivering COVID-19 relief. IRS began the filing season with a backlog of 8 million individual and business returns from the prior year that it processed alongside incoming returns. IRS reduced the backlog of prior year returns, but as of late December 2021, had about 10.5 million returns to process from 2021. Further, IRS suspended and reviewed 35 million returns with errors primarily due to new or modified tax credits. As a result, millions of taxpayers experienced long delays in receiving refunds. GAO found that some categories of errors occur each year; however, IRS does not assess the underlying causes of taxpayer errors on returns. Doing so could help reduce future errors, refund delays, and strains on IRS resources.

IRS has paid nearly \$14 billion in refund interest in the last 7 fiscal years, with \$3.3 billion paid in fiscal year 2021. Using IRS data, GAO identified some characteristics of refund interest payments, such as amended returns. However, IRS does not identify, monitor, and mitigate issues contributing to refund interest payments. Accordingly, IRS is missing an opportunity to reduce costs.

Challenges with IRS Customer Service during the 2021 Filing Season

Telephone demand skyrocketed

IRS received **195 million calls** during the 2021 filing season compared to **39 million** in 2019.

Online refund information was limited

IRS's "Where's My Refund" online tool does not explain why a refund is delayed.

Correspondence inventory nearly tripled

At the end of the 2021 filing season, correspondence inventory was at **5.9 million** compared to **2 million** in 2019.

In-person services declined

During the 2021 filing season, IRS served **374,000 taxpayers** in person compared to **752,000** in 2019.

OUTCOME

Taxpayers had difficulty reaching IRS for assistance.

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

IRS answered more phone calls than in prior years, but taxpayers had a difficult time reaching IRS due to high call volumes. IRS urged taxpayers to access its "Where's My Refund" online tool to get refund status information; yet this tool provides limited information on refund status and delays. IRS does not have plans to modernize "Where's My Refund," although this could help IRS better serve taxpayers, lower call volume, and reduce costs. IRS's correspondence inventory was 5.9 million by the end of the filing season, and grew to more than 8 million by the start of 2022. IRS does not have a plan or estimates for reducing this backlog; doing so could help reduce demands on IRS. Finally, in-person service has significantly declined since 2015 and IRS has not fully considered alternatives for its current in-person service model. IRS's plans to improve the taxpayer experience—such as by expanding virtual services—may further contribute to the decline in in-person visits.

Contents

GAO Highlight		ii
	Why GAO Did This Study	ii
	What GAO Recommends	ii
	What GAO Found	ii
Letter		1
	Background	5
	Challenges Processing Tax Returns during the 2021 Filing Season Led to Delays and Increased Costs	9
	Taxpayers Struggled to Get Help from IRS during the 2021 Filing Season	28
	Conclusions	56
	Recommendations for Executive Action	58
	Agency Comments and Our Evaluation	59
Appendix I: Internal Revenue Service Appropriations		65
Appendix II: Internal Revenue Service's Return Processing Performance during the 2021 Tax Filing Season		68
	Processing	68
Appendix III: Comments from the Internal Revenue Service		70
	Agency Comment Letter	78
Appendix IV: GAO Contact and Acknowledgments		85
Tables		
	Table 1: Examples of Reasons That IRS Provides Interest Payments on Refunds	21
	Table 2: Tax Returns Received and Processed by IRS from 2018 through 2021 by the End of the Filing Season	69
Figures		
	Figure 1: IRS Inventory of Backlogged 2020 Returns, February through mid-December, 2021	11
	Figure 2: Total Volume of Returns IRS Suspended in Its Error Resolution System, Calendar Years 2017 through November 2021	15
	Figure 3: Most Commonly Occurring Error Categories for Individual Tax Returns, 2019 and 2021 Filing Seasons	17

Figure 4: Interest Paid on Individual and Business Refunds (in Millions), Fiscal Years 2015—2021	23
Figure 5: Challenges with IRS Customer Service during the 2021 Filing Season	29
Figure 6: IRS Telephone Call Volume, Filing Seasons 2016 through 2021	31
Figure 7: Percentage of Users Satisfied with IRS’s “Where’s My Refund” Application, January 2018 to October 2021	36
Figure 8: IRS Correspondence Inventory and Overage Rates (Late Responses), as of the End of the Filing Season, 2016—2021	42
Figure 9: IRS Correspondence Inventory by Category, Fiscal Years 2019 and 2021	44
Figure 10: Volume of Taxpayers IRS Served In-Person at Taxpayer Assistance Centers, 2015 through 2021	48
Figure 11: IRS Returns Processing and Customer Service Overtime Shown as Full-Time Equivalent Employees, Fiscal Years 2016—2021	54
Figure 12: IRS Appropriations for Fiscal Years 2001 to 2021	66

Abbreviations

ARPA	American Rescue Plan Act of 2021
CSR	customer service representative
e-file	electronic filing
ERS	Error Resolution System
IRS	Internal Revenue Service
OMB	Office of Management and Budget
RRC	Recovery Rebate Credit
TAC	Taxpayer Assistance Center
Treasury	Department of the Treasury

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April 11, 2022

The Honorable Ron Wyden
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate

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

Every tax filing season is a large-scale, critical operation during which the Internal Revenue Service (IRS) processes more than 150 million individual and business tax returns electronically or on paper, issues hundreds of billions of dollars in refunds, and provides customer service to tens of millions of taxpayers. IRS has experienced several challenges in recent years, including difficulty hiring workers to process returns, implementing notable tax law changes, and managing the 2020 and 2021 filing seasons during the COVID-19 pandemic.

As a result of the CARES Act and other pandemic relief legislation, IRS and the Department of the Treasury have been given additional responsibilities.¹ For example, during the 2021 filing season, IRS was responsible for issuing a third round of economic impact payments to millions of taxpayers and establishing capabilities to issue monthly advance Child Tax Credit payments to eligible taxpayers starting in July 2021.² IRS also had to manage its typical filing season operations—such

¹CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020). The American Rescue Plan Act of 2021 (ARPA) authorized IRS and Treasury to issue advance payments of the child tax credit, as amended by ARPA, and to issue direct payments known as economic impact payments, to eligible individuals to help address financial stress due to the pandemic. Pub. L. No. 117-2, 135 Stat. 4 (2021).

²As of December 10, 2021, IRS had issued about \$410 billion to about 176 million taxpayers for the third round of economic impact payments.

as updating its systems and procedures to incorporate tax law provisions enacted in early 2021—and process millions of backlogged returns from the 2020 filing season along with incoming returns from 2021.³

You asked us to assess IRS's performance during the 2021 filing season. In this report, we assess IRS's performance on (1) processing tax returns during the 2021 filing season and (2) providing customer service to taxpayers.

To address our first objective, we analyzed IRS's 2021 weekly filing season performance data on processing electronic and paper tax returns for individuals and businesses, and issuing refunds. The data we used in this report were the most recent sets of data available at the time of our review, and included, for example, weekly reports on the volume of returns IRS stopped during processing due to errors and the volume of returns from 2020 (backlog) that IRS processed during the 2021 filing season. We assessed the reliability of IRS's data on processing returns by reviewing existing information about the data and the systems that produced them, and interviewing agency officials knowledgeable about the data. We determined that these data were sufficiently reliable to report on IRS's performance in processing returns during the 2021 filing season.

Additionally, we compared IRS's 2021 filing season performance data on returns processing to performance data from prior filing seasons, as appropriate, and average performance data from prior filing seasons. We also reviewed IRS performance for timeliness in processing returns and refunds. In addition, we reviewed relevant documentation and interviewed IRS officials to understand, for example, causes for delays in processing returns in 2021 and IRS's use of overtime to process a significant volume of those returns held for manual review. We also analyzed IRS data on hiring returns processing staff during 2021 and on its use of overtime to support processing functions, 2016 through 2021. We interviewed officials from IRS's Submissions Processing division to identify contextual factors contributing to changes in performance, including ongoing challenges related to the pandemic, changes to the tax code, and other operational impacts.

³GAO, *Tax Filing: Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season*, [GAO-21-251](#) (Washington, D.C.: Mar. 1, 2021). We reported that as of December 2020, IRS had more than 13 million unprocessed returns and about 4 million pieces of taxpayer correspondence that require IRS's review and response.

In addition, we analyzed IRS's interest payments to determine potential causes for increases in the amount of taxpayer refund interest over the last several years. We analyzed individual and business tax return data from IRS's Compliance Data Warehouse from October 1, 2014, through September 30, 2021, to identify refund interest payments by fiscal year and other characteristics of the returns, such as whether the returns were amended. To assess the reliability of the Compliance Data Warehouse individual and business tax return data, we performed electronic testing and compared our results to summary refund interest data from IRS's Redesigned Revenue Accounting Control System financial data system. We found that our Compliance Data Warehouse individual and business tax return data results were sufficiently reliable to address this objective. Additionally, we interviewed IRS officials to understand different factors that may affect the extent of refund interest paid and IRS's efforts to generally monitor refund interest payments to individual and business taxpayers. This included interviews with officials from IRS's Office of the Chief Financial Officer and the Office of Chief Counsel to determine the effect of postponing the filing season deadline and other operational changes on refund interest payments.

We compared IRS actions and performance in processing returns against its current strategic plans.⁴ We also determined that the information and communication component of internal control was significant to this objective, along with the underlying principle that management should externally communicate the necessary quality information to achieve the entity's objectives.⁵

To address our second objective, we analyzed IRS's 2021 weekly filing season performance data on providing customer service (via telephone, online, correspondence, and in person). The data we used in this report were the most recent sets of data available at the time of our review.

These data included IRS weekly reports on key elements of IRS's telephone service, such as call volumes and the level of taxpayer service, and the results of IRS's three-question online survey about user satisfaction with its "Where's My Refund" application (January 2018 to

⁴Internal Revenue Service, *Taxpayer First Act Report to Congress* (Washington, D.C.: January 2021); and *IRS Strategic Plan, Fiscal Years 2018-2022* (Washington, D.C.: April 2018).

⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

October 2021). We also analyzed IRS data on correspondence inventory to report on IRS's performance responding to paper or digital taxpayer communications within prescribed time frames, and data reports on the volume of in-person services IRS provided during 2021. Finally, we analyzed IRS data on hiring customer service staff during 2021 and on its use of overtime to support customer service functions, 2016 through 2021.

We assessed the reliability of these data by reviewing existing information about the data and the systems that produced them, and interviewing agency officials knowledgeable about the data. Any data limitations are noted, as applicable, within the report. We determined that these data were sufficiently reliable for reporting on IRS's performance in providing customer service to taxpayers during the 2021 filing season.

We compared data on IRS's customer service performance during the 2021 filing season to performance data from prior filing seasons, where appropriate, and average performance data from prior filing seasons. We also compared IRS's actions and performance against federal guidelines for improving customer service.⁶ Additionally, we reviewed relevant documentation and interviewed IRS officials to understand how IRS is communicating information to taxpayers about delays in processing returns and addressing taxpayer correspondence. We also interviewed officials from IRS's Accounts Management division and reviewed documents to understand contextual factors contributing to filing season performance, particularly ongoing challenges related to the pandemic and other issues such as staffing.

We determined that the information and communication component of internal control was significant to this objective, along with the underlying internal control principles that management should use quality information to make informed decisions and evaluate the agency's performance in achieving key objectives and addressing risks, and externally communicate the necessary quality information to achieve the entity's objectives.⁷

We conducted this performance audit from February 2021 to April 2022 in accordance with generally accepted government auditing standards.

⁶See Office of Management and Budget, *Preparation, Submission and Execution of the Budget*, Circular No. A-11, pt. 6, § 280 (Washington, D.C.: August 2021).

⁷[GAO-14-704G](#).

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.

Background

IRS Operations Status during the 2021 Filing Season

Prior to the start of the 2021 filing season, IRS had resumed operations to support returns processing and customer service functions, but with limitations, as described below.⁸ For example, in early February 2021 IRS issued a memorandum to recall all mission-essential employees on paid weather and safety leave back to the office to support in-person filing season operations. Further, IRS allowed employees such as telephone customer service representatives (CSR) to continue teleworking to help ensure sufficient coverage of incoming taxpayer calls.⁹

However, several services remained delayed throughout 2021 due to the ongoing effects of the COVID-19 pandemic. For example, IRS reported on its website that both during and after the 2021 filing season it was experiencing delays in processing returns filed on paper, answering taxpayer correspondence, and manually reviewing tax returns stopped for errors. As we reported in March 2021, IRS experienced similar delays during the 2020 filing season due to several long-standing issues that were exacerbated by the COVID-19 pandemic, including IRS's reliance on manual procedures to process tax returns and provide customer service.¹⁰ IRS also stated that taxpayers should expect delays to continue for live telephone support due to a significant increase in demand for live assistance.

⁸The 2021 filing season started on February 12, 2021, about 2 weeks later than in prior years. Further, due to the COVID-19 pandemic, the federal government postponed the 2021 federal individual income tax filing deadline from April 15, 2021 to May 17, 2021.

⁹IRS required Field Assistance employees who were teleworking or on paid weather and safety leave to report by May 24, 2021, to provide in-person services to taxpayers at Taxpayer Assistance Centers.

¹⁰[GAO-21-251](#).

COVID-19 Relief Laws Established Additional Responsibilities for IRS

As part of its recovery efforts, Congress passed, and the President signed into law, the American Rescue Plan Act of 2021 (ARPA) in March 2021.¹¹ ARPA and other COVID-19 relief laws established new responsibilities for IRS to implement during 2021, including:

- Issuing a third round of economic impact payments as direct payments to help individuals address financial stress due to the pandemic;¹²
- Issuing the Recovery Rebate Credit for those taxpayers who did not receive the full amounts allowed for the first two rounds of economic impact payments;¹³ and
- Issuing monthly advance Child Tax Credit payments to eligible taxpayers beginning in July 2021, which included establishing an online portal for taxpayers to opt-out of the payments, or provide additional information to IRS that could affect the amount of the payments, such as the birth of a child or a significant change in income.¹⁴

ARPA provided a total of about \$1.86 billion in supplemental funding to IRS to administer the third round of economic impact payments and the advance Child Tax Credit payments, provide taxpayer assistance, and develop and modernize its systems. This was in addition to IRS's regular fiscal year 2021 appropriation of \$11.92 billion. IRS's annual appropriations declined by about \$2.9 billion (20.4 percent) from fiscal year 2010 to 2019, and remained below the 2001 level from fiscal years

¹¹Pub. L. No. 117-2, 135 Stat. 4 (2021). Among other things, ARPA provided about \$1.6 trillion to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. Since March 2020, Congress has provided about \$4.7 trillion through ARPA as well as five other laws, including the CARES Act, that were previously enacted to fund efforts to help the nation respond to, and recover from, the COVID-19 pandemic.

¹²Pub. L. No. 117-2, § 9601, 135 Stat. 4, 138-44 (2021).

¹³Pub. L. No. 116-136, § 2201, 134 Stat. 281, 335-40 (2020); Pub. L. No. 116-260, § 272, 134 Stat. 1182, 1965-71 (2020).

¹⁴Pub. L. No. 117-2, § 9611, 135 Stat. 4, 144-50 (2021). Beginning in July 2021, IRS and Treasury were responsible for issuing half of the expected 2021 child tax credit payments in periodic advance payments. Eligible individuals can claim the remaining amount of the total 2021 credit for which they are eligible when filing their 2021 tax return in 2022.

2013 to 2020, after adjusting for inflation. See appendix I for more details on IRS's budget.

Taxpayer Customer Service Options

- **Telephone.** Taxpayers can speak with IRS staff to obtain information about their accounts or to ask basic tax law questions throughout the year. Taxpayers can also listen to recorded tax information or use automated phone services to obtain information on their refund status or account information such as a balance due. During the COVID-19 pandemic, IRS urged taxpayers to use automated phone lines to resolve taxpayer account issues and options available online due to the high demand for live customer service, as discussed later in this report.
- **Online.** Taxpayers can use IRS's online services to check their refund status ("Where's My Refund"), get tax transcripts, make payments or check on the status of a payment, and apply for plans to pay taxes due in scheduled payments (installment agreements). IRS data show that its website—which includes various online services, static web pages, and calculators—received about 1.4 billion visits from January 2021 to the end of the filing season in mid-May 2021. In addition, in June 2021, IRS made online tools available for taxpayers to check eligibility for and manage their advance Child Tax Credit payments.¹⁵
- **Correspondence.** Taxpayers primarily use paper, or in limited cases digital, correspondence to communicate with IRS. This includes amending a tax return, responding to IRS requests for information to help process a return, providing additional information to verify a taxpayer's identity, or disputing a collection notice.¹⁶ CSRs in IRS's Accounts Management office respond to taxpayer correspondence on a variety of topics and handle complex account adjustments such as amended returns and duplicate return filings. IRS's policy is to

¹⁵For example, IRS's Child Tax Credit Update portal allows qualified individuals to check their eligibility for the advance payments, opt out of receiving the payments, update their bank account information, and change their mailing address. IRS also plans additional features for this portal. We have ongoing work in this area; see also GAO, *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, [GAO-22-105051](#) (Washington, D.C.: Oct. 27, 2021).

¹⁶IRS implemented electronic filing (e-filing) for amended returns in August 2020, and currently accepts amended returns for 2019 and 2020 electronically if the taxpayer also e-filed the original return. IRS staff still need to manually review the return and adjust the taxpayer's account.

generally respond to correspondence within 30 days of receipt; IRS considers correspondence that is older than 45 days to be “overage.”¹⁷ Minimizing overage correspondence is important because delayed responses may prompt taxpayers to write again, call, or make an appointment for in-person service. Further, IRS is generally required to pay interest on refunds owed to taxpayers on amended returns, so the longer IRS takes to process an amended return with a refund, the more interest it pays.¹⁸

- **In person.** After making an appointment with IRS, taxpayers can receive face-to-face assistance at one of IRS’s 358 Taxpayer Assistance Centers (TAC) across the country. Historically, CSRs at TACs have provided help on answering basic tax law questions, reviewing and adjusting taxpayer accounts, taking payments, and assisting taxpayers if their return was stopped for potential identity theft. During the COVID-19 pandemic, IRS reduced the availability of in-person appointments due to health and safety requirements. In September 2021, IRS officials stated that, from late June 2020 to January 2021, TAC appointments were limited to services that could not be resolved online or via telephone, including departure permits for foreign nationals and some services that require taxpayer authentication.¹⁹

Returns Processing

During returns processing, IRS checks for errors and quickly corrects those that it can, and notifies the taxpayer of errors when it cannot, such as a missing form or information return. Errors can occur on tax returns because of mistakes made by both taxpayers and IRS, and these returns

¹⁷As we have previously reported, IRS may take longer than 30 days to respond to taxpayer correspondence depending on the type and complexity of the issue. For example, GAO, *Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns*, [GAO-20-174](#) (Washington, D.C.: Jan. 30, 2020).

¹⁸26 U.S.C. § 6611.

¹⁹Federal law requires that some foreign nationals—that is, individuals who do not have U.S. citizenship or nationality—must generally report any income received or expected during the tax year and pay taxes owed prior to a departure from the U.S. 26 U.S.C. § 6851(d).

must be manually reviewed by IRS staff.²⁰ In addition, recent changes to tax forms due to new tax laws—such as those introduced under COVID-19 relief legislation—can trigger a higher volume of return processing errors because the provisions are new to IRS, paid preparers, and taxpayers, and can make the overall returns process more complicated.

IRS is generally required to pay interest on refunds paid later than 45 days after the filing deadline, or under other circumstances such as a Presidential disaster declaration, during which IRS may postpone the filing deadline for those affected.²¹ As we reported in March 2021, the amount of refund interest paid to taxpayers in fiscal year 2020 exceeded \$3 billion, about a 50 percent increase in refund interest compared to fiscal year 2019.²² IRS data showed that increasing refund interest payments has been an ongoing issue for the past several years.

Challenges Processing Tax Returns during the 2021 Filing Season Led to Delays and Increased Costs

IRS Began the 2021 Filing Season with a Large Backlog of Returns from the Prior Year

IRS's ability to process returns was hindered, in part, due to the backlog of millions of unprocessed returns from the prior year. As we reported in

²⁰In this report, the term "errors" refers to returns stopped by IRS's Error Resolution System (ERS). ERS is a computer program that systematically identifies errors on tax returns that IRS must review and correct before it can continue processing the return. IRS has the authority to correct some types of errors; other errors require the taxpayer to provide additional information.

²¹IRS is generally required to pay interest on refunds of overpayment of taxes. 26 U.S.C. § 6611. Interest generally starts to accrue on overpayments when the overpayment is made. 26 U.S.C. § 6611(b). Income taxes deducted and withheld on wages are generally 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 statutory authority is used to postpone filing and payment deadlines due to a Presidential disaster declaration. 26 U.S.C. §§ 7508A(c), 7508(b). Under these rules, IRS may owe 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).

²²[GAO-21-251](#).

March 2021, the COVID-19 pandemic created challenges for IRS during the 2020 filing season because IRS had to close return processing centers and manage the filing season with reduced staff, particularly for in-person work.²³ We reported that, as of the end of December 2020, IRS had about 13.1 million unprocessed 2020 filing season returns.²⁴ By mid-February 2021, as the 2021 filing season began, IRS had reduced the backlog of unprocessed returns from 2020 to about 8 million. Therefore, IRS had to process the remaining backlogged returns and incoming 2021 returns simultaneously.

In March 2021, IRS officials said the need to process returns from both 2020 and 2021 was challenging. For example, the returns from 2020 had to be handled as prior year returns, and required manual, time-consuming coding and editing of return information in IRS's systems. IRS officials also said they had to train additional returns processing staff on processing prior year returns. In addition, IRS had to continually adjust staffing and prioritize workloads at processing centers to manage returns from both years.²⁵ As a result, from February to August 2021, IRS required returns processing staff to work 10 hours of overtime per week to help address the dual inventory of returns and correct returns suspended due to errors, as discussed later in this report.

IRS gradually reduced the backlog of returns from 2020 to about 1.2 million by the end of the 2021 filing season in mid-May (see figure 1). IRS reported that as of early June 2021, it had entered all of the individual returns it received in 2020 into its processing systems. Finally, in mid-

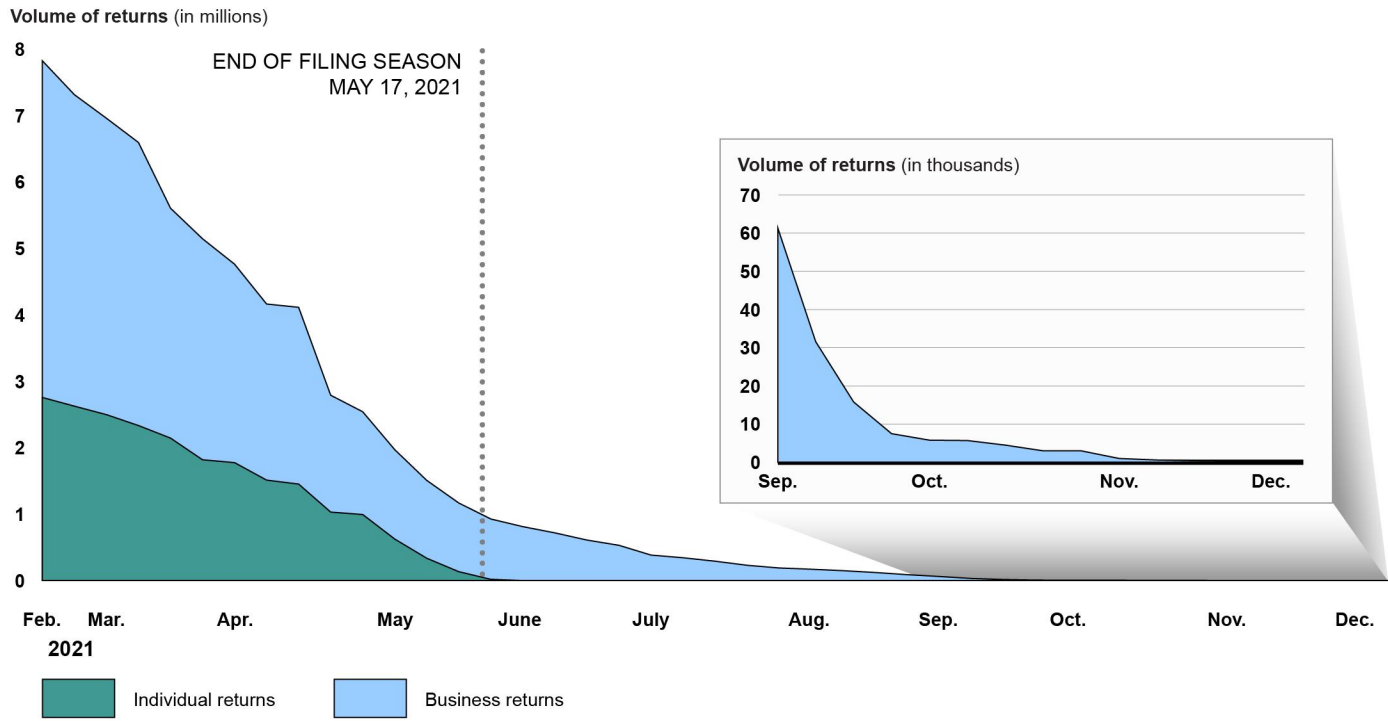
²³[GAO-21-251](#).

²⁴Unprocessed returns include those filed on paper or electronically that IRS received but had not fully processed. These include returns suspended due to errors, including math errors, an incorrect Social Security number, or potential fraud.

²⁵IRS used a first-in, first-out method to prioritize 2020 returns, meaning prior year returns received first were processed first. Since 2020 and 2021 returns were processed simultaneously, 2020 returns were not necessarily prioritized over 2021 returns due to the fact they were received first. Rather, IRS developed strategies to ensure both year returns could be processed in the order in which they were received. IRS officials also stated that in April and May 2021, they shipped backlogged 2020 returns between processing centers to better match workloads at each center with available resources.

December 2021, IRS completed entering all remaining business returns from 2020 into its systems for processing.²⁶

Figure 1: IRS Inventory of Backlogged 2020 Returns, February through mid-December, 2021



Sources: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

²⁶Once returns are entered into IRS's processing systems, the returns may still not be fully processed and refunds provided to the taxpayer if the return was stopped for various reasons, as described above.

Accessible Data Table for Figure 1

Week	Individual Return Inventory	Business Return Inventory	Total Backlog
2/19/2021	2,800,000	5,100,000	7,900,000
2/26/2021	2,600,000	4,700,000	7,300,000
3/5/2021	2,500,000	4,500,000	7,000,000
3/12/2021	2,300,000	4,300,000	6,600,000
3/19/2021	2,144,347	3,459,887	5,604,234
3/26/2021	1,817,844	3,326,072	5,143,916
4/2/2021	1,775,126	2,986,444	4,761,570
4/9/2021	1,511,983	2,649,954	4,161,937
4/16/2021	1,452,202	2,660,054	4,112,256
4/23/2021	1,030,603	1,759,081	2,789,684
4/30/2021	994,239	1,546,205	2,540,444
5/7/2021	625,127	1,344,712	1,969,839
5/14/2021	335,822	1,171,467	1,507,289
5/21/2021	133,797	1,033,616	1,167,413
5/28/2021	18,704	907,749	926,453
6/4/2021	0	811,570	811,570
6/11/2021	0	717,691	717,691
6/18/2021	0	609,794	609,794
6/25/2021	0	530,663	530,663
7/2/2021	0	383,647	383,647
7/9/2021	0	343,409	343,409
7/16/2021	0	291,450	291,450
7/23/2021	0	230,048	230,048
7/30/2021	0	189,407	189,407
8/6/2021	0	170,935	170,935
8/13/2021	0	148,792	148,792
8/20/2021	0	121,442	121,442
8/27/2021	0	88,705	88,705
9/3/2021	0	61,498	61,498
9/10/2021	0	31,627	31,627
9/17/2021	0	15,822	15,822
9/24/2021	0	7,553	7,553
10/1/2021	0	5,897	5,897
10/8/2021	0	5,763	5,763
10/15/2021	0	4,543	4,543

10/22/2021	0	3,037	3,037
10/29/2021	0	3,037	3,037
11/5/2021	0	1,056	1,056
11/12/2021	0	643	643
11/19/2021	0	457	457
11/26/2021	0	316	316
12/3/2021	0	316	316
12/10/2021	0	0	0

Note: Returns that have been entered into IRS's processing systems may not be fully processed and refunds provided to the taxpayer if the return was stopped due to, for example, an error or potential fraud.

However, IRS had about 10.5 million 2021 returns that had not been fully processed as of the end of the year. This was due to the additional workload of processing the 2020 backlog, along with other issues discussed in this report such as the high volume of returns with errors and staffing challenges. As a result, IRS will need to process millions of remaining returns from 2021 along with new incoming returns from 2022, and may need to rely on overtime to do so. See appendix II for additional information about returns processing during the 2021 filing season.

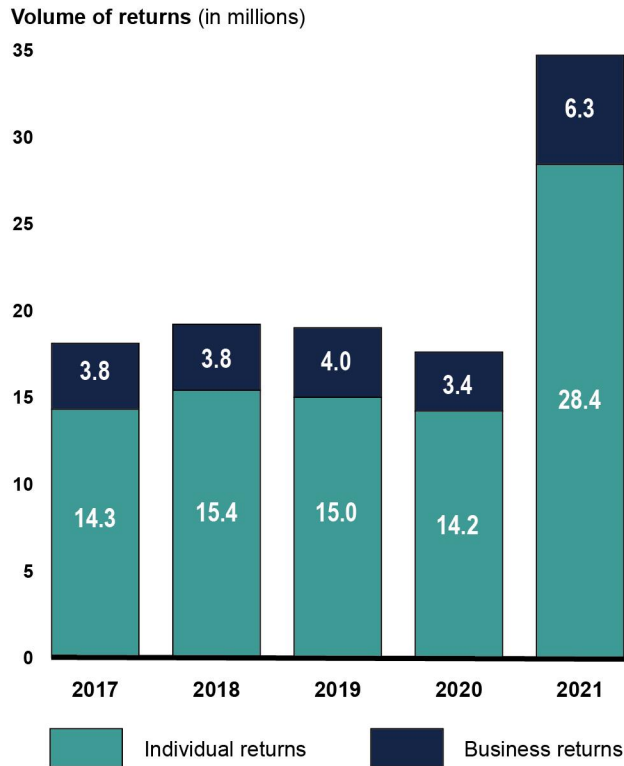
IRS Suspended Millions of Returns with Errors Related to Pandemic Relief, Leading to Processing and Refund Delays

From January to November 2021, IRS suspended a total of about 35 million individual and business returns in its Error Resolution System (ERS). As shown in figure 2, IRS suspended about 86 percent (16 million) more returns in ERS in 2021 compared to the average volume of returns with errors from 2017 to 2019, which were more typical filing seasons.²⁷ These returns were suspended because they contained errors that prevented IRS's systems from processing the returns automatically, such as math errors or discrepancies in income amounts reported on the taxpayer's return that did not match IRS records. To reconcile the errors, IRS staff review the suspended returns, which can take substantially longer than automated processing, and can result in delayed refunds to taxpayers.

²⁷For comparison, we calculated the average volume of returns in ERS from 2017 to 2019. We excluded 2020 from this calculation because it was an atypical filing season, due to the effects of the COVID-19 pandemic.

Letter

Figure 2: Total Volume of Returns IRS Suspended in Its Error Resolution System, Calendar Years 2017 through November 2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

Accessible Data Table for Figure 2

Year	Individual returns	Business returns
2017	14.3	3.8
2018	15.4	3.8
2019	15	4
2020	14.2	3.4
2021	28.4	6.3

Note: IRS’s Error Resolution System (ERS) is a computer program that systematically identifies errors on tax returns that IRS must review and correct before it can continue processing the return. IRS has the authority to correct some types of errors; other errors require the taxpayer to provide additional information. Data represent the total volume of returns IRS suspended in ERS during each calendar year. Data from 2021 are current as of November 27, 2021. The volume for 2021 may include returns from the 2021, 2020, or an earlier filing season because, according to officials, IRS cannot differentiate between current and prior year returns in ERS.

Recent Tax Law Changes Contributed to the Volume of Errors

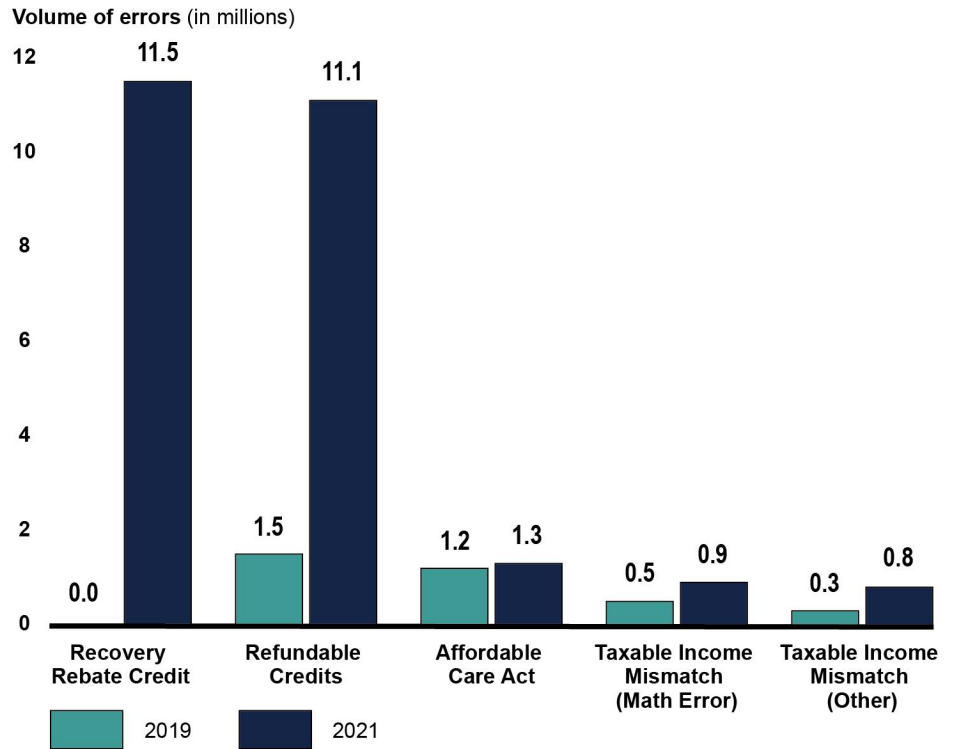
To understand the factors that contributed to the rate of errors on individual returns during the 2021 filing season, we analyzed IRS's data on individual return error codes.²⁸ We found that out of about 300 possible error codes for these returns, about 60 percent of the errors were associated with recent tax law changes to provide relief to taxpayers due to COVID-19.²⁹ These included the Recovery Rebate Credit (RRC) and changes to existing refundable credits including the Earned Income Tax Credit and the Child Tax Credit (see figure 3).³⁰

²⁸We could not analyze the most frequently occurring error codes for business-related returns because IRS does not collect these data. IRS officials said there are many business-related forms IRS processes, and each return has its own set of error codes. This makes it difficult for IRS to compare errors between forms.

²⁹These included the Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182, and ARPA, Pub. L. No. 117-2, 135 Stat. 4 (2021).

³⁰The Recovery Rebate Credit was new for the 2021 filing season and required taxpayers to report the total amount they received for two economic impact payments during 2020 on their individual return. To the extent the amount taxpayers received was less than the credit amount for which they were eligible, taxpayers could claim a credit for that amount. If the credit the taxpayer claimed exceeded the amount in IRS's records, IRS suspended the return for manual review.

Figure 3: Most Commonly Occurring Error Categories for Individual Tax Returns, 2019 and 2021 Filing Seasons



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

Accessible Data Table for Figure 3 (Part 1 of 2)

2019	
Recovery Rebate Credit	0
Refundable Credits	1.5
Affordable Care Act	1.2
Taxable Income Mismatch (Math Error)	0.5
Taxable Income Mismatch (Other)	0.3

Accessible Data Table for Figure 3 (Part 2 of 2)

2021	
Recovery Rebate Credit	11.5
Refundable Credits	11.1
Affordable Care Act	1.3
Taxable Income Mismatch (Math Error)	0.9
Taxable Income Mismatch (Other)	0.8

Notes: N = 33,761,285 errors within the most commonly occurring error as of 3 weeks after the end of the 2019 filing season (April 15, 2019) and the 2021 filing season (May 17, 2021), when IRS has

typically received most returns. The categories shown correspond to one error code each, with the exception of refundable credits, which combines nine error codes based on technical processing issues. IRS reported 308 unique error codes during those years. Because returns may contain multiple error codes, the volumes in the figure may be greater than the total number of returns suspended due to errors. Errors related to the Affordable Care Act occurred when the taxpayer did not submit Form 8962 showing proof of health insurance coverage during the tax year. Errors for taxable income mismatch (other) were due to an issue with IRS's systems, not necessarily taxpayer error.

Additionally, our analysis showed that some of the categories of errors that occurred during the 2021 filing season also occurred during the 2019 and 2020 filing seasons. For example, errors related to refundable credits were the second most commonly occurring error category in 2021 and 2020, and the most commonly occurring category in 2019. Recurrence of these errors suggests that taxpayers and paid preparers may be making the same errors each year when filing a return—such as those involving refundable credits—even during filing seasons that were not affected by late tax law changes.

In March 2021, IRS officials said that they anticipated an increase in errors during the 2021 filing season due to the RRC and other tax law changes, but not to the extent that occurred. Officials also stated that it is not unusual for the volume of errors to increase when new tax provisions or other changes are introduced because, for example, taxpayers may not be expecting a change on a tax form they have filed each year. IRS officials said some of the errors may have been due to changes in eligibility for the economic impact payments that occurred during the time IRS was issuing the payments in 2020. For example, taxpayers may have had a change to their family status in 2020, such as adding a child, that that could entitle them to a supplementary economic impact payment when they filed their tax return in 2021.

In addition, IRS officials said that IRS had the authority to correct returns with RRC errors during the 2021 filing season.³¹ However, because IRS officials were not expecting such a large volume of RRC errors, they did not set up the appropriate programming in IRS's systems to enable automated corrections. Additionally, these officials said that automated corrections can only be used for certain types of errors. Otherwise, the return must be manually reviewed by a tax examiner. As discussed above, tax examiners manually reviewed and corrected about 11.5 million

³¹IRS's math error authority allows it to correct some errors, where authorized by statute. 26 U.S.C. § 6213. For example, tax examiners may change a number to correct basic addition mistakes. In some cases, IRS can automate math error corrections without the need for manual review.

returns with the RRC error during the 2021 filing season. This, in turn, led to refund delays of up to several months for millions of taxpayers.³²

In December 2021, IRS officials provided documentation indicating that they expect about 21 million returns to be stopped for errors associated with recent tax law changes during the 2022 filing season.³³ To address this, officials said that they plan to adjust their systems for the 2022 filing season to automate selected ERS processing functions and identify returns that could be processed more quickly. According to IRS documentation, this will help to streamline the workflow and allow IRS to process returns with certain errors more efficiently.

IRS Lacks a Process for Analyzing Errors

During the filing season, IRS has tools available to help identify internal or technical issues causing errors, and resolve errors after they have occurred. For example, IRS's internal error reports enable officials to track error codes to identify and analyze trends. IRS uses error code information to determine if erroneous programming in its returns processing systems may have triggered the errors.

As of the end of the 2021 filing season in mid-May, IRS's inventory of returns being held in ERS was about 10.3 million. IRS used mandatory overtime and prioritizing returns in ERS to reduce the inventory to about 200,000 as of late December 2021. In November 2021, IRS officials described steps that they are taking to reduce the volume of RRC errors for the 2022 filing season. Specifically, beginning in late January 2022, IRS planned to mail letters to taxpayers with the total amount of their economic impact payments from 2021, so that taxpayers have the correct information when they file their return in 2022. IRS officials noted that they also plan to provide this information in taxpayers' online accounts by

³²Beginning in late July 2021, IRS's website stated that individual returns suspended due to RRC and refundable credit errors were taking longer than the normal 21 days to process, and that taxpayers should expect their return to be delayed for up to 120 days.

³³IRS projected that about 17 million returns filed during the 2022 filing season will be stopped for processing due to changes in the Child Tax Credit, and about 3.6 million returns will be stopped due to the new Refundable Child and Dependent Care Credit. IRS's projections also indicate that if a return is stopped for errors, the taxpayer may need to wait 3 to 6 months before receiving a refund. IRS's planned improvements to ERS processing is intended to shorten this timeframe for some taxpayers.

the start of the 2022 filing season.³⁴ Further, these officials stated that they have asked tax software providers to include clear instructions for entering RRC information in their tax return preparation software.

For errors that occur frequently each year, IRS does not have a process to identify and analyze their underlying causes. This limits IRS's ability to reduce instances of recurring errors and anticipate potential future problems. For example, factors such as taxpayer or paid preparer confusion with IRS's forms and related guidance, or unclear IRS communications may contribute to the volume of returns suspended due to errors. IRS officials said they currently do not investigate the underlying causes of errors because they cannot speculate about why errors occur based on the limited information provided in taxpayers' returns.

Recurring errors suggest that there are opportunities for IRS to better educate or communicate with taxpayers and paid preparers. We recognize that it may be difficult for IRS to analyze underlying causes of new errors during the first filing season in which it occurred, such as the RRC error during the 2021 filing season. However, for credits that will continue in subsequent filing seasons, such as the Earned Income Tax Credit, it is in IRS's interest to understand why errors occur so that it can determine what, if any, changes can be made to reduce errors in future years.

IRS's lack of a process to analyze the underlying causes of recurring errors increases the risk of future processing delays and disruptions associated with those errors. Further, it is inconsistent with IRS's strategic plans, which emphasize the importance of providing a high-quality customer experience and options to help taxpayers and tax professionals to resolve errors quickly without compounding issues over time.³⁵ Until IRS develops an effective process to identify and address underlying causes for errors within its control, taxpayers will continue to experience delayed returns and refunds. In addition, IRS risks creating a perpetual backlog of work that will be difficult to address before the start of the next filing season.

³⁴IRS must first authenticate the taxpayer's identity prior to setting up an online account on IRS.gov. Once the account is set up, the taxpayer's tax information is available in the online account.

³⁵Internal Revenue Service, *Taxpayer First Act Report to Congress* (Washington, D.C.: January 2021); and *IRS Strategic Plan, Fiscal Years 2018-2022* (Washington, D.C.: April 2018).

IRS Does Not Have a Process to Identify, Monitor, and Mitigate Issues Contributing to Billions of Dollars in Refund Interest Payments

IRS pays interest on taxpayers' refunds for the reasons described below (see table 1). In most cases, IRS can control its ability to meet normal refund processing timelines of 45 days or less to minimize paying interest on refunds.³⁶ For example, IRS can reassign returns processing staff to work on inventory with high volume to help process returns and deliver refunds to taxpayers as soon as possible. However, as detailed in table 1 below, IRS does not have control over other factors.

Table 1: Examples of Reasons That IRS Provides Interest Payments on Refunds

Category	Definition
Delay in IRS processing of taxpayer return	Under federal law, individual and business taxpayers are generally entitled to receive interest on their refund if IRS takes longer than 45 days to process the return and issue the refund. If the 45-day period is missed, interest generally begins to accrue from the normal due date of the return or the date the overpayment is made. Similarly, for returns that are filed late, interest begins to accrue 45 days after the taxpayer filed the return.
Amended returns	If taxpayers paid more taxes than were owed to IRS on a previously filed return, they are entitled to a refund. The taxpayer may have to file an amended return to claim the refund. IRS is generally required to pay interest on refunds owed to taxpayers on amended returns, typically computed from the normal due date of the return or the date the overpayment is made.
Tax law changes with retroactive benefits	Tax law changes may include provisions that allow taxpayers to file an amended return and claim retroactive tax benefits. The taxpayer may be entitled to the associated interest that has accrued since the overpayment was made. For example, the 2020 CARES Act allowed taxpayers to carryback any net operating loss arising in a taxable year beginning after December 31, 2017, and before January 1, 2021, to each of the five taxable years preceding the taxable year in which the loss arose. ^a
Presidential disaster declaration with delayed filing deadline	Under a federal disaster declaration, such as was used for the COVID-19 pandemic, or an extreme weather event such as a hurricane, the Secretary of the Treasury can delay a filing deadline. ^b Individual taxpayers are eligible for refund interest as far back as to the original filing deadline if the taxpayer files a return on or before the delayed deadline. For example, in 2020, a taxpayer who filed a return by the delayed deadline of July 15 and received a refund after the original April 15 deadline was entitled to interest calculated from the original April 15 deadline or the date of overpayment until the date of the refund.

³⁶Refund interest payments are a federal government expense paid out of the U.S. Treasury general funds. Circumstances created by the COVID-19 pandemic—including IRS office closures during 2020 and reduced staffing—made it difficult for IRS to meet this timeline during the 2020 filing season (see [GAO-21-251](#) for more information). These circumstances contributed to the increase in refund interest paid, as discussed below.

Disputes

When IRS takes an initial position that a tax benefit is not allowed, IRS may ultimately pay the taxpayer if it is determined that IRS's initial position was in error. For example, in 2018 the Supreme Court ruled that certain stock options granted to railroad employees should not have been taxed. As a result, those employees were eligible for tax refunds with interest.

Source: GAO analysis of Internal Revenue Service (IRS) documents and information. | GAO-22-104938

^aNet operating loss carrybacks are subject to 26 U.S.C. § 6611(f), which affects the determination as to when the overpayment is made and the interest period.

^bThe 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).

In March 2021, we reported that IRS paid a total of \$3.03 billion in interest on refunds to individual and business taxpayers in fiscal year 2020.³⁷ This was about a 50 percent increase compared to the \$2.06 billion in refund interest that IRS paid in fiscal year 2019. IRS officials told us that the increase in refund interest during fiscal year 2020 was due to circumstances out of IRS's control as a result of the COVID-19 pandemic. These circumstances included the postponed 2020 filing and payment deadline of July 15, 2020, and the requirement for IRS to pay more refund interest to individuals than initially expected due to the federal disaster declaration (see table 1).

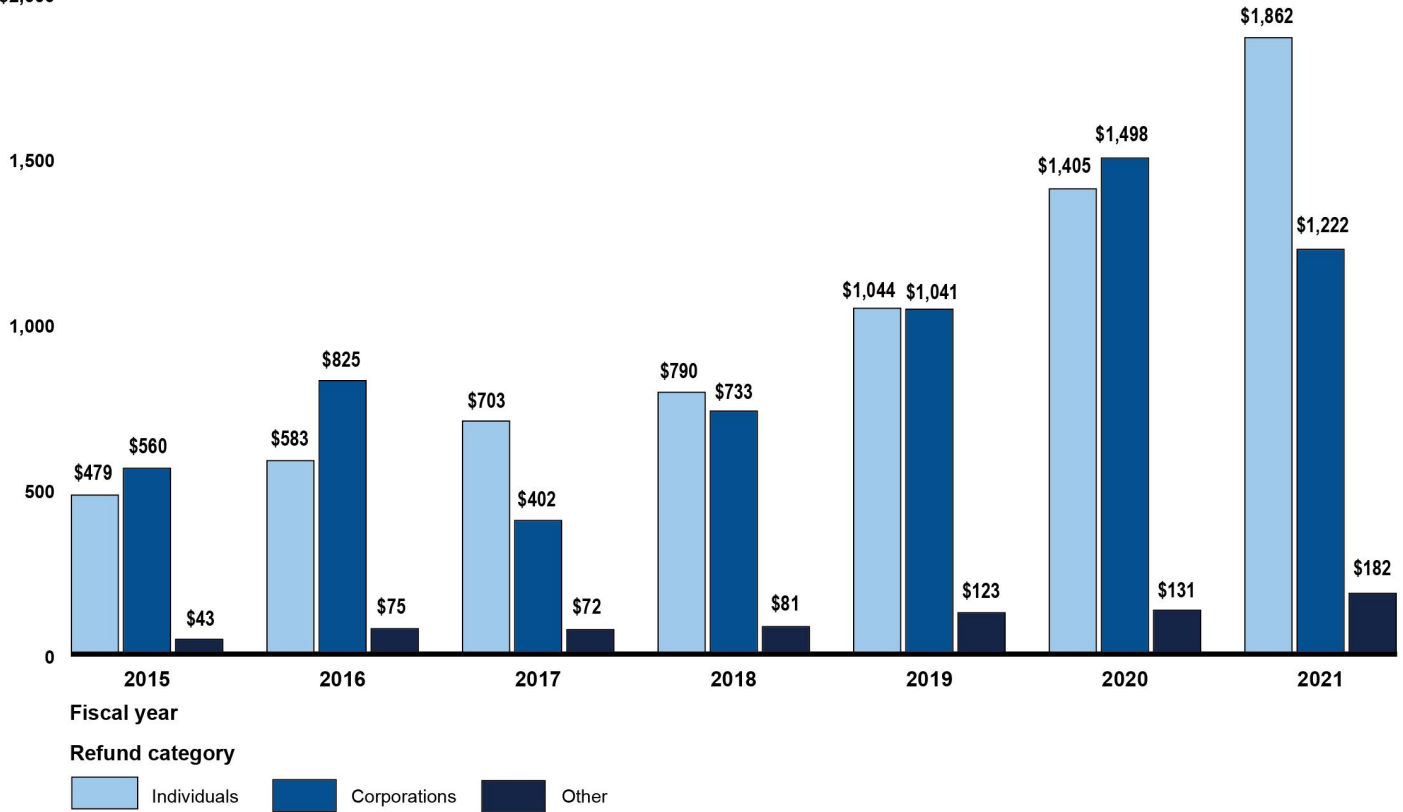
Total interest payments on refunds increased further in fiscal year 2021. IRS paid a total of \$3.27 billion in interest on refunds in fiscal year 2021, about an 8 percent increase over refund interest paid in fiscal year 2020. Figure 4 below shows the overall increase in total refund interest paid from fiscal years 2015 to 2021. In this 7-year period, IRS has paid a total of about \$13.85 billion in interest on refunds.

In addition, total interest on refunds paid to individuals during fiscal year 2021 increased by about 33 percent (\$457 million) compared to fiscal year 2020. Conversely, total interest on refunds paid to corporations during fiscal year 2021 decreased by about 18 percent (\$276 million) compared to fiscal year 2020.

³⁷[GAO-21-251](#).

Figure 4: Interest Paid on Individual and Business Refunds (in Millions), Fiscal Years 2015—2021

Interest paid on individual and business refunds (in millions)
\$2,000



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104938

Accessible Data Table for Figure 4

Fiscal year	Interest paid on individual and business refunds (in millions)		
	Individuals	Corporations	Other
2015	\$479	\$560	\$43
2016	\$583	\$825	\$75
2017	\$703	\$402	\$72
2018	\$790	\$733	\$81
2019	\$1,044	\$1,041	\$123
2020	\$1,405	\$1,498	\$131
2021	\$1,862	\$1,222	\$182

Note: Interest payments classified as “Other” include refunds on federal payroll and unemployment taxes, excise taxes, estate and gift taxes, and taxes on railroad retirement benefits. In the figure, refund interest amounts are associated with the fiscal year in which they were paid out.

IRS officials said that they try to monitor refund interest by monitoring how long it takes IRS to process individual and business returns. However, as discussed earlier in this report and in our 2020 filing season report, IRS has struggled to process some returns within 45 days.³⁸ In our 2020 report, we acknowledged that refund interest had grown in fiscal year 2020, primarily due to challenges exacerbated by the COVID-19 pandemic, such as reduced staffing and overall delays in returns processing during the 2020 filing season. However, IRS data show that increasing amounts of refund interest have been an ongoing issue for the past several years, even before the start of the pandemic.

To help understand the factors that may have contributed to increases in refund interest, we analyzed available data from IRS's Compliance Data Warehouse from October 1, 2014 through September 30, 2021.³⁹ The results of our initial analysis and related discussions with IRS officials identified several areas of interest.

- **A small volume of amended returns accounted for a large amount of refund interest dollars paid.** In fiscal year 2021, amended returns represented 42 percent of the total interest paid on refunds (about \$1.4 billion), and about 4 percent (2 million) of the total volume. This characteristic was most pronounced for corporate amended returns over the last 4 fiscal years. From fiscal years 2018 through 2021, corporate amended returns accounted for an average

³⁸GAO-21-251. Additionally in January 2022, we found that as of November 2021, the average time to process all carryback refunds for individual filers in 2021 was 165 days and 166 days for corporate filers. This required IRS to pay refund interest for processing in excess of 45 days. We recommended that IRS establish mitigation plans—including indicators, such as a threshold to initiate mitigation activities—to timely address any future challenges to processing applications for tentative refund on Forms 1045 and 1139 within the 90-day statutory requirement. IRS neither agreed nor disagreed with our recommendation, but stated that it will take the recommendation into careful consideration as it continues to make improvements to ensure that it can serve the future needs of the nation's taxpayers. See GAO, *COVID-19: Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies*, GAO-22-105291 (Washington, D.C.: Jan. 27, 2022).

³⁹For this analysis, we were unable to obtain the extent of data required to understand all characteristics of returns receiving refund interest, and other factors such as IRS's return processing cycle time. This is because some of the necessary data fields in IRS's Compliance Data Warehouse were not sufficiently complete and reliable. IRS has access to other data and systems that may allow it to analyze these data. For the trends we identified, we were only able to determine that payments were associated with particular characteristics but there may have been other characteristics also associated with those payments.

of about 61 percent of the total corporate refund interest paid (about \$683 million), and about 13 percent of the volume (about 22,500 returns).

From the data available for our analysis, we could not determine what portion of the refund interest paid on amended returns was due to processing delays, and therefore within IRS's control. However, it appears that at least some of the delays in processing amended returns—and the refund interest associated with those delays—can be linked to IRS's processes for managing amended returns. Unlike a typical tax return, IRS processes amended returns as taxpayer correspondence. As discussed later in this report, IRS's volume of correspondence has increased throughout 2021, leaving IRS with a backlog of amended returns to process just as the 2022 filing season was to begin. In addition, taxpayers may choose to file amended returns on paper, which may take longer to process. Also, tax law changes enacted in 2020 allowed corporations to deduct a larger portion of their carryback losses, which IRS officials said led to higher refund interest payments from amended returns.⁴⁰

- **Individual returns suspended for errors were not a major overall contributor to refund interest payments.** As discussed earlier, a large volume of returns were held for manual review due to errors during the 2021 filing season. IRS data show that during fiscal year 2021, individual returns held for manual review due to errors accounted for only about 6 percent (\$109 million) of individual refund interest.⁴¹ In comparison, returns in this category accounted for about 3 percent of total refund interest in fiscal year 2020, and an average of about 2 percent of total refund interest in fiscal years 2015 through 2019. This analysis indicates that delays in processing returns with errors during 2020 and 2021 have only slightly contributed to increases in interest paid on late refunds.

In November 2021, we reiterated our concern to IRS about the increasing amount of total interest paid on refunds and asked IRS officials what they are doing to monitor this issue. IRS officials said they do not monitor the reasons for refund interest paid each year because the agency does not

⁴⁰As part of the CARES Act, corporations were allowed to deduct larger amounts of their past business losses and the corporations could file amended returns to claim the deductions. The corporations were due refund interest on any additional refund amount.

⁴¹Our analysis was limited to individual returns held for manual review in IRS's Error Resolution System. We were unable to identify a reliable data field in IRS's Compliance Data Warehouse for errors on corporate and other business-related returns.

have a compelling business reason to do so. IRS officials said that they believe the majority of refund interest payments were due to factors outside of their control, such as interest associated with the postponed filing season deadlines due to the COVID-19 pandemic and legislative changes such as modifications to businesses' net operating losses.⁴² However, IRS officials could not provide data to support this assertion or the portion of refund interest payments that were due to return processing delays.⁴³

IRS officials stated that they believe their efforts to monitor refund timeliness—a factor within IRS's control—are sufficient to ensure that IRS is aware of delays in processing that could increase refund interest payments. However, IRS's weekly returns processing report monitors the average number of days IRS takes to process all individual returns, but does not differentiate processing times for returns with a refund versus those without. Additionally, IRS's refund timeliness report, another monitoring tool, does not allow IRS to identify the causes and amounts of refund interest within IRS's control since IRS does not connect its processing performance to resulting interest, if any. IRS's refund timeliness report also has the following key limitations:

- The report is typically updated only once a year.
- The report only includes information for individual returns, limiting IRS's ability to monitor refund timeliness for business-related returns, which accounts for about half of the refund interest paid each fiscal year.⁴⁴
- The report does not include average processing times for return categories that require extended processing times—including

⁴²As discussed above, the presidentially-declared disaster required IRS to make refund interest payments even where IRS processes the return in fewer than 45 days. Legislative changes may entitle taxpayers to additional refund amounts, and associated interest.

⁴³IRS officials stated that during fiscal year 2020, refund interest associated with the postponed filing season accounted for a "significant" portion of the individual refund interest. However, we determined that this amount—\$251 million—accounted for only 18 percent of the total refund interest paid to individuals.

⁴⁴In March 2021, we recommended that IRS track business refund processing, such as through IRS's weekly performance tracking. IRS disagreed with this recommendation. IRS stated that it tracks, and management uses, information on the timeliness of business refund processing. IRS officials added that a report to track business refunds will not be a useful mechanism for reducing interest on business refunds. We continue to believe this recommendation is valid, given the continued increase in business-related refund interest in fiscal year 2021.

backlogged returns, those in IRS's ERS, and those that are considered correspondence, specifically amended returns.

In December 2021, we met with officials from Treasury's Office of Tax Policy to understand the extent to which Treasury officials consider refund interest as a potential contributor to costs in the context of new tax legislation. Treasury officials said that when considering new tax legislation they are focused on larger issues like revenue—which can amount to trillions of dollars—rather than expenditures such as refund interest, which are small in comparison. Officials said that they rely upon IRS to track the amounts and reasons for refund interest payments.

We recognize that a portion of annual refund interest is required to be paid due to circumstances outside of IRS's control. Nevertheless, refund interest is an expense to Treasury and taxpayers, and managing returns with interest falls under IRS's purview. IRS does not fully understand the causes for refund interest payments—both within and outside of its control—and therefore cannot communicate this information to Treasury and Congress. Further, IRS has not established a mechanism to effectively identify, monitor, and mitigate issues contributing to refund interest payments, which over the last 7 years amounts to nearly \$14 billion.

Better understanding the causes for increasing refund interest payments would be consistent with IRS's strategic plan, which recognizes the importance of managing risks.⁴⁵ The plan states that IRS actively identifies and manages risks to the nation's tax administration system, and is committed to preventing and mitigating risk exposure to the agency in areas that could affect its ability to meet its mission, including serving as a responsible steward to taxpayer dollars. It is also consistent with *Standards for Internal Control in the Federal Government*, which call for agencies to communicate information about risks to external parties so that they can help the agency address them and achieve its objectives.

Without a process to better identify and monitor issues contributing to the need to pay refund interest during the fiscal year, IRS is not positioned to determine how it could adjust resources to prioritize returns and minimize interest payments. Additionally, communicating periodic information on the extent and reasons for refund interest payments may be useful to Congress to better understand the potential financial impact of, for

⁴⁵Internal Revenue Service, *IRS Strategic Plan, Fiscal Years 2018-2022* (Washington, D.C.: April 2018).

example, new tax legislation, and help Congress and other stakeholders evaluate whether there are actions they want to take to limit that impact. This includes, for example, whether to limit the availability of refund interest for retroactive tax law changes like net operating loss modifications contained in the CARES Act.⁴⁶

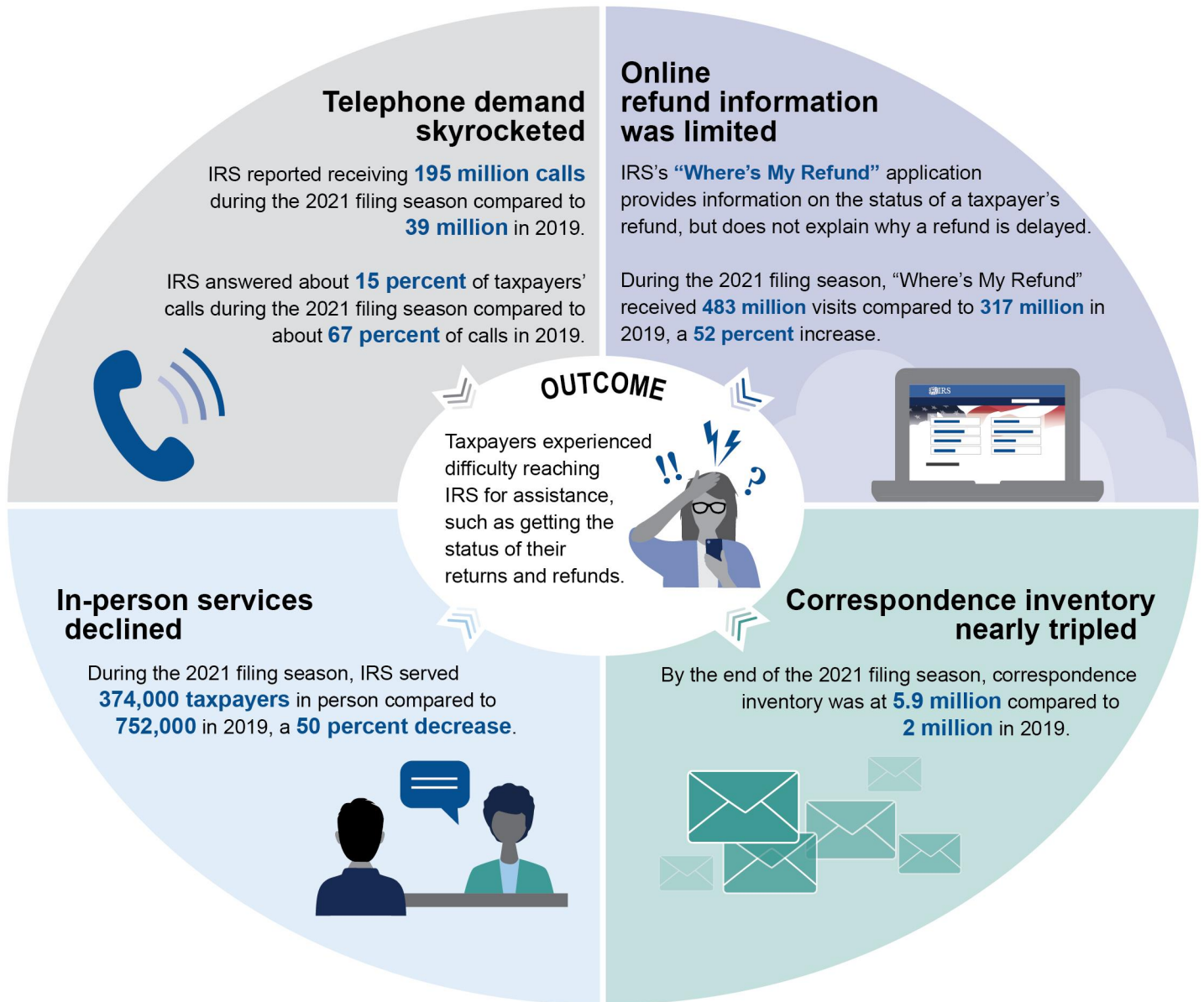
Taxpayers Struggled to Get Help from IRS during the 2021 Filing Season

Our review showed that taxpayers had a difficult time getting assistance from IRS during the 2021 filing season compared to the 2019 filing season.⁴⁷ As shown in figure 5, taxpayers had mixed success in reaching IRS for assistance on delayed refunds and returns via telephone due to high call volumes, and limited refund status information was available online. In addition, IRS's correspondence inventory continued to increase, and volumes of in-person service at Taxpayer Assistance Centers (TAC) saw significant decreases.

⁴⁶Pub. L. No. 116-136, § 2303, 134 Stat. 281, 352-56 (2020).

⁴⁷We compared IRS's performance in providing customer service during the 2021 filing season to the 2019 filing season because during the 2020 filing season, IRS offices were closed and customer service operations were suspended for several weeks due to the COVID-19 pandemic.

Figure 5: Challenges with IRS Customer Service during the 2021 Filing Season



Source: GAO analysis of Internal Revenue Service (IRS) data and image from stock.adobe.com. | GAO-22-104938

Note: Data are from January 1 each year through the end of the filing season. The 2021 filing season ended on May 17, 2021; the 2019 filing season ended on April 15, 2019. We compared IRS's performance in providing customer service during the 2021 filing season to the 2019 filing season because during the 2020 filing season, IRS offices were closed and customer service operations were suspended for several weeks due to the COVID-19 pandemic.

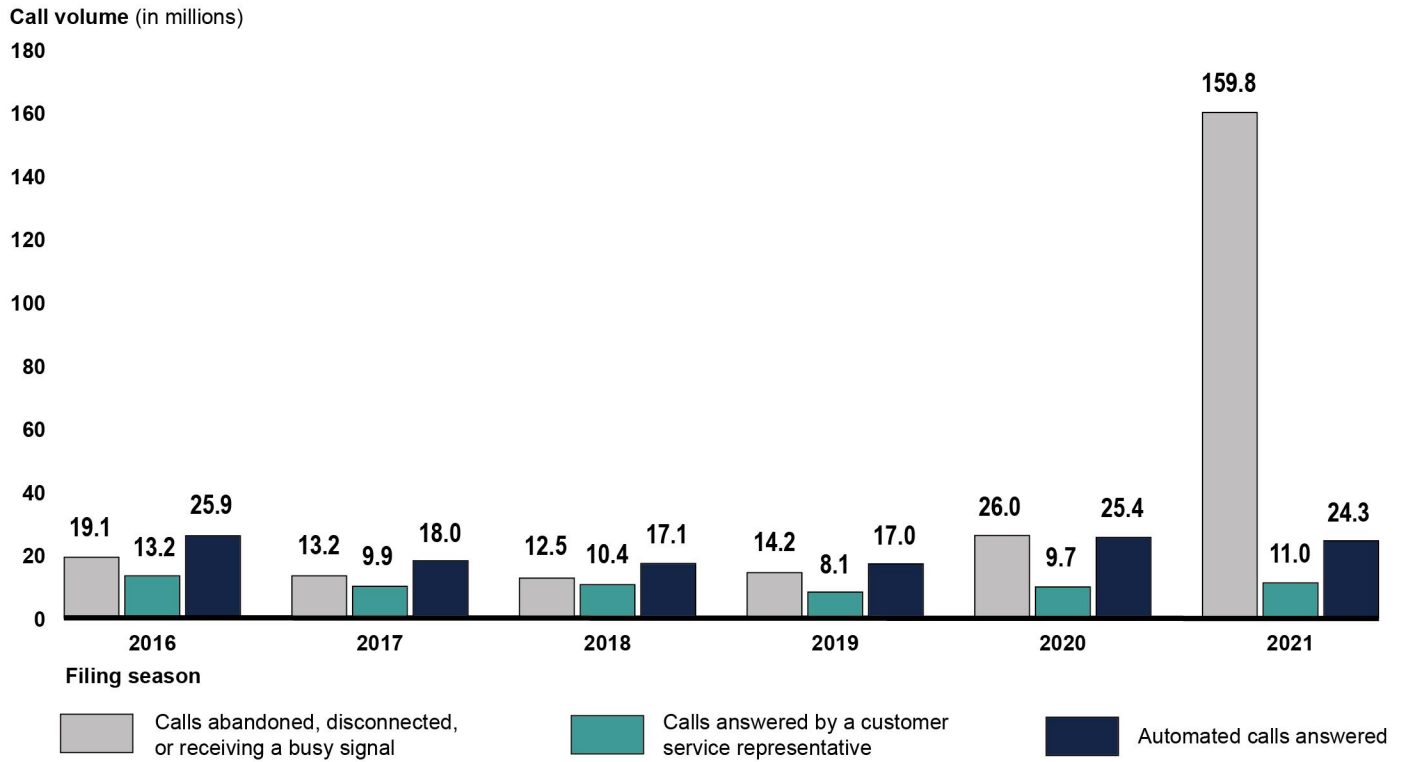
Taxpayers Had Difficulty Reaching IRS Customer Service Representatives on the Telephone

IRS answered more calls during the 2021 filing season than in the last four filing seasons, but an unprecedented increase in taxpayer inquiries by telephone resulted in a low level of taxpayer customer service overall. As shown in figure 6 below, customer service representatives (CSR) answered about 36 percent (2.9 million) more calls during the 2021 filing season, compared to the 2019 filing season. However, from January 1 to the end of the filing season on May 17, 2021, IRS received about 195 million calls from taxpayers seeking assistance compared to about 39 million calls during the same period in 2019, which is about a 400 percent increase.⁴⁸ Further, each filing season includes calls that ultimately do not get through to a CSR. During the 2021 filing season, about 159.8 million incoming calls did not reach IRS: 102.9 million calls (53 percent) that IRS disconnected due to lack of CSR availability, 52.5 million calls (27 percent) that the taxpayer abandoned, and 4.4 million calls (2 percent) that received a busy signal.⁴⁹

⁴⁸We calculated the total number of taxpayer calls as those (1) answered by a CSR; (2) that used IRS's automated tools such as automated account information; and (3) where either the taxpayer abandoned the call or received a busy signal, or IRS disconnected.

⁴⁹According to IRS's data, during 2 weeks in March 2021, incoming calls were disconnected due to extremely high volumes which caused IRS's telephone equipment to exceed capacity.

Figure 6: IRS Telephone Call Volume, Filing Seasons 2016 through 2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

Accessible Data Table for Figure 6

Filing season	Call volume (in millions)		
	Calls abandoned, disconnected, or receiving a busy signal	Calls answered by a customer service representative	Automated calls answered
2016	19.1	13.2	25.9
2017	13.2	9.9	18
2018	12.5	10.4	17.1
2019	14.2	8.1	17
2020	26	9.7	25.4
2021	159.8	11	24.3

Note: Telephone call data for the filing season are cumulative from January 1 of each year to April 23, 2016; April 22, 2017; April 21, 2018; April 20, 2019; July 15, 2020; and May 17, 2021, respectively. Numbers may not sum to totals due to rounding. Data from 2019 do not include calls answered by a customer service representative, those that received a busy signal, or calls disconnected because IRS was not answering calls due to a 5-week lapse in appropriations, which ended in January 2019. For 2020, live telephone assistance was unavailable between late March and late April due to IRS closing all processing and customer service sites during the COVID-19 pandemic. IRS re-opened live telephone assistance for identity theft-related issues on April 27, 2020, and began opening additional

phone lines on May 11, 2020. All customer service telephone lines were open during the 2021 filing season.

Additionally, figure 6 shows that taxpayers' use of automated call assistance increased by about 43 percent (7.3 million calls), compared to 2019. Using IRS's automated call services, taxpayers can listen to recorded information to help answer a tax law question or access automated account information such as a balance due.

During 2021, taxpayers had questions about ongoing and new issues, which prompted them to call IRS. For example, IRS officials attributed the overall high volume of incoming calls to the ongoing effects of the COVID-19 pandemic, including taxpayer questions about economic impact payments and delayed refunds. In July 2021, we recommended that IRS update relevant pages of its website to help explain the nature and extent of refund delays to taxpayers, and to help reduce the volume of incoming taxpayer calls about this issue.⁵⁰ Taxpayers also had questions about new provisions in the American Rescue Plan Act of 2021 (ARPA), which, among other things, changed how much taxpayers were required to pay in taxes on unemployment income earned in 2020, and established monthly advance Child Tax Credit payments for eligible taxpayers starting in July 2021.⁵¹

Although CSRs answered more calls overall during the 2021 filing season than in the last four filing seasons, officials stated that they still did not have enough staff to meet the demand for live taxpayer assistance. As discussed later in this report, IRS customer service officials said that they hired about 3,800 customer service staff by the end of the filing season. However, officials explained that new CSRs have about 14 weeks of training before they can work with taxpayers on the phone, meaning that these newly hired staff were unable to answer calls during IRS's busiest season. In addition, IRS officials said that the ongoing effects of the COVID-19 pandemic contributed to periods of reduced staffing and

⁵⁰GAO, *COVID-19: Continued Attention Needed to Enhance Federal Preparedness, Response, Service Delivery, and Program Integrity*, [GAO-21-551](#) (Washington, D.C.: July 19, 2021). IRS took action to address our recommendation before we issued our final report by updating relevant pages of its website in June 2021.

⁵¹ARPA, which was enacted about a month after the start of the 2021 filing season, excluded up to \$10,200 per person in 2020 unemployment compensation from taxable income calculations. The exclusion applied to individuals and married couples whose modified adjusted gross income was less than \$150,000. IRS performed manual adjustments on relevant returns that were filed prior to ARPA's enactment. Pub. L. No. 117-2, § 9042, 135 Stat. 4, 122 (2021).

unexpected attrition, which also affected IRS's ability to meet taxpayers' needs for live telephone assistance.

IRS data show that after the filing season ended, from July to September 2021, CSRs answered an additional 4.3 million taxpayer calls, which is slightly lower compared to the same time in 2019 (4.5 million calls). As of November 2021, IRS officials stated that based on current projections for the volume of incoming calls and staffing levels, IRS expects CSRs to answer about 35 percent of incoming calls during the 2022 filing season. This is substantially lower than IRS's benchmark for telephone level of service, which is between 70 and 80 percent.⁵² As we reported in January 2020, IRS last met this benchmark during the 2018 filing season.⁵³ However, IRS's ability to provide telephone customer service has recently declined due to the challenges described above, and in our other work.⁵⁴

IRS officials described additional services to help manage high call volumes during the 2022 filing season, including implementing an online chat function on IRS's website and expanding its telephone call-back feature. However, as discussed below, limited information online about refund delays as well as delayed processing and responses to correspondence, increased telephone calls to IRS as taxpayers sought information. Throughout the 2022 filing season, we will continue to monitor IRS's efforts to provide the level of telephone customer service that taxpayers and Congress expect.

⁵²In December 2012, we recommended that IRS develop a strategy that defines appropriate levels of telephone and correspondence service and wait times. In March 2021, we reported that IRS had taken steps to finalize a customer service strategy that defined appropriate levels of telephone and correspondence service and wait time. We reported that in January 2017, IRS conducted a benchmarking study that compared its telephone service, measures, and goals to comparable agencies and companies. Based on this study, IRS concluded that its ideal telephone level of service is between 70 and 80 percent, which optimizes a balance between telephone and correspondence service, including wait time and CSR availability. See GAO, *2012 Tax Filing: IRS Faces Challenges Providing Service to Taxpayers and Could Collect Balances Due More Effectively*, [GAO-13-156](#) (Washington, D.C.: Dec. 18, 2012).

⁵³GAO, *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). As we reported, IRS's telephone level of service was between 70 and 80 percent during the 2014, 2016, 2017, and 2018 filing seasons.

⁵⁴See [GAO-21-251](#), [GAO-21-551](#), and [GAO-20-55](#).

Most Taxpayers Do Not Find IRS’s “Where’s My Refund” Application Helpful and IRS Does Not Have Plans to Modernize It

Throughout the filing season, IRS consistently directed taxpayers to use IRS’s online application “Where’s My Refund” to get the most up-to-date return and refund status information.⁵⁵ However, as described below, “Where’s My Refund” provides limited information to taxpayers and taxpayers’ satisfaction with the application has declined. Further, IRS recognizes that “Where’s My Refund” has limitations, but it does not have plans to modernize the existing application. According to IRS officials, this is due to limited information technology resources funding to address the technical limitations of the application’s supporting infrastructure, or develop a new application.

According to IRS, “Where’s My Refund” is IRS’s most frequently used online service. Taxpayers accessed the application about 629 million times in 2021—a 71 percent increase compared to activity during 2019. Further, the number of times taxpayers accessed “Where’s My Refund” in 2021 was more than four times the volume of refunds that IRS processed (130 million), indicating that some taxpayers made multiple inquiries about the status of their refund.⁵⁶

We identified the following issues with the “Where’s My Refund” application:

Limited refund status information. After IRS verifies the taxpayer’s identity, “Where’s My Refund” displays one of three statuses: (1) return received, (2) refund approved, or (3) refund sent. In the “return received” phase, the taxpayer may also see a general message that IRS is

⁵⁵IRS communicated this information on IRS.gov and during on-hold messages on its toll-free phone line for taxpayers. Taxpayers can access “Where’s My Refund” at <https://www.irs.gov/refunds> or through IRS2Go, IRS’s mobile phone application. Taxpayers are required to provide information to verify their identity before accessing their return and refund status information in “Where’s My Refund.”

⁵⁶This basic calculation assumes that all taxpayers who received a refund accessed “Where’s My Refund.” However, taxpayers who received their refunds within the expected timeframe may not have accessed the application. Therefore, some taxpayers likely accessed the application multiple times to check on the status of a delayed refund. See also GAO, *Tax Administration: Taxpayer Input Could Strengthen IRS’s Online Services*, [GAO-20-71](#) (Washington, D.C.: Dec. 19, 2019).

processing their return. For returns where the refund has been sent, “Where’s My Refund” may also display information on the refund amount and any corrections IRS made to the return during processing.⁵⁷ However, “Where’s My Refund” does not provide taxpayers with additional status information between the “return received” and “refund approved” phases, which can take several weeks during a typical filing season. For example, the application does not alert the taxpayer if processing has been suspended due to an error or other reason and that the taxpayer should expect a delay in receiving their refund.⁵⁸

As previously discussed, millions of taxpayer returns were stopped for manual review during the 2021 filing season due to errors that prevented IRS’s systems from processing the returns automatically. In July 2021, IRS began posting regular updates on its “IRS Operations Status” web page, informing taxpayers that some returns may take up to 120 days or longer to process due to the need for IRS staff to manually review returns containing errors. This was a positive step in communicating general information to taxpayers on IRS’s processing delays. However, because taxpayers could not get detailed status information from “Where’s My Refund,” they continued to call IRS for live assistance, or in some cases filed a second return, which created additional work for IRS staff.

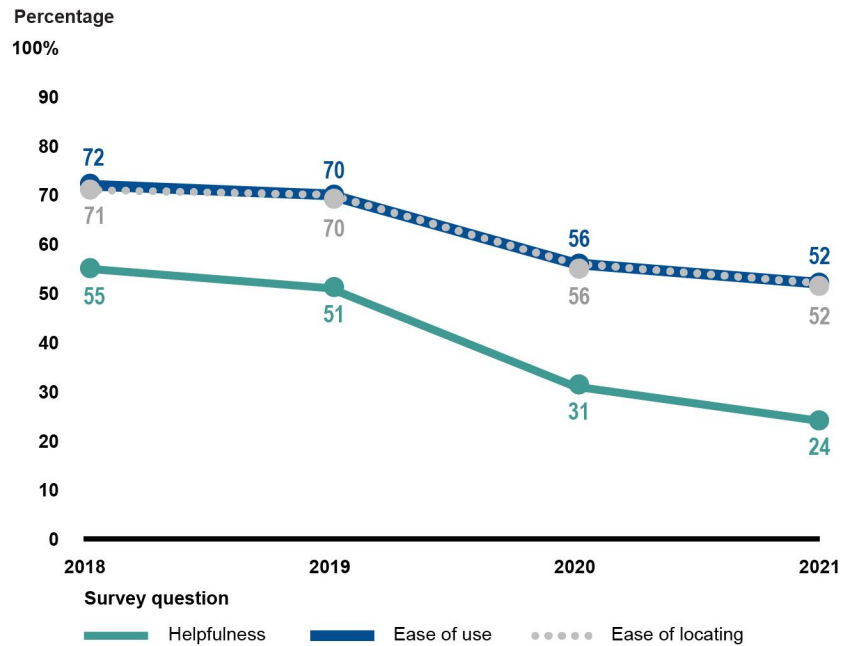
User satisfaction has declined. All taxpayers who access “Where’s My Refund” have the option of answering three user experience survey questions, including a question on how helpful the application’s

⁵⁷This may include corrections to the refund amount, which IRS can make using its math error authority. IRS must have statutory approval to use this authority, as discussed earlier in this report.

⁵⁸In its annual report to Congress, the National Taxpayer Advocate cited similar limitations with IRS’s “Where’s My Refund” application and the impact of the lack of useful refund status information on taxpayers and IRS. The National Taxpayer Advocate preliminarily recommended that IRS improve “Where’s My Refund,” IRS2Go (IRS’s mobile application), or online accounts by providing taxpayers specific information about the cause of processing delays and an estimated date when IRS might issue their refund. In response, IRS stated that they plan to perform research to help inform potential updates to “Where’s My Refund.” National Taxpayer Advocate, *Annual Report to Congress 2021*, (Washington, D.C.: Dec. 31, 2021).

information is regarding the status of their refund.⁵⁹ As shown in figure 7, results from IRS’s survey from January 2018 to October 2021 show that user satisfaction with “Where’s My Refund” has declined in all three areas—helpfulness of information, ease of use, and ease of locating the application. In 2018, about 55 percent of taxpayers who responded to the survey were satisfied with the helpfulness of the information provided in the application. That measure declined to about 24 percent satisfaction in 2021.

Figure 7: Percentage of Users Satisfied with IRS’s “Where’s My Refund” Application, January 2018 to October 2021



Sources: GAO analysis of Internal Revenue Service data. | GAO-22-104938

⁵⁹Taxpayers using the “Where’s My Refund” application must elect to take the survey; therefore, the survey results are not generalizable to all taxpayers who used the application from January 2018 to October 2021. The survey asks taxpayers to rate their satisfaction with: 1) the ease of locating the application on IRS.gov; 2) the ease of using the application; and 3) the helpfulness of the information received through the application. Responses were on a 5-point scale, ranging from “dissatisfied” to “satisfied.” According to IRS officials, the survey questions have not been modified since 2006.

Accessible Data Table for Figure 7

	Helpfulness	Ease of use	Ease of locating
2018	71	72	55
2019	70	70	51
2020	56	56	31
2021	52	52	24

Note: The total number of responses for all three questions was: 654,814 (2018); 669,361 (2019); 1,619,701 (2020); and 2,469,115 (through October 19, 2021). The survey questions ask respondents to rate their satisfaction with: 1) the ease of locating the “Where’s My Refund” application on IRS.gov; 2) the ease of using “Where’s My Refund;” and 3) the helpfulness of the information received through “Where’s My Refund.” The data represent survey respondents who said that they were either “satisfied” or “somewhat satisfied” in response to the questions above. Taxpayer responses of “no answer” were not included in this analysis.

In November 2021, IRS officials stated that due to the limited information in the survey results, they do not use it in a meaningful way. For example, the survey does not allow taxpayers to provide specific feedback on the reasons for their dissatisfaction with “Where’s My Refund,” so that IRS could identify improvements. IRS officials attributed the more recent overall decline in user satisfaction with “Where’s My Refund” to pandemic-related processing delays and taxpayers’ frustration with being unable to reach IRS for additional return or refund status information during the 2021 filing season. However, the “Where’s My Refund” survey results show that in the 2 years prior to the start of the pandemic, only about half of taxpayers reported being satisfied with the helpfulness of the information provided in the application. These data indicate the application had not been meeting user needs and expectations since before the pandemic—despite being one of IRS’s most commonly used applications.

In December 2019, we reported that although IRS utilized user surveys for some of its online services, those surveys were not specific enough to provide information on the extent to which all of IRS’s online services met user needs.⁶⁰ We recommended that IRS collect and report on the extent to which its online services are meeting user needs. In November 2021, we closed this recommendation because IRS provided evidence that it had implemented surveys for select online services that IRS officials said

⁶⁰GAO-20-71. Similarly, in September 2020, we found that IRS had measures and surveys related to taxpayer services and their satisfaction with them. However, these measures and surveys provided little direct information on whether the expectations about improving the taxpayer experience were being met. We made several recommendations to IRS on improving the taxpayer experience. GAO, *Taxpayer Service: IRS Could Improve the Taxpayer Experience by Using Better Service Performance Measures*, GAO-20-656 (Washington, D.C.: Sept. 23, 2020).

would allow it to better measure customer service experience. However, in December 2021, IRS officials said they have no immediate plans to update the “Where’s My Refund” user survey, but would consider doing so in the future.

IRS does not have plans to modernize “Where’s My Refund.” In October 2021, IRS officials acknowledged that “Where’s My Refund” has limitations due to its age and described some of the technical challenges associated with updating it. First, they said that the application is nearly 20 years old and the last time IRS made improvements that related to taxpayer experience—that is, changes that the taxpayer could see—was in 2013.⁶¹ Second, IRS officials said the current “Where’s My Refund” application is not capable of accessing the data sources that provide more detailed return processing status information, and modifying the existing application to include this information would be cost prohibitive.⁶² Finally, IRS officials raised concerns about balancing taxpayers’ need for additional refund status information in “Where’s My Refund,” and the risk of providing details that could be useful to fraudsters.⁶³

Further, IRS does not have plans to modernize “Where’s My Refund.” According to IRS officials, this is due to a lack of information technology resources and funding, and the technical limitations described above. During our initial discussions with IRS officials, they told us that providing additional detailed refund status information in the application, such as whether a return was suspended due to an error, was not possible without additional funding and resources. Later, however, IRS officials said that they planned to make some simple changes to the application in January 2022, prior to the start of the filing season. These included

⁶¹“Where’s My Refund” initially launched in 2002 and IRS officials said the application has always provided basic refund status information. IRS has implemented some changes to the application since 2002, including making the application accessible to mobile phone users in 2011. In 2013, IRS made improvements to allow for faster updates to the application for e-filed returns and a status tracker bar that shows the three phases, “return received,” “refund approved,” and “refund sent.”

⁶²IRS officials stated that this is due to challenges in upgrading its older returns processing IT systems, which IRS has been modernizing for many years.

⁶³IRS officials noted that providing more detailed refund information in “Where’s My Refund” increases risks to IRS and taxpayers and would require more robust taxpayer authentication to access the application. Further, doing so may prevent some taxpayers from getting their refund status information if they are unable to complete the authentication process. We have recently reported on IRS’s taxpayer authentication for the advance Child Tax Credit portal ([GAO-22-105051](#)). We continue to monitor IRS’s authentication efforts.

adding general, static messages on the “Where’s My Refund” status page so that taxpayers are aware of possible circumstances where their refund may be delayed, similar to the information IRS provides on processing delays on its website.

In addition, for taxpayers whose returns have taken more than 21 days to process, “Where’s My Refund” will include a link to IRS’s “Frequently Asked Questions” web page where taxpayers can read about general IRS processing delays. According to IRS officials, only such simple improvements are possible given the current technical limitations of the application. IRS also identified high-level efforts related to “Where’s My Refund” in its January 2021 *Taxpayer First Act Report to Congress*. For example, the report states that IRS intends to make the same information from “Where’s My Refund” available in the taxpayer’s online account, as well as send notifications about return status changes to the taxpayer’s mobile device.⁶⁴ However, these efforts do not change the extent or detail of return information currently provided through the “Where’s My Refund” application. As noted above, the lack of detailed information in the application has led taxpayers to call IRS for live assistance, or in some cases file a second return, which creates additional work for IRS staff.

IRS and Treasury appear to have differing views on modernizing “Where’s My Refund.” For example, in December 2019, Treasury identified “Where’s My Refund” as one of the department’s highest priority digital services in need of modernization.⁶⁵ However, as described above, as of January 2022, IRS does not have plans to modernize “Where’s My Refund.” Further, IRS did not identify modernization efforts for “Where’s My Refund” in its funding priorities for fiscal years 2022 through 2025, which indicates that any potential modernization activities may not occur until after 2025. In January 2022, we asked Treasury officials whether “Where’s My Refund” remains a high priority for modernization, as indicated in their 2019 report. Treasury officials stated that the application

⁶⁴As stated earlier, IRS must first authenticate a taxpayer’s identity prior to setting up an online account on IRS.gov. Taxpayers can use their online account to access their tax information, check a balance, make payments or set up a payment plan, among other services. IRS’s mobile application, IRS2Go, also allows taxpayers to check the status of their refund.

⁶⁵To improve federal agency digital services, the 21st Century Integrated Digital Experience Act required all federal executive agencies to report to Congress a prioritized list of their most-used digital services in need of modernization. Pub. L. No. 115-336, § 3(b)(2), 132 Stat. 5025 (2018).

remains a high priority for modernization, but they have not provided additional information on any planned modernization efforts, and referred us back to IRS. These disparate views indicate that Treasury's and IRS's priorities for modernizing "Where's My Refund" are misaligned.

The Office of Management and Budget's (OMB) Circular A-11 provides guidance to agencies on evaluating and improving the customer experience, which can increase citizens' satisfaction with, and trust in, the federal government.⁶⁶ For example, the guidance details how agencies can collect feedback from their customers through well-designed surveys and use this information to improve the customer experience. This guidance also emphasized the importance of service design and improvement using a customer-focused approach and leveraging current technology and leading practices to deliver more efficient and effective services.

We recognize that IRS has significant long-term efforts underway to modernize and upgrade its IT infrastructure and components.⁶⁷ Further, we understand that modernizing "Where's My Refund" will take planning and resources given the application's current technical limitations. Nevertheless, providing taxpayers with useful, current online information on their refund status is consistent with IRS's Taxpayer Experience Strategy, in which IRS has committed to providing a seamless online experience to taxpayers by providing services through the channel of the taxpayer's choice. Such a commitment assumes that the information available to taxpayers is the same whether they call IRS or use an online application. However, this is not the case currently with "Where's My Refund." Finally, any decrease in the number of taxpayer calls requiring live assistance will also reduce costs to IRS. IRS data from fiscal years 2018 and 2019 show that, on average, calls answered by a CSR cost about \$60, compared to about 19 cents for each online service transaction, such as using "Where's My Refund" or making an online payment.

⁶⁶Office of Management and Budget, *Preparation, Submission and Execution of the Budget*, Circular No. A-11, pt. 6, § 280 (August 2021).

⁶⁷GAO, *Information Technology: Cost and Schedule Performance of Selected IRS Investments*, [GAO-22-104387](#) (Washington, D.C.: Oct. 19, 2021); *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).

Without clear leadership direction, and a plan and timeline for modernizing “Where’s My Refund”—and taking into account taxpayer expectations for information—IRS will not be positioned to better serve taxpayers in the future. Further, it will be difficult for IRS to reduce the burden of additional workload on IRS staff and associated costs when taxpayers call or write IRS when they cannot get the information they need through “Where’s My Refund.”

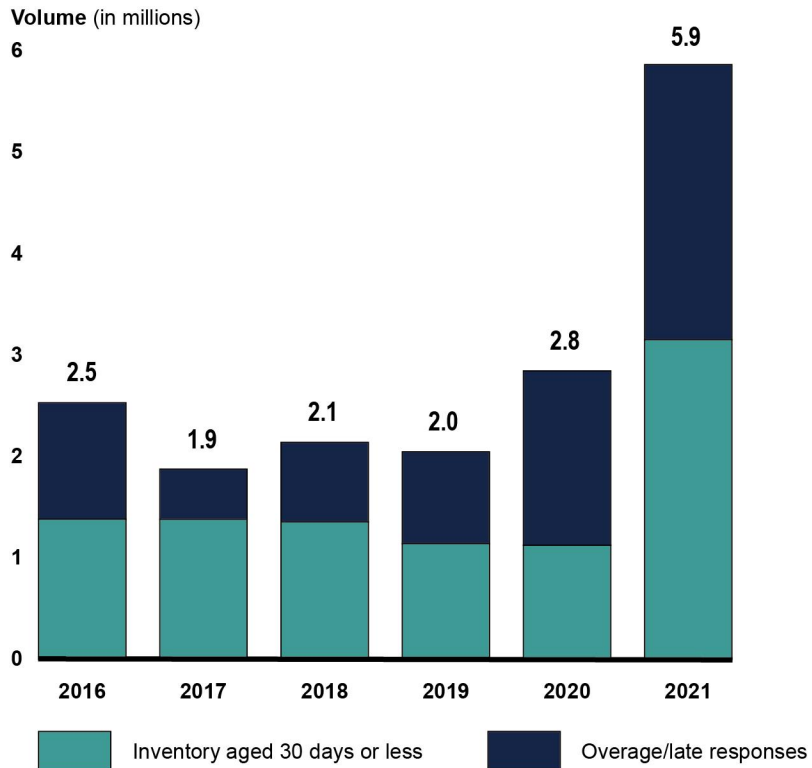
IRS’s Inventory of Taxpayer Correspondence Has Increased Due to Competing Demands for Customer Service

Throughout the 2021 filing season, IRS’s inventory of individual and business-related taxpayer correspondence continued to increase.⁶⁸ This was due to increased demand for live telephone assistance and because the rate of incoming correspondence outpaced how many existing correspondence cases CSRs could address. As discussed below, many CSRs are responsible for both telephone and correspondence duties. Due to the high demand for live phone assistance during the 2021 filing season, IRS prioritized answering calls over responding to taxpayer correspondence.

IRS’s inventory of taxpayer correspondence as of the end of the 2021 filing season was nearly three times the average inventory compared to the same time from 2016 through 2019 (see figure 8). Further, about 46 percent (2.7 million pieces) of 2021 taxpayer correspondence was overage as of the end of the 2021 filing season.

⁶⁸Inventory reflects all paper and digital correspondence from taxpayers that IRS received but had not yet provided a response.

Figure 8: IRS Correspondence Inventory and Overage Rates (Late Responses), as of the End of the Filing Season, 2016—2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

Accessible Data Table for Figure 8

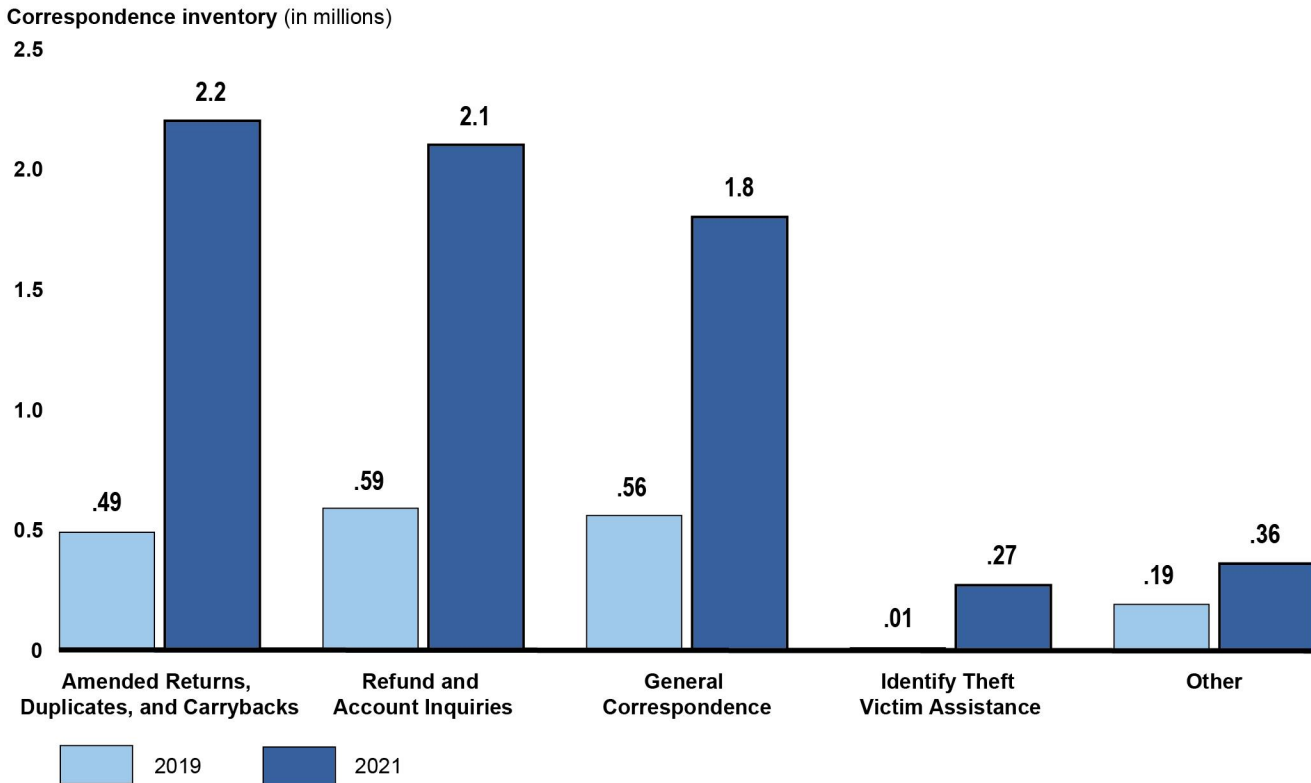
	Inventory aged 30 days or less	Overage/late responses
2016	1,381,148	1,146,634
2017	1,378,909	495,403
2018	1,351,867	786,316
2019	1,138,226	906,219
2020	1,123,900	1,719,612
2021	3,149,028	2,714,301

Note: IRS’s policy is to generally respond to correspondence within 30 days of receipt, but it may take longer than 30 days to respond to taxpayer correspondence depending on the type and complexity of the issue. IRS generally considers correspondence that is older than 45 days to be “overage.” Data reflect individual and business-related correspondence in IRS’s inventory as of the end of the filing seasons shown above: April 23, 2016; April 22, 2017; April 21, 2018; April 20, 2019; July 18, 2020; and May 22, 2021, respectively. Inventory reflects all paper and digital correspondence IRS received but had not yet provided a response. Note that 2020 inventory does not reflect all taxpayer correspondence IRS received during 2020 due to IRS’s mail backlog (see [GAO-21-251](#)). As a result, some correspondence received in 2020 is reflected in the 2021 inventory.

For further context, we analyzed the distribution of taxpayer correspondence inventory by category for fiscal years 2019 and 2021. As shown in figure 9 below, the majority of IRS's correspondence inventory during fiscal year 2021 included (1) amended and duplicate returns and carrybacks; (2) refund and account inquiries; and (3) general correspondence.⁶⁹ Across these three categories, the fiscal year 2021 correspondence inventory was about 270 percent higher (4.4 million) compared to fiscal year 2019. Additionally, IRS's inventory of correspondence related to identity theft issues was about 20 times larger as of the end of fiscal year 2021 (273,000) compared to fiscal year 2019 (14,000).

⁶⁹A carryback is when a business taxpayer experiences a net operating loss and requests that IRS apply that loss to a prior year's tax return, resulting in a refund of previously paid taxes.

Figure 9: IRS Correspondence Inventory by Category, Fiscal Years 2019 and 2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

Accessible Data Table for Figure 9

Correspondence inventory category	2019	2021
Amended Returns, Duplicates and Carrybacks	481,983	2,229,904
Refund and Account Inquiries	586,410	2,053,868
General Correspondence	564,856	1,757,162
Identify Theft Victim Assistance	14,502	273,450
Other	186,882	357,233
Amended Returns, Duplicates and Carrybacks	481,983	2,229,904

Note: We define taxpayer correspondence as written communication from individual and business taxpayers as well as work internally generated by IRS employees. An amended return is a form a taxpayer files to make a change to a previously filed return. Generally, the amended return must be filed within 3 years of the date the original return was filed or within 2 years of paying the tax, whichever is later. A duplicate return is when a duplicate or amended return posts to an account with an original return. A net operating loss carryback is when a business taxpayer experiences a net operating loss and requests that IRS apply that loss to a prior year's tax return, often resulting in a refund of previously paid taxes. General correspondence includes taxpayer responses to IRS requests for information or data, and responses to IRS notices. The identity theft category includes instances where taxpayers notify IRS that they have been the victim of identity theft refund fraud and IRS researches the issue.

During our review, IRS officials described several reasons for the increase in the volume and types of backlogged correspondence:

- **Duplicate Returns.** As a result of delayed processing of returns filed in 2020 and 2021, some taxpayers filed a second return because they could not get information on the status of their initial return and refund, and were concerned that IRS had not received the initial return.
- **Amended Returns.** The increase in amended returns was likely due, in part, to new provisions included in pandemic relief legislation. Under provisions in the CARES Act, some taxpayers filed amended returns to claim net operating loss carrybacks in 2018, 2019, or 2020. In addition, ARPA, which was enacted a month after the filing season began, included changes to the amount of taxable unemployment income for 2020 which prompted some taxpayers to file an amended return.
- **Refund Inquiries.** According to IRS officials, IRS received more refund and account inquiries by correspondence because taxpayers could not reach a CSR on the phone for information on the status of their return or refund, and could not get detailed information online; therefore, taxpayers tried to reach IRS by mail.

IRS's different customer service options are interdependent, often sharing the same staff. As we have reported in prior years, IRS has struggled to balance competing demands for maintaining quality customer service levels via telephone and timely written correspondence because many CSRs are responsible for both telephone and correspondence duties.⁷⁰ As a result, IRS's ability to respond to correspondence in a timely manner is dependent on the volume and length of telephone calls answered by CSRs and the volume of calls that are addressed through self-service options including automated telephone lines and online tools. Further, as discussed earlier, when taxpayers cannot find the information they need using IRS's online resources such as "Where's My Refund," they will call IRS or send inquiries through the mail.

In November 2021, IRS officials told us they were continuing to work through the correspondence inventory, which by that time had grown to about 7.8 million with about 57 percent (4.5 million) of it overaged. IRS officials stated that they were continuing to rely on overtime, training additional staff to help work through some types of correspondence

⁷⁰See [GAO-21-251](#); [GAO-20-55](#); and 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).

inventory such as identity theft, and were hiring additional staff, as discussed later in this report. Nevertheless, millions of taxpayers continue to wait for IRS to process a wide range of correspondence, including amended returns, and to review documentation related to resolving identity theft issues, both of which may result in a refund to the taxpayer.

The extent of IRS's correspondence inventory as of January 1, 2022, was 8.2 million, a backlog that IRS will need to address during the 2022 filing season. Further, IRS's data from early January 2022 showed that IRS expects its correspondence inventory to exceed 10 million by the end of fiscal year 2022. This is more than five times IRS's inventory of correspondence as of the end of fiscal year 2019 and more than three times the inventory as of the end of fiscal year 2020. This backlog will be difficult to manage as IRS balances prioritizing telephone calls from taxpayers with reducing the volume of correspondence such as amended returns from 2021 and incoming correspondence for 2022.

IRS's strategic plan states that it is committed to improving all taxpayer services—including correspondence—to reduce taxpayer wait times and increase service transparency.⁷¹ However, such improvements may take time. *Standards for Internal Control in the Federal Government* state that management should use quality information to make informed decisions and evaluate the agency's performance in achieving key objectives and addressing risks.⁷² Given that IRS regularly monitors its correspondence inventory, estimating time frames for when different categories of the correspondence backlog will be resolved—and communicating this information to taxpayers—would increase transparency about delays. Developing estimates may also help IRS determine how best to allocate finite resources to support its various customer service functions.⁷³

⁷¹Internal Revenue Service, *IRS Strategic Plan, Fiscal Years 2018-2022* (Washington, D.C.: April 2018).

⁷²[GAO-14-704G](#).

⁷³In a 2021 report to Congress, the National Taxpayer Advocate highlighted how IRS's workload has increased by 19 percent since fiscal year 2010, while IRS's baseline appropriation on an inflation-adjusted basis has decreased by nearly 20 percent during the same time period. Further, full-time equivalent staffing levels have fallen by nearly 17 percent during this time. In the report, the National Taxpayer Advocate stated that to meet taxpayer needs, IRS requires substantial additional funding to timely process returns, address taxpayer correspondence, answer taxpayer telephone calls, and develop robust online services. National Taxpayer Advocate, *Annual Report to Congress 2021*, (Washington, D.C.: Dec. 31, 2021).

Federal internal control standards also state that management should externally communicate necessary quality information to achieve the entity's objectives. As such, IRS should continue to communicate and update clear, accurate information to taxpayers on IRS.gov about its time frames for resolving correspondence. Without clear, timely information on IRS's processing time frames for addressing taxpayer correspondence, taxpayers may lack information on when they should reasonably expect a response—or a refund—from IRS. Without this information, taxpayers will continue to call, write, or visit IRS in person to get information about the status of their amended return, identity theft issue, or other refund and account issues associated with correspondence it sent to IRS months ago.

In-Person Taxpayer Service Volume Has Declined in Recent Years

Our analysis of IRS data on the volume of taxpayers visiting a TAC shows a gradual decline in visits since 2015, even prior to the COVID-19 pandemic.⁷⁴ As seen in figure 10 below, during calendar year 2015, IRS served about 5.5 million taxpayers in person; this volume dropped by an average of about 800,000 taxpayer interactions annually from 2016 to 2019. From 2019 to 2020, in-person visits declined by about 70 percent (1.6 million). The total volume of taxpayers served in-person further declined to about 700,000 during 2020, and was about 1 million during 2021. In June 2021, IRS officials stated that the ongoing effects of the COVID-19 pandemic, along with increased service options available to taxpayers via the phone and online, primarily accounted for the overall decline in in-person service volume in 2020 and 2021, compared to prior years.⁷⁵ For example, during 2020, IRS officials told us that they

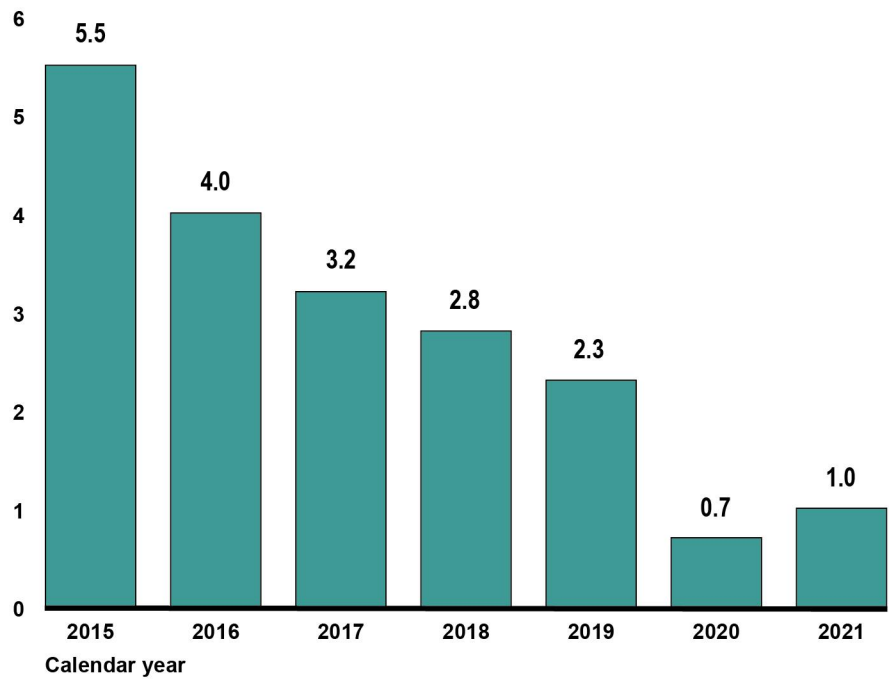
⁷⁴IRS's 358 TACs are located across the United States and in Puerto Rico. Taxpayers are generally required to make an appointment to receive in-person assistance. IRS Field Assistance staff provide various in-person services, including authenticating taxpayers whose returns have been held for potential identity theft, assisting taxpayers applying for an Individual Taxpayer Identification Number, issuing overseas travel permits, handling cash payments from taxpayers, and providing taxpayer assistance with account adjustments and economic impact payments.

⁷⁵GAO-21-251. As we previously reported, from late March 2020 to late June 2020, IRS closed all TACs and halted in-person customer service functions due to the pandemic. IRS gradually resumed in-person services during 2020. As of early December 2020, IRS reported that 76 percent (272) of TACs were open and 24 percent (86) were closed due to staffing challenges related to COVID-19, including a high number of staff with high-risk medical conditions, as well as staffing issues unrelated to the pandemic.

authenticated certain taxpayers via phone or online rather than requiring in-person identity verification.

Figure 10: Volume of Taxpayers IRS Served In-Person at Taxpayer Assistance Centers, 2015 through 2021

Number of taxpayers visiting taxpayer assistance centers (in millions)



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

Accessible Data Table for Figure 10

Filing Season	Number of visits (original data)
2015	5,473,951
2016	4,008,495
2017	3,150,189
2018	2,789,637
2019	2,296,420
2020	700,519
2021	1,039,000

IRS service changes led to recent declines in the volume of in-person service. IRS data show that taxpayer visits to TACs declined by about 58 percent (3.2 million) from 2015 to 2019. As we reported in January 2020, this decline was primarily due to its shift from walk-in

service to appointment-only service.⁷⁶ Beginning in 2016, IRS required taxpayers to call IRS to schedule an appointment to visit a TAC for assistance.⁷⁷ The appointment system eliminated the need for taxpayers to wait in line at a TAC, and offered an alternative option to address their questions on the phone. As we reported in prior years, IRS officials told us that about half of the taxpayers who called IRS to schedule an appointment at a TAC end up not needing the appointment because CSRs were able to resolve the taxpayer's issue over the phone.⁷⁸ In September 2021, IRS officials stated that this continued to be the case in 2020 and 2021. However, as discussed below, taxpayers faced challenges scheduling appointments via telephone. IRS officials also noted that only selected IRS services—overseas travel permits, large cash payments, and some taxpayer authentication services—require that the taxpayer appear in-person at a TAC.⁷⁹

The COVID-19 pandemic introduced challenges resulting in further declines in the volume of in-person service. During 2021, IRS's in-person services took longer to resume full operations compared to IRS's other customer service and returns processing functions. Specifically by February 1, 2021, IRS required all mission-essential customer service and returns processing staff who were on paid weather and safety leave to report to the office.⁸⁰ In contrast, by May 24, 2021—one week after the end of the filing season—IRS required Field Assistance employees who were teleworking or on paid weather and safety leave to report to their official duty station to provide in-person taxpayer services. IRS officials stated that as of September 2021, all but 15 TACs (343 out of 358) were

⁷⁶GAO-20-55.

⁷⁷IRS allows for limited exceptions for walk-in service without an appointment. During the pandemic, walk-in service was further limited to hardship-only cases.

⁷⁸See GAO-17-186, GAO-18-471, and GAO-20-55.

⁷⁹Tax law generally requires that both resident and nonresident aliens obtain a certificate of compliance, known as a sailing permit, to ensure that their outstanding U.S. tax obligations have been satisfied prior to departing the country. 26 U.S.C. § 6851(d); 26 C.F.R. § 1.6851-2.

⁸⁰GAO-21-251. 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 (2016), which mandated new categories of paid leave including “weather and safety leave.” An agency may use this leave category if a condition prevents employees from safely traveling to or performing work at an approved location. 5 U.S.C. § 6329c(b). From late March 2020 to the end of the filing season in mid-July 2020, on average about 69 percent of Field Assistance hours were charged to weather and safety leave.

open to assist taxpayers. However, officials described additional challenges to providing taxpayers with in-person service, including that taxpayers had difficulty reaching IRS on the telephone to make an in-person appointment at a TAC. This was due to the unprecedented demand for telephone assistance, as discussed earlier in this report.⁸¹ IRS officials also stated that CSRs have been able to see fewer taxpayers at TACs, in part, due to required cleaning protocols in between appointments.

IRS Has No Plans to Assess its Current In-Person Service Model

During our review of the 2021 filing season, we asked IRS officials whether IRS has plans to review and reassess its model for in-person taxpayer services, given the decline in the number of taxpayers served over the last several years and IRS's expansion of online service options. IRS officials stated they did not plan to alter in-person taxpayer services from the current model, unless required by Congress, regardless of taxpayer demand for in-person services.

Nevertheless, IRS continues to propose enhancements to its current services that could affect how effectively it can provide in-person service. For example, IRS plans to expand customer service options that further contribute to declining in-person service requiring live face-to-face interaction at its centers. IRS's January *2021 Taxpayer First Act Report to Congress* identified several strategies to help IRS expand taxpayer service options to meet taxpayers' expectations.⁸² In the report, IRS describes high-level plans to implement online self-service tools at all TACs, such as digital kiosks, and artificial intelligence-powered digital appointments to allow taxpayers to speak with an IRS specialist at any

⁸¹During the 2021 filing season, about 82 percent of incoming calls were either disconnected or abandoned, or received a busy signal due to unprecedented volumes. Because of this, taxpayers trying to make an appointment at a TAC may have been unable to reach IRS to do so. Further, taxpayers experienced longer than normal wait times when calling to make an appointment at a TAC since all phone calls go through IRS's central phone system.

⁸²Taxpayer First Act of 2019, Pub. L. No. 116-25, 133 Stat. 981 (2019). The Taxpayer First Act requires IRS to develop a comprehensive customer service strategy that includes best practices similar to those provided by private industry to meet taxpayers' reasonable expectations, including expanded online services, telephone callback services, and employee training.

location or schedule an appointment with an employee to resolve a taxpayer's issue. In addition, the plan states that IRS intends to more broadly implement video conference appointments for taxpayers so that they can work with an IRS specialist using a computer, tablet, or mobile phone from the taxpayer's home.⁸³

IRS will also be required under the act to assess opportunities to co-locate services with other federal agencies such as post offices, U.S. embassies, and the Social Security Administration.⁸⁴ According to IRS officials, as of September 2021, IRS has provided partial funding for virtual face-to-face and co-location of IRS in-person services with other federal agencies. However, these efforts will require additional funding through fiscal year 2025 to be implemented as planned, according to IRS.

OMB Circular A-11 provides guidance to agencies on evaluating and improving the customer experience, and notes the importance of providing services through multiple channels to ensure they are equitable and effective, particularly for taxpayers who do not have or are unable to use information technology tools.⁸⁵ We recognize that providing live, in-person taxpayer services is one way that IRS can help ensure that all taxpayers have access to the services they need. At the same time, OMB guidance calls for agencies to use an iterative approach to continuously improve services, using data and measurement tools and input from customers.

IRS has committed to expanding customer service options for taxpayers and providing new points of access, as shown by its efforts to establish a dedicated office for taxpayer experience and develop initial plans for improvements. However, IRS's plans do not acknowledge how, if at all, IRS's current model for in-person service at more than 300 TACs

⁸³IRS's Office of Appeals conducted a pilot between fiscal years 2017 and 2018 using video conferencing software as a way for Appeals Officers who volunteered to participate to conduct video conferences with taxpayers in lieu of a telephone conference. GAO, *Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services*, [GAO-20-71](#) (Washington, D.C.: Dec. 19, 2019); and *Tax Administration: Opportunities Exist to Improve Monitoring and Transparency of Appeal Resolution Timeliness*, [GAO-18-659](#) (Washington, D.C.: Sep. 21, 2018); and Treasury Inspector General for Tax Administration, *Although Virtual Face-to-Face Service Shows Promise, Few Taxpayers Use It*, 2019-IE-R002. (Washington, D.C.: Nov. 13, 2018).

⁸⁴Taxpayer First Act of 2019, Pub. L. No. 116-25, § 1101(a)(2), 133 Stat. 981 (2019).

⁸⁵Office of Management and Budget, *Preparation, Submission and Execution of the Budget*, Circular No. A-11, pt. 6, § 280 (August 2021).

nationwide may change to align with IRS's future vision of customer service. Without additional consideration of, for example, the demand for taxpayer appointments at TAC locations, and a clear understanding of the tradeoffs between costs and benefits of its current in-person service model, IRS may not be able to optimally allocate its resources among its multiple taxpayer service channels. Further, developing and communicating a plan for how it will provide in-person service to taxpayers will better position IRS to identify other efficiencies and ensure that other taxpayer service channels are meeting taxpayer needs, such as telephone services.

IRS Increased Hiring and Relied on Overtime to Help Manage Unprecedented Workloads

As discussed earlier, IRS struggled to meet demands for taxpayer customer service and in processing some types of returns during the 2021 filing season. To address these challenges, IRS increased its hiring efforts, but with mixed success. As a result, it primarily relied on overtime and shifting existing staff to higher priority areas of work, including manual review of returns stopped due to errors and answering record-high volumes of calls from taxpayers.

IRS used several approaches to increase staffing levels during the 2021 filing season. Officials told us that to help address immediate needs, it converted seasonal workers to permanent hires, and rehired former IRS staff with expertise in handling returns with errors. In addition, IRS human capital officials stated that they used a streamlined hiring approach to match a potential applicant with multiple positions for which they were qualified, to help reduce the number of incoming applications. Officials also sought to hire filing season staff throughout the year, including the summer and fall which are not typical hiring periods.

IRS officials reported that they exceeded their hiring goal of 5,000 customer service staff as of the end of fiscal year 2021. As of early May 2021, IRS hired 3,817 customer service staff (76 percent of their goal), and then hired an additional 1,377 staff as of early September 2021.⁸⁶

⁸⁶IRS officials reported that of the 3,817 new hires, 2,935 (77 percent) were CSRs, who primarily provide live telephone assistance to taxpayers. The remaining positions were for tax examiners (713) and clerks (169).

Officials noted that newly hired CSRs are trained for 14 weeks before they can help taxpayers on the phone, so staff hired toward the beginning of the filing season were not trained before the filing season ended. Nevertheless, officials noted that once trained, new CSRs were assigned to phones to assist taxpayers.

However, IRS encountered challenges in hiring enough new returns processing staff during fiscal year 2021. As of October 2021, officials reported that they had hired 3,662 returns processing staff out of about 5,500 planned (67 percent of their goal), and had not hired new staff since the end of August. Additionally, attrition has further contributed to reduced levels of returns processing staff, who perform essential filing season functions.⁸⁷ As of the end of fiscal year 2021, IRS reported that the attrition rate for returns processing staff was 17 percent (about 1,630 staff), which is more than twice the agency's overall attrition rate of 7.6 percent.⁸⁸ Therefore, for every 10 newly hired returns processing staff discussed above, IRS needed about four staff to offset attrition.

As we have previously reported, IRS has consistently used overtime to meet returns processing milestones, respond to taxpayer calls and correspondence, and address increases in workload.⁸⁹ During fiscal year 2021, IRS again relied heavily on overtime to address both customer service demand and returns processing work. As shown in figure 11 below, IRS doubled the amount of overall overtime used in fiscal year 2021 (in terms of full-time equivalent employees), compared to fiscal year 2020.⁹⁰ Further, overtime costs for returns processing and customer service staff totaled \$177.1 million in fiscal year 2021. This is about a 103 percent increase compared to overtime costs for fiscal year 2020 (\$87.1 million).

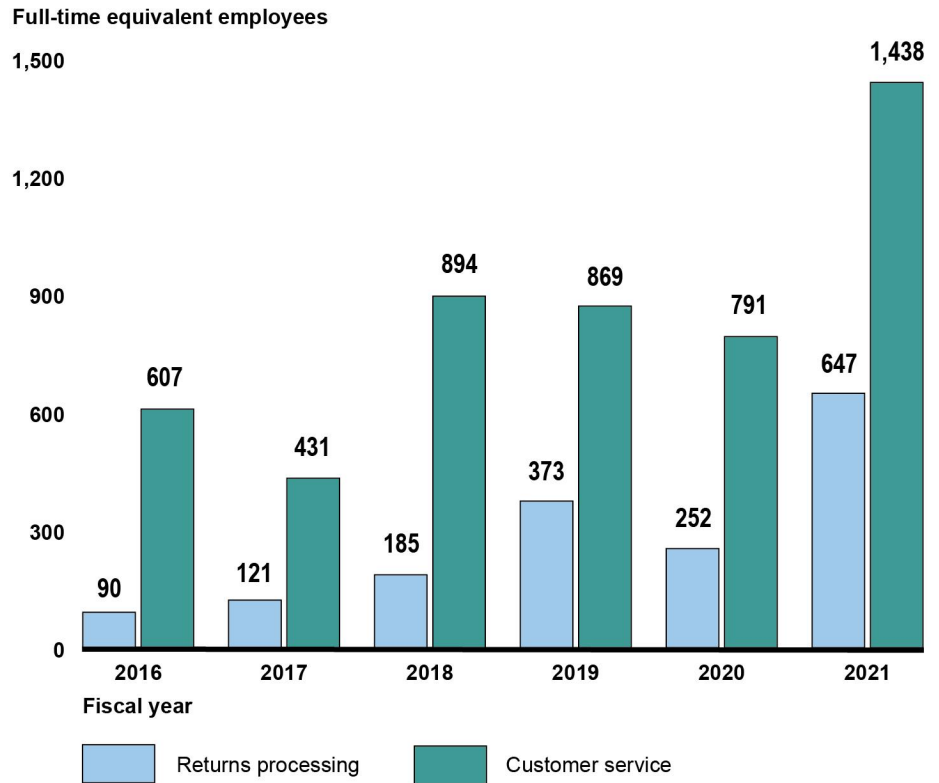
⁸⁷Returns processing staff open and batch mail, process tax returns, and perform other on-site work at IRS campuses.

⁸⁸The attrition rate for returns processing and customer service staff includes separations and retirements, and instances where staff moved to another organization within IRS.

⁸⁹[GAO-20-55](#).

⁹⁰Full-time equivalent employees were calculated by taking the total number of hours worked based on IRS payroll data, divided by the number of compensable hours applicable to each fiscal year.

Figure 11: IRS Returns Processing and Customer Service Overtime Shown as Full-Time Equivalent Employees, Fiscal Years 2016—2021



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

Accessible Data Table for Figure 11

Fiscal year	Full-time equivalent employees-Returns processing	Full-time equivalent employees-Customer service
2016	90	607
2017	121	431
2018	185	894
2019	373	869
2020	252	791
2021	647	1,438

Note: Data are from IRS weekly timecard data from the beginning of October through the end of September for each year. Full-time employee equivalents were calculated by dividing total overtime hours by the number of work hours during the fiscal year, and rounding to the nearest whole number. During fiscal year 2020, IRS return processing centers were closed for several weeks and had reduced in-person staffing once centers reopened due to the COVID-19 pandemic. As a result, returns processing overtime hours during 2020 were lower overall. For customer service functions, however, many staff could telework, so overtime hours were not necessarily reduced overall due to the 2020 site closures.

IRS officials attributed the increase in overtime to the unprecedented workloads during the 2021 filing season. Specifically, returns processing staff were required to work 10 hours a week of mandatory overtime from late February to August 2021 to manually review millions of returns stopped for errors, as discussed earlier in this report. Similarly, customer service staff were offered 20 hours a week of voluntary overtime to help answer millions of taxpayer phone calls and work on correspondence.

We recognize that overtime is a practical and necessary tool to help organizations manage short-term and unexpected surges in workload. However, relying primarily on overtime to offset complex human capital challenges such as reduced staffing levels and attrition is not a sustainable solution.

Further, we have previously raised concerns about—and made recommendations on—IRS’s workforce planning and hiring efforts, and use of overtime. Specifically:

- In March 2019, we reported on challenges IRS faced in hiring employees for hard to fill positions, including lengthy hiring and onboarding timeframes.⁹¹ Among other things, we recommended that IRS fully implement its workforce planning initiative, which at the time of our report was delayed due to competing IRS priorities, lack of workforce planning skills among its human capital staff, and delays in implementing necessary IT tools.⁹² In September 2021, IRS human capital officials stated that they were in the process of implementing the agency’s workforce plan. However, IRS reported in December 2021 that this effort was delayed to August 2022. Full implementation of such a plan will provide IRS with a comprehensive inventory of its current workforce and better position the agency to identify and address skills gaps.

⁹¹GAO, *Internal Revenue Service: Strategic Human Capital Management is Needed to Address Serious Risks to IRS’s Mission*, [GAO-19-176](#) (Washington, D.C.: Mar. 26, 2019). In fiscal year 2017, IRS identified tax examiners—a broad term for staff who may handle customer service and returns processing functions to support the filing season—as one of several mission-critical occupations at risk of skills gaps.

⁹²Specifically, we recommended that IRS fully implement its workforce planning initiative, including taking the following actions: (1) conducting enterprise strategy and planning, (2) conducting workforce analysis, (3) creating a workforce plan, (4) implementing the workforce plan, and (5) monitoring and evaluating the results.

- In January 2020—prior to the start of the COVID-19 pandemic—we reported that IRS increasingly relied on overtime to meet returns processing and customer service demands, with its use of overtime more than quadrupling from fiscal year 2014 through mid-July of fiscal year 2019.⁹³ We recommended that IRS develop and implement a strategy for the efficient use of overtime. At the time, IRS agreed with this recommendation, but stated that its existing process within the Wage and Investment division for the use and approval of overtime is sufficient, so it did not plan to take further action.⁹⁴

Given the recent challenges IRS has experienced during the last two filing seasons and the ongoing effects of the COVID-19 pandemic, we believe our recommendation to develop an overtime strategy remains valid. As IRS works to fully implement its workforce plan, it can use the information from this effort to develop and implement a strategy for the efficient use of overtime. As we noted in our prior work, consistent reliance on the use of overtime, among other things, can contribute to low morale and employee dissatisfaction, and increased errors. Further, if not well managed, overtime can be expensive, inefficient, and contribute to skills gaps.

Conclusions

Ongoing challenges precipitated by the COVID-19 pandemic, coupled with new responsibilities to provide relief to Americans, adversely affected IRS's return processing and customer service during the 2021 filing season. While 2021 was a trying year for IRS, it can address its persistent challenges to better serve taxpayers and manage future difficulties.

IRS works to correct errors on taxpayer returns every filing season. However, the unexpected volume of returns with errors that IRS received during the 2021 filing season left it unprepared to process returns in a timely manner. Consequently, millions of taxpayers were left waiting

⁹³GAO-20-55. We measured increases in overtime in terms of full-time employee equivalents. IRS's workload increases during the 2019 filing season were due, in part, to IRS needing to implement provisions of the Tax Cuts and Jobs Act before the filing season began, and a 5-week lapse in appropriations which furloughed many IRS employees during the critical filing season preparation period.

⁹⁴IRS allocates a certain amount of overtime for both returns processing and customer service staff each fiscal year, based in part on prior year usage and its budget. IRS operating divisions can also request increases to their overtime allocation, as needed. In addition, a 2019 agreement with the National Treasury Employee Union governs other aspects of overtime, such as ensuring fairness of offering overtime opportunities to employees.

several months for their refunds. While IRS is taking some steps to avoid processing delays during the 2022 filing season, the long delays and resulting backlog of work highlight the need for IRS to reduce manually-intensive work, where possible, to avoid ongoing workload imbalances and refund delays. IRS has not identified and analyzed the underlying causes for taxpayer errors on returns that regularly occur each year. Doing so could help taxpayers and preparers prevent these errors before filing returns, and reduce processing and refund delays.

Refund interest has been an increasing cost to the government over the years. This annual cost occurs due to various factors that may be within IRS's control (such as processing time), or outside of IRS's control (such as legislation with retroactive provisions). However, IRS does not identify, monitor and report on the primary reasons for these interest payments, nor their amount. Therefore, IRS does not know why interest payments over the last 7 years have reached almost \$14 billion. Consequently, IRS is not positioned to determine how it could adjust resources to prioritize returns and minimize interest payments for those cases within IRS's control. Similarly, IRS cannot inform others, such as policymakers, on the extent to which new policies might affect refund interest costs. Identifying, monitoring, and reporting on the primary reasons for these payments, and their amounts, can better inform IRS and others on actions to take in reducing this growing cost.

Taxpayers experienced a maelstrom of confusion when seeking assistance on their delayed refunds. Due to extremely high call volume, IRS encouraged taxpayers to use its online "Where's My Refund" application for the most up-to-date information. However, the millions of taxpayers experiencing long delays with their refunds were then instructed to call IRS for more details, only to find it difficult to make contact. IRS has acknowledged that "Where's My Refund" has limitations in meeting taxpayer expectations for information, but does not plan to modernize it. Further, IRS and Treasury have disparate views on prioritizing the tool's modernization. Modernizing IRS's most-used online application will help IRS better meet taxpayer needs and reduce added costs of taxpayers calling or writing in for assistance.

Given the high volume of telephone calls, IRS did not prioritize responding to taxpayer inquiries made through the mail. Consequently, IRS entered the 2022 filing season with a large backlog of correspondence. However, IRS has not estimated time frames for resolving this backlog. Providing such estimates periodically, and communicating this information to taxpayers and stakeholders, will better

set taxpayer expectations for a response as well as potentially reduce further calls or correspondence follow up from taxpayers.

Finally, in-person service has declined since 2015, in part because IRS has offered additional choices to taxpayers for service. However, IRS has not fully considered alternatives for its in-person service model nor determined how it can best provide such service to taxpayers. Developing and communicating a plan for how it will provide in-person service to taxpayers will better position IRS as it considers expanding and changing other service options, such as virtual service.

Recommendations for Executive Action

We are making the following six recommendations to IRS:

The Commissioner of Internal Revenue should develop a process to identify and analyze the underlying causes for taxpayer errors on returns and address them, as appropriate and feasible, with input from internal and external stakeholders. (Recommendation 1)

The Commissioner of Internal Revenue should direct responsible IRS business units to regularly identify, monitor, and report on the primary reasons for individual and business-related refund interest payments and associated dollar amounts, and report this information, as appropriate, to IRS leadership, Treasury, and Congress. (Recommendation 2)

The Commissioner of Internal Revenue should take steps to reduce the amount of refund interest paid for those cases within IRS's control. (Recommendation 3)

The Commissioner of Internal Revenue should work with Treasury to develop and implement a modernization plan for "Where's My Refund" that fully addresses taxpayer needs and requirements. (Recommendation 4)

The Commissioner of Internal Revenue should estimate time frames for resolving IRS's correspondence backlog, monitor and update these estimates periodically, and communicate this information to taxpayers and stakeholders. (Recommendation 5)

The Commissioner of Internal Revenue and appropriate IRS stakeholders should develop and communicate a plan for providing in-person taxpayer

services relative to IRS's plans for expanded virtual customer service options, and costs and benefits. (Recommendation 6)

Agency Comments and Our Evaluation

We provided a draft of this report to IRS and Treasury 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. Treasury did not provide comments.

In its written comments, IRS described its role in delivering economic relief to taxpayers during the COVID-19 pandemic while also fulfilling its core responsibilities of tax administration. IRS also highlighted the effects of the pandemic on IRS's filing season operations and staff, which has resulted in a backlog of returns and correspondence that the agency continues to address. We acknowledge the challenges IRS has faced in balancing the health and safety of employees during the pandemic while meeting operational demands and its new responsibilities.

Regarding our recommendations, IRS disagreed with two and agreed with the remaining four. Specifically, IRS disagreed with the recommendation to develop a process to identify and analyze the underlying causes for taxpayer errors on returns and address them, as appropriate and feasible, with input from internal and external stakeholders (recommendation 1). In its letter, IRS stated that it disagreed with this recommendation because (1) it has a robust process for identifying taxpayer errors on returns and identifying probable causes; (2) it informs taxpayers about frequently occurring errors through mailings and information on its website; and (3) the recommendation calls for work that is redundant with analyses that IRS already performs.

As noted in our report, we recognize that IRS has a process to identify and address errors that are caused by internal or technical issues, which IRS can quickly correct. However, IRS's current process is not robust to the extent that it identifies underlying causes for other types of errors. Specifically, there are other reasons why errors occur on returns unrelated to IRS internal or technical issues, including taxpayer errors. Without a better understanding of the potential causes for errors, it will be difficult for IRS to reduce their occurrence in the future. Further, high volumes of returns with errors come at a cost. As we discuss in our report, during the 2021 filing season, IRS diverted staff from other critical

work and relied on overtime to review millions of returns with errors. Due to processing delays, millions of taxpayers had to wait months for their refunds.

Regarding IRS's second point on informing taxpayers about errors, we agree that IRS has taken positive steps. In our report, we similarly describe how IRS had begun to mail letters to taxpayers with the amount of their third economic impact payment, to try to reduce Recovery Rebate Credit errors during the 2022 filing season. We encourage IRS to keep sharing the latest information with taxpayers on potential reasons for delayed refunds and how taxpayers can avoid having their return suspended due to an error. However, these communications do not help IRS understand why errors are occurring in the first place.

Regarding its third point about redundant analyses, IRS stated that it performs an extensive amount of analysis on certain errors—including refundable credits—that contribute to improper payments. IRS highlighted its mitigation strategies, such as public outreach and education efforts and dialog with stakeholders. IRS stated that these efforts were built on analyses of the causes of errors on returns detected during processing, as well as compliance activities. However, throughout our review, IRS did not provide evidence of such analyses, although we requested such information on several occasions. Also, in its letter IRS did not describe the extent to which such efforts had helped to identify underlying causes for taxpayer errors when claiming refundable credits, or whether IRS's efforts have contributed to lower error rates for certain errors.

IRS also disagreed with the recommendation to regularly identify, monitor, and report on the primary reasons for refund interest payments and associated dollar amounts, and report this information to IRS leadership, Treasury, and Congress (recommendation 2). In its letter, IRS stated that the discussion on refund interest in our report was not contextually complete. Further, IRS stated that interest is prescribed by statute, and that the amount of interest paid is not a reliable or meaningful business measure for IRS.

Regarding the context for refund interest, IRS explained that it was important to consider interest payments on refunds of overpayments of tax alongside interest charges to taxpayers for underpayments of tax. IRS emphasized that interest is paid in return for use of the money. We do not dispute the logic or purpose behind interest payments, or that they are prescribed by statute. However, interest payments are an expense to the U.S. government that IRS could help avoid or reduce if it had a clearer

understanding of why IRS makes billions of dollars in interest payments each year.

In our report, we provide examples of reasons why IRS pays interest on refunds (see table 1), and explained the statutory requirements for paying refund interest. We also acknowledged that annual refund interest costs—which totaled nearly \$14 billion over the last 7 years—occur due to various factors. These factors may be within IRS’s control (such as processing time), or outside of IRS’s control (such as legislation with retroactive benefits).

Regarding IRS’s comment that refund interest is not a reliable and meaningful business measure, we disagree. It is important to monitor expenses such as refund interest and explain any increases and how, if at all, the expense can be reduced. By addressing our recommendation, IRS has an opportunity to show the extent that refund interest payments are within or outside of its control, or a combination of both. This information can help IRS adjust resources to prioritize returns and minimize interest payments for those cases that are primarily or partially within IRS’s control, such as processing amended returns. As noted in our report, our analysis of IRS data from fiscal years 2015 through 2021 showed that a small volume of amended returns accounted for a large amount of refund interest dollars paid. Identifying and reporting the reasons for refund interest may also help IRS inform policymakers on the extent to which existing or proposed policies might affect refund interest costs.

While IRS disagreed with recommendation 2, it agreed with the related recommendation to take steps to reduce the amount of refund interest paid for cases within IRS’s control (recommendation 3). In its comments, IRS stated that it will take all actions necessary to address the pandemic-related backlog and restore its ability to timely process returns and correspondence within the interest-free period. We support IRS’s efforts to fully address its pandemic-related backlog and process returns and correspondence in a timely manner. However, this alone will likely not reverse the annual growth of refund interest payments. As we noted in our report (see figure 4), refund interest payments have gradually increased since fiscal year 2015, several years prior to the pandemic. Further, as we reported, and IRS confirmed in its response, refund interest payments can be due to both retroactive legislative benefits and delays in IRS processing times. Without identifying, monitoring, and reporting on the primary reasons for refund interest payments, and associated dollar amounts (recommendation 2), IRS is not in a position to

ensure that any steps it takes in response to recommendation 3 directly affect any reduction in refund interest payments.

With regard to taxpayer customer service, IRS agreed with the recommendation to work with Treasury to develop and implement a modernization plan for "Where's My Refund" (recommendation 4). In its comments, IRS stated that implementation of this effort will be contingent on available funding. While IRS agreed with the recommendation, IRS said that it disagreed with the statement in our report that it does not have plans to modernize the existing "Where's My Refund" application. IRS cited technical limitations and funding challenges to such modernization.

In our report, we described these technical and resource challenges. Further, during our review we requested information about plans to modernize the existing "Where's My Refund" application or develop a new system to better meet taxpayer needs for information. Neither IRS nor Treasury provided such information. In addition, in its letter, IRS stated that it is currently conducting research, to be completed in May 2022, to gather insights on user needs and expectations regarding refund status messaging. This indicates that IRS is in the early stages of gathering user requirements for "Where's My Refund," an initial step for an IT modernization effort.

IRS agreed with the recommendation to estimate timeframes for resolving its correspondence backlog, monitor and update these estimates periodically, and communicate this information to taxpayers and stakeholders (recommendation 5). In its comments, IRS stated that it continues to work to return its correspondence inventory to normal levels.

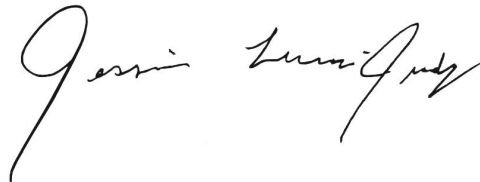
Finally, IRS agreed with the recommendation to develop a plan for providing in-person taxpayer services relative to its plans to expand virtual customer service options (recommendation 6). However, in its letter, IRS stated that it disagreed with the context in which we discussed IRS's in-person service model. In its letter, IRS highlighted several aspects of its in-person service model—characteristics which we similarly described in our draft report.⁹⁵ IRS did not provide additional details on the context with which it disagreed.

⁹⁵These included that in-person service is ideal for taxpayers with complex issues or needs; that about half the time taxpayers do not need to visit a TAC because their issue can be resolved over the phone; and that in-person service is the costliest method of providing IRS customer service.

As stated in our report, we found that IRS's plans for the future of taxpayer service do not acknowledge how, if at all, IRS's current model for in-person service at more than 300 TACs nationwide may change relative to its plans for expanded virtual service options. Developing and communicating a plan for how IRS intends to provide in-person service to taxpayers will help IRS allocate its resources among its multiple taxpayer service channels and ensure that it is meeting taxpayer needs.

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 are available on the last page of this report. Key contributors to this report are listed in appendix IV.

A handwritten signature in black ink that reads "Jessica Lucas-Judy". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Jessica Lucas-Judy
Director, Tax Issues,
Strategic Issues

Appendix I: Internal Revenue Service Appropriations

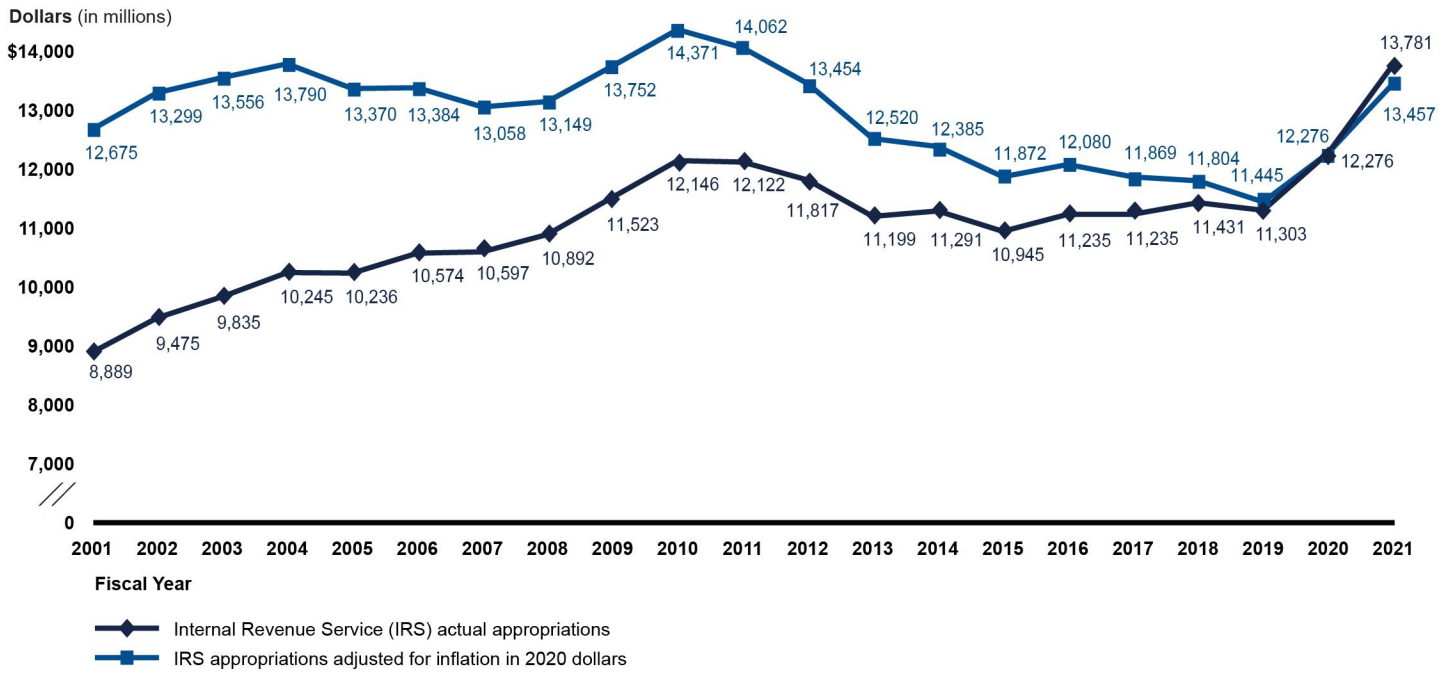
The Internal Revenue Service's (IRS) fiscal year 2021 budget of \$13.78 billion includes IRS's regular appropriation of \$11.92 billion to support taxpayer services, enforcement, operations, and business system modernization efforts. It also includes about \$1.86 billion in supplemental funding from the American Rescue Plan Act (ARPA) for IRS to administer the third round of economic impact payments and the advance Child Tax Credit payments, provide taxpayer assistance, and develop and modernize IRS systems.¹ IRS's regular fiscal year 2021 budget increased by about \$409 million (3.6 percent) from fiscal year 2020.² As shown in the figure below, IRS's annual appropriations declined by about \$2.9 billion (20.4 percent) from fiscal year 2010 to 2019, and remained below the 2001 level from fiscal years 2013 to 2020, after adjusting for inflation.

¹American Rescue Plan Act, Pub. L. No. 117-2, 135 Stat. 4 (2021).

²This increase does not include the additional \$765.7 million Congress appropriated to IRS in fiscal year 2020 in response to the COVID-19 pandemic, or the \$1.86 billion Congress appropriated to IRS in fiscal year 2021 as part of ARPA.

Appendix I: Internal Revenue Service Appropriations

Figure 12: IRS Appropriations for Fiscal Years 2001 to 2021



Sources: GAO analysis of Congressional Research Service reports for fiscal years 2001 through 2004, Internal Revenue Service Congressional Justifications for fiscal years 2005 through 2021. 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). Fiscal year 2021 includes an additional \$1.862 billion in appropriations from the American Rescue Plan Act, Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-22-104938

Accessible Data Table for Figure 12

Fiscal year	Internal Revenue Service (IRS) actual appropriations	IRS appropriations adjusted for inflation in 2020 dollars
2001	\$8,889.00	\$12,675.23
2002	\$9,475.00	\$13,298.83
2003	\$9,835.00	\$13,555.55
2004	\$ 10,245.00	\$13,790.08
2005	\$ 10,236.00	\$13,370.49
2006	\$ 10,574.00	\$13,384.17
2007	\$ 10,597.00	\$13,057.75
2008	\$ 10,892.00	\$13,148.68
2009	\$ 11,523.00	\$13,752.31
2010	\$ 12,146.00	\$14,370.91
2011	\$ 12,122.00	\$14,062.38
2012	\$ 11,817.00	\$13,453.75
2013	\$ 11,199.00	\$12,519.89
2014	\$ 11,291.00	\$12,384.59

**Appendix I: Internal Revenue Service
Appropriations**

Fiscal year	Internal Revenue Service (IRS) actual appropriations	IRS appropriations adjusted for inflation in 2020 dollars
2015	\$10,945.00	\$11,871.75
2016	\$11,235.00	\$12,080.05
2017	\$11,235.00	\$11,868.80
2018	\$11,431.00	\$11,803.61
2019	\$11,303.00	\$11,445.17
2020	\$12,275.70	\$12,276.00
2021	\$11,919.00	\$11,638.63

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: Internal Revenue Service's Return Processing Performance during the 2021 Tax Filing Season

Below are key performance data points on processing tax returns during the 2021 filing season.

Processing

Electronic Filing

The Internal Revenue Service's (IRS) performance in processing electronically-filed individual returns during the 2021 filing season declined compared to the 2020 filing season (see table 2 below). As discussed earlier in this report, IRS's individual return processing was delayed due to returns suspended with errors and backlogged returns from the 2020 filing season.

- IRS processed about 93 percent (129.2 million out of 138.4 million) of electronically-filed individual returns compared to about 98 percent (134.1 million of 136.3 million) during the 2020 filing season.
- IRS processed nearly all (27 million) of electronically-filed business returns, similar to the 2020 filing season where IRS also processed nearly all of electronically-filed business returns (27 million).

Paper

Overall, IRS's processing of paper returns improved compared to the 2020 filing season. IRS processed about 69 percent (6.5 million out of 9.4 million) of individual paper returns compared to 53 percent (4.5 million out of 8.4 million) during the 2020 filing season.

IRS data also show that it processed about 108 percent (9.5 million out of 8.7 million) business paper returns as of the end of the filing season compared to 58.7 percent (7.6 million out of 13 million) during the 2020

Appendix II: Internal Revenue Service's Return Processing Performance during the 2021 Tax Filing Season

filing season. This was because IRS's data included about 7.6 million returns that were received during the 2020 filing season but were not processed until the 2021 filing season, due to the backlog.¹

Table 2: Tax Returns Received and Processed by IRS from 2018 through 2021 by the End of the Filing Season

	2018		2019		2020		2021	
In millions								
Individual	Received	Processed	Received	Processed	Received	Processed	Received	Processed
Electronic	124.5	123.1 (98.8%)	126.2	124.6 (98.8%)	136.3	134.1 (98.3%)	138.4	129.2 (93.4%)
Paper	12.4	7.4 (59.7%)	11.0	6.1 (56.0%)	8.4	4.5 (53.0%)	9.4	6.5 (69.1%)
Total	136.9	130.5 (95.3%)	137.1	130.8 (95.4%)	144.7	138.5 (95.7%)	147.8	135.8 (91.8%)
Business								
Electronic	20.4	20.4 (99.9%)	21.6	21.6 (99.8%)	26.6	26.6 (99.8%)	27	27.0 (99.8%)
Paper	10.8	8.4 (78.1%)	10.3	8.4 (81.8%)	13	7.6 (58.7%)	8.7	9.5 (108.2%) ^a
Total	31.2	28.8 (92.3%)	31.9	30 (94.0%)	39.6^b	34.2 (86.3%)	35.8	36.4 (101.9%)^a

Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-22-104938

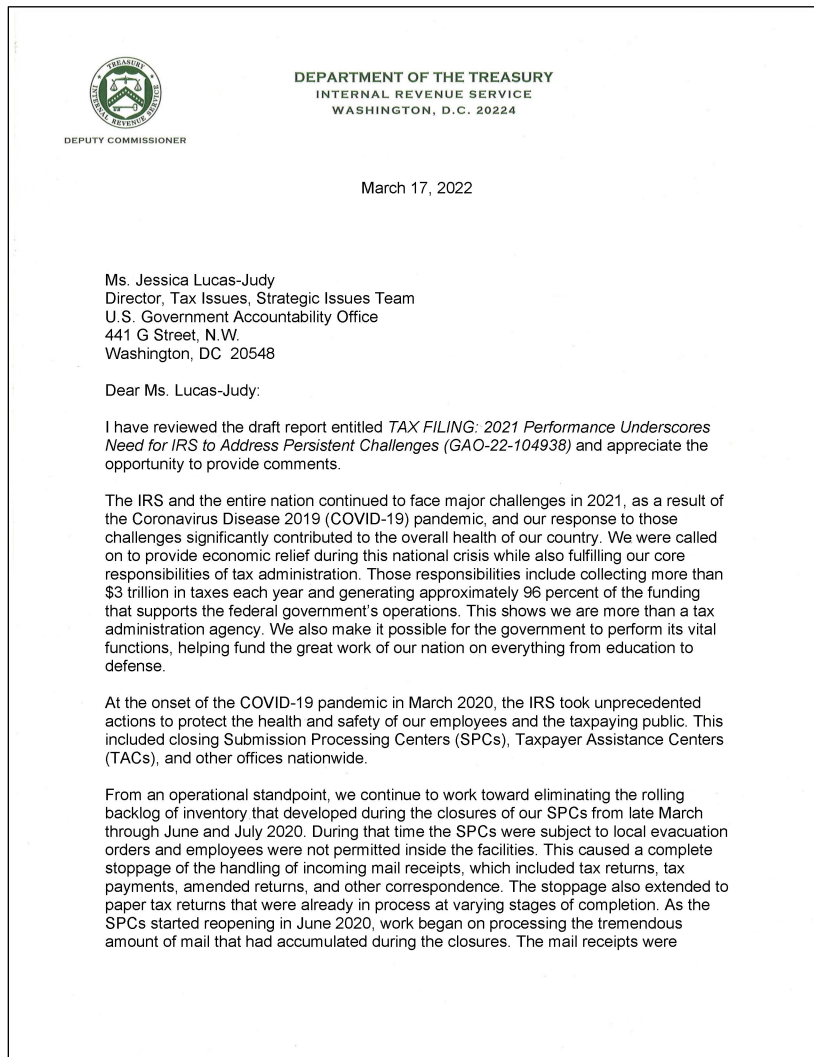
Notes: Values may not sum to totals due to rounding. Filing season end dates were April 18, 2017, April 18, 2018, April 15, 2019, July 15, 2020, and May 17, 2021.

^aDuring the 2021 filing season, the volume of paper returns processed exceeded returns received because IRS included backlogged 2020 returns in the count.

^bTotal 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 electronically filed and paper business returns.

¹See [GAO-21-251](#).

Appendix III: Comments from the Internal Revenue Service



Appendix III: Comments from the Internal Revenue Service

2

directed to the appropriate workstreams and joined other inventory already in process. Extracting the mail, sorting and batching the contents, and directing it to the next stage of processing is a task that can be completed much quicker than transcribing return data to electronic records and performing the requisite manual reviews when errors or other problems with returns are identified. Consequently, the inventory of in-process work grew significantly at a time when staffing was not yet back to full levels. At the beginning of fiscal year 2021 on October 1, 2020, many employees remained on health and safety leave, resulting in a significant amount of unopened mail and correspondence and tax return processing delays. By December 2020, the IRS had resumed normal mail operations and, by May 2021, TACs were open and accepting face-to-face appointments. The backlog of 2020 receipts was cleared during June 2021, for individual returns, and during December 2021, for business returns; however, as that initial backlog of unopened mail was introduced into the processing workstreams, new receipts continued to arrive.

We ended 2021 with approximately 7.9 million returns received during the year that were in the early stages of processing, and another 2.6 million returns at various points of manual review and correction of errors preventing them from posting to taxpayer accounts. By the week ending February 25, 2022, the number of returns received in 2021 that were in the early processing stages had declined to less than 4.9 million.

We disagree with comments in the report stating that the IRS does not have a process to identify frequently occurring errors and analyze their underlying causes. We monitor error frequency and use that information to investigate whether programming errors are present in our processing systems and to determine if the errors have a common source, such as errors limited to returns prepared by specific software products. When this is the case, we work with the respective product developers to implement corrections and stop the error condition from continuing to occur. Further, when frequently occurring errors are identified, we may post advisories or address the issue in the form of Frequently Asked Questions on IRS.gov, broadcast the information through press releases and social media, and work with industry partners to address causes. Specifically, in response to the high volume of errors present on 2020 returns due to overclaiming the Recovery Rebate Credit (RRC), we developed Letter 6475, *Your 2021 Economic Impact Payment(s)*. The purpose of Letter 6475 is to inform taxpayers of the amount of advance RRC paid to them in 2021 and to avoid repeating the high volume of errors made on 2020 returns when the 2020 advance payment, commonly known as the Economic Impact Payment, was not correctly considered when calculating the RRC.

Regarding errors associated with refundable credits, the IRS has an extensive body of work associated with our ongoing efforts to reduce and eliminate improper payments attributed to refundable credits. A portion of that work includes the development and implementation of mitigation strategies to ensure the correct payment is made the first time and assessing the effectiveness of those strategies. This work is built on analyses of the causes of errors on returns detected during processing, as well as the results of

Appendix III: Comments from the Internal Revenue Service

3

compliance activities. Specific actions resulting from this process include: outreach to tax return preparation software developers through the Software Developer Working Group; the Refundable Credits Summit, hosted by the IRS and attended by external stakeholders from the tax industry, other government agencies and consumer advocacy groups; the Refundable Credits Participation Working Group, a partnership between the IRS and external stakeholders used to explore opportunities to increase refundable credits participation; and tailored seminars provided during the IRS Nationwide Tax Forums, which are attended by thousands of tax professionals each summer for continuing education credits. Other results include changes in return processing and the development of legislative proposals to improve the administration of refundable credits.

We disagree with the conclusions the GAO has reached with respect to interest paid on refunds and we believe the discussion presented in the report is not contextually complete. The IRS is required by statute, with certain narrowly defined exceptions, to pay interest when refunding overpayments of tax. Conversely, interest is charged on underpayments of tax. Overpayments can result from stand-alone claims, either on original or amended returns, court decisions affecting a sole taxpayer or a class of taxpayers, examinations, the return of tax payments, seizures or levies made in error, etc. Interest is paid in return for the use of money. In the case of tax refunds, the government has use of the funds until the time of repayment. While in the government's control the funds may be deposited, used to purchase goods or services, or satisfy government obligations. In the case of deposited funds, the government has the opportunity to earn interest. In the case of purchases or the satisfaction of obligations, a debt is being settled. Were the funds not obtained from tax receipts or other reserves on deposit, the government would issue debt to obtain the needed funds and would still incur an interest expense. Although this is a simplistic explanation, we believe it illustrates the point that refund interest cannot be properly analyzed or discussed in a vacuum.

It is important to note that the \$3.27 billion amount of interest the GAO reports as having been paid by the IRS in fiscal year 2021 is interest attributable to all overpayments, not only those associated with longer processing times for original returns and amended returns received during 2020 and 2021. Generally, the IRS must pay interest on any overpayment of tax from the date of the overpayment to approximately the date the refund is made. Interest is not paid if the refund is paid within 45 days after the original due date for filing or the date the return was filed, whichever is later. Moreover, if a taxpayer files a claim for refund, such as by filing an amended return, and the refund is paid within 45 days after the claim is received, no interest is paid from the date of the claim to the date the refund is issued. This is referred to as the "45-day rule" and, for purposes of applying it when a refund is paid within 45 days, a return is not treated as filed until it is filed in processible form. Also, special overpayment interest rules apply in the case of refund claims that arise from net operating loss (NOL) carrybacks¹.

¹ Internal Revenue Code § 6611(f).

Appendix III: Comments from the Internal Revenue Service

4

On March 13, 2020, as a result of the COVID-19 pandemic, the President of the United States declared a national emergency pursuant to Section 501(b) of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The emergency declaration caused a postponement of the filing due date for individual income tax returns for tax year 2019 from April 15, 2020 to July 15, 2020. Similarly, the filing due date for individual 2020 returns was postponed from April 15, 2021, to May 17, 2021. In both years, the declaration of the nationwide emergency eliminated the 45-day interest-free period for processing timely-filed individual returns and set the starting date for interest computations to the date of the overpayment, but no earlier than the original April 15 due date. For example, a 2019 return filed after April 15, 2020, but on or before July 15, 2020, would be entitled to interest calculated from April 15, 2020, to, approximately, the refund payment date. The elimination of the 45-day period did not significantly impact the interest paid for refunds due on paper returns because of the inventory backlog on processing times; however, in the case of electronically filed returns, which constitute the vast majority of the returns the IRS processes, filed without errors and processed through our systems immediately, interest was still required to be paid even though the refunds were issued in 45 days or less.

Additionally, the discussion of the impact amended return processing times had on refund payments is not complete. The interest due on amended returns generally begins on the later of the due date of the return or the date it was filed and runs through the date the IRS receives the amended return (45-day period met) or the refund date (45-day period not met). On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)² temporarily and retroactively reversed certain provisions affecting NOLs that had previously been changed by the Tax Cuts and Jobs Act (TCJA)³. Previously, under the TCJA, NOLs could only be carried forward to subsequent tax years and the NOL deduction claimed on those subsequent tax years was limited to 80 percent of income. Under the CARES Act, taxpayers were permitted to carry back NOLs incurred in tax years 2018, 2019, and 2020 to the five preceding tax years and the deduction for the loss carried back was not subject to the income limitation. This change generated a significant number of amended returns by taxpayers who elected to carry their NOLs back to previous tax years and obtain a refund for the taxes previously paid in those years.

In most instances, a significant portion of the interest payable on refunds arising from amended returns is interest that would be payable regardless of processing time. For example, a business taxpayer timely filed an original tax return for the period ended December 31, 2018, by its April 15, 2019, due date. The return was subsequently amended to claim an overpayment of tax. The IRS received the amended return on April 10, 2020. If the refund was issued by May 25, 2020, within 45 days of the claim, interest would have been calculated through the April 10 date of the claim. If the refund was issued more than 45 days after April 10, 2020, additional interest would be due.

² Pub.L. 116-136

³ Pub.L. 115-97

Appendix III: Comments from the Internal Revenue Service

5

Assuming the refund was issued on June 22, 2020, the end date used to compute interest would be June 13, 2020, which is the June 22, 2020, recordation date of the refund on the IRS's official records, reduced by the nine-day back-off period permitted under § 6611(b)(2). In this example, untimely processing accounts for only 73 days' interest out of a total interest period of 425 days (April 15, 2019, through June 13, 2020). With timely processing, interest would still have been paid for a period of 352 days (April 15, 2019 through April 1, 2020). Interest attributed to delayed processing is less than 17.2 percent of the total interest (73 days/425 days).

In the report, the GAO infers that the IRS should periodically communicate information on the extent and reasons for refund interest payments, as such information may be useful to Congress in helping it better understand the potential financial impact of new tax legislation and help it and other stakeholders evaluate whether there are actions they want to take to limit that impact. We publish a wealth of statistical information summarizing each filing season at its conclusion and are glad to assist Congress with any requests for data it may have that are not addressed by existing report formats. Our role is to administer the Tax Code as it is enacted. Our business processes track the age of inventory, and we take every measure to ensure processing is either completed within the 45-day interest-free window or we take other steps to avoid or reduce interest paid when it is evident a return will not complete processing within the 45-day period. We do not believe the amount of interest paid is a reliable or meaningful business measure. Interest rates are variable, dependent on prevailing economic conditions, and are reviewed and subject to change on a quarterly basis. Our operating conditions in 2020 and 2021 were uncharacteristic due to the COVID-19 pandemic. We are striving to reduce our in-process inventory to normal levels and return to completing processing within normal timeframes.

We disagree with the statement in the report that the IRS does not have plans to modernize the existing "Where's My Refund" (WMR) application. There are technical limitations in the ability of the application to communicate with processing systems that contain the detail needed to provide more substantive responses beyond indicating a return has been received. We have requested enhancements to the application in the past and continue to do so; however, it is important to note that enhancements to existing applications or the creation of new applications must compete with other critical needs of the IRS for funding and resources. Funding has been requested to update WMR to provide information on multiple tax years, improve messaging when returns have been stopped for manual review, including detailed information on the reason(s) why returns were stopped, and to provide the ability for taxpayers to self-initiate a refund trace when a refund was issued but not received. It is important to note, however, that when we are operating during periods of continuing budget resolutions, funding requests for new work are held in abeyance until our annual appropriations have been enacted and the amounts available are certain. Operating during periods of continuing resolutions can therefore impact the timeline for implementing improvements and upgrades to our systems.


Appendix III: Comments from the Internal Revenue Service

6

We disagree with the context in which the discussion of our in-person service model is presented. Since 2014, our approach to meeting customer service needs has been to guide taxpayers first to online services, then to telephone services for needs that cannot be addressed online. This strategy reserves capacity at our TAC locations, where face-to-face service is provided, for those taxpayers with more complex issues and needs that cannot be addressed online or over the telephone. Since adopting this approach, our experience has been that approximately 50 percent of the individuals who would come to a TAC for assistance can have their issues successfully resolved over the telephone. This is a convenience to taxpayers as it permits them to resolve their issues without leaving their homes or offices and taking the time to travel to a TAC. This approach also benefits the IRS in that more individuals are served through low-cost channels. Face-to-face service is the costliest service channel for the IRS to operate and it is imperative that its use be reserved for those issues that cannot be resolved through other service options.

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,

Douglas W. O'Donnell  Digitally signed by Douglas W. O'Donnell
Date: 2022.03.17 14:53:28 -04'00'

Douglas W. O'Donnell
Deputy Commissioner for
Services and Enforcement

Enclosure

Enclosure

Recommendations for Executive Action

We are making the following six recommendations to IRS:

RECOMMENDATION 1

The Commissioner of Internal Revenue should develop a process to identify and analyze the underlying causes for taxpayer errors on returns and address them, as appropriate and feasible, with input from internal and external stakeholders.

COMMENTS

We have a robust process for identifying taxpayer errors on returns, identifying probable causes, and proactively disseminating information through public and professional channels to prevent their continued occurrence. As described in our response, we also do an extensive amount of analysis on certain errors that contribute to improper payments, which results in public outreach, education, and dialog with stakeholders. We do not agree with the recommendation as it calls for work that is redundant with what we already do.

RECOMMENDATION 2

The Commissioner of Internal Revenue should direct responsible IRS business units to regularly identify, monitor, and report on the primary reasons for individual and business-related refund interest payments and associated dollar amounts, and report this information, as appropriate, to IRS leadership, Treasury, and Congress.

COMMENTS

We disagree with the recommendation. The IRS already publishes statistical information summarizing each filing season. The amount of interest paid is not a reliable or meaningful business measure. In addition, interest is paid as prescribed by statute. As the administrators of the tax code, we work to administer it as enacted.

RECOMMENDATION 3

The Commissioner of Internal Revenue should take steps to reduce the amount of refund interest paid for those cases within IRS's control.

COMMENTS

We agree with the recommendation. We will take all actions necessary to address and reduce the pandemic-related backlog of in-process inventory to normal levels and restore our ability to timely process returns and correspondence within the interest-free period.

RECOMMENDATION 4

The Commissioner of Internal Revenue should work with Treasury to develop and implement a modernization plan for "Where's My Refund" that fully addresses taxpayer needs and requirements.

Appendix III: Comments from the Internal Revenue Service

2

COMMENTS

We agree with the recommendation and will develop and implement a modernization plan for communicating refund status information to users across multiple channels, including "Where's My Refund," in a way that fully addresses user needs and requirements. Implementation of this effort will be contingent upon available funding. The IRS is conducting a research effort, to be completed in May 2022, to gather insights on user needs and expectations regarding refund status messaging to help inform modernization efforts and priorities.

RECOMMENDATION 5

The Commissioner of Internal Revenue should estimate timeframes for resolving its correspondence backlog, monitor and update these estimates periodically, and communicate this information to taxpayers and stakeholders.

COMMENTS

We agree with the recommendation and will continue in our efforts to manage the correspondence inventory and return it to normal levels.

RECOMMENDATION 6

The Commissioner of Internal Revenue and appropriate IRS stakeholders should develop and communicate a plan for providing in-person taxpayer services relative to IRS's plans for expanded virtual customer service options; and costs and benefits.

COMMENTS

We agree with the recommendation. In-person taxpayer services will continue to be addressed in concert with the analysis of costs and benefits associated with expanded virtual customer service options.

Agency Comment Letter

Text of Appendix III: Comments from the Internal Revenue Service

Page 1

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

Dear Ms. Lucas-Judy:

I have reviewed the draft report entitled *TAX FILING: 2021 Performance Underscores Need for IRS to Address Persistent Challenges (GAO-22-104938)* and appreciate the opportunity to provide comments.

The IRS and the entire nation continued to face major challenges in 2021, as a result of the Coronavirus Disease 2019 (COVID-19) pandemic, and our response to those challenges significantly contributed to the overall health of our country. We were called on to provide economic relief during this national crisis while also fulfilling our core responsibilities of tax administration. Those responsibilities include collecting more than

\$3 trillion in taxes each year and generating approximately 96 percent of the funding that supports the federal government's operations. This shows we are more than a tax administration agency. We also make it possible for the government to perform its vital functions, helping fund the great work of our nation on everything from education to defense.

At the onset of the COVID-19 pandemic in March 2020, the IRS took unprecedented actions to protect the health and safety of our employees and the taxpaying public. This included closing Submission Processing Centers (SPCs), Taxpayer Assistance Centers (TACs), and other offices nationwide.

From an operational standpoint, we continue to work toward eliminating the rolling backlog of inventory that developed during the closures of our SPCs from late March through June and July 2020. During that time the SPCs were subject to local evacuation orders and employees were not permitted inside the facilities. This caused a complete stoppage of the handling of incoming mail receipts, which included tax returns, tax payments, amended returns, and other correspondence.

The stoppage also extended to paper tax returns that were already in process at varying stages of completion. As the SPCs started reopening in June 2020, work began on processing the tremendous amount of mail that had accumulated during the closures. The mail receipts were

Page 2

directed to the appropriate workstreams and joined other inventory already in process. Extracting the mail, sorting and batching the contents, and directing it to the next stage of processing is a task that can be completed much quicker than transcribing return data to electronic records and performing the requisite manual reviews when errors or other problems with returns are identified. Consequently, the inventory of in-process work grew significantly at a time when staffing was not yet back to full levels. At the beginning of fiscal year 2021 on October 1, 2020, many employees remained on health and safety leave, resulting in a significant amount of unopened mail and correspondence and tax return processing delays. By December 2020, the IRS had resumed normal mail operations and, by May 2021, TACs were open and accepting face-to-face appointments. The backlog of 2020 receipts was cleared during June 2021, for individual returns, and during December 2021, for business returns; however, as that initial backlog of unopened mail was introduced into the processing workstreams, new receipts continued to arrive.

We ended 2021 with approximately 7.9 million returns received during the year that were in the early stages of processing, and another 2.6 million returns at various points of manual review and correction of errors preventing them from posting to taxpayer accounts. By the week ending February 25, 2022, the number of returns received in 2021 that were in the early processing stages had declined to less than 4.9 million.

We disagree with comments in the report stating that the IRS does not have a process to identify frequently occurring errors and analyze their underlying causes. We monitor error frequency and use that information to investigate whether programming errors are present in our processing systems and to determine if the errors have a common source, such as errors limited to returns prepared by specific software products. When this is the case, we work with the respective product developers to implement corrections and stop the error condition from continuing to occur. Further, when frequently occurring errors are identified, we may post advisories or address the issue in the form of Frequently Asked Questions on IRS.gov, broadcast the information through press releases and social media, and work with industry partners to address causes.

Specifically, in response to the high volume of errors present on 2020 returns due to overclaiming the Recovery Rebate Credit (RRC), we developed Letter 6475, *Your*

2021 Economic Impact Payment(s). The purpose of Letter 6475 is to inform taxpayers of the amount of advance RRC paid to them in 2021 and to avoid repeating the high volume of errors made on 2020 returns when the 2020 advance payment, commonly known as the Economic Impact Payment, was not correctly considered when calculating the RRC.

Regarding errors associated with refundable credits, the IRS has an extensive body of work associated with our ongoing efforts to reduce and eliminate improper payments attributed to refundable credits. A portion of that work includes the development and implementation of mitigation strategies to ensure the correct payment is made the first time and assessing the effectiveness of those strategies. This work is built on analyses of the causes of errors on returns detected during processing, as well as the results of

Page 3

compliance activities. Specific actions resulting from this process include: outreach to tax return preparation software developers through the Software Developer Working Group; the Refundable Credits Summit, hosted by the IRS and attended by external stakeholders from the tax industry, other government agencies and consumer advocacy groups; the Refundable Credits Participation Working Group, a partnership between the IRS and external stakeholders used to explore opportunities to increase refundable credits participation; and tailored seminars provided during the IRS Nationwide Tax Forums, which are attended by thousands of tax professionals each summer for continuing education credits. Other results include changes in return processing and the development of legislative proposals to improve the administration of refundable credits.

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Page 4

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individual 2020 returns was postponed from April 15, 2021, to May 17, 2021. In both years, the declaration of the nationwide emergency eliminated the 45-day interest-free period for processing timely-filed individual returns and set the starting date for interest computations to the date of the overpayment, but no earlier than the original April 15 due date. For example, a 2019 return filed after April 15, 2020, but on or before July 15, 2020, would be entitled to interest calculated from April 15, 2020, to, approximately, the refund payment date. The elimination of the 45-day period did not significantly impact the interest paid for refunds due on paper returns because of the inventory backlog on processing times; however, in the case of electronically filed returns, which constitute the vast majority of the returns the IRS processes, filed without errors and processed through our systems immediately, interest was still required to be paid even though the refunds were issued in 45 days or less.

Additionally, the discussion of the impact amended return processing times had on refund payments is not complete. The interest due on amended returns generally begins on the later of the due date of the return or the date it was filed and runs

through the date the IRS receives the amended return (45-day period met) or the refund date (45-day period not met). On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act)² temporarily and retroactively reversed certain provisions affecting NOLs that had previously been changed by the Tax Cuts and Jobs Act (TCJA)³. Previously, under the TCJA, NOLs could only be carried forward to subsequent tax years and the NOL deduction claimed on those subsequent tax years was limited to 80 percent of income. Under the CARES Act, taxpayers were permitted to carry back NOLs incurred in tax years 2018, 2019, and 2020 to the five preceding tax years and the deduction for the loss carried back was not subject to the income limitation. This change generated a significant number of amended returns by taxpayers who elected to carry their NOLs back to previous tax years and obtain a refund for the taxes previously paid in those years.

In most instances, a significant portion of the interest payable on refunds arising from amended returns is interest that would be payable regardless of processing time. For example, a business taxpayer timely filed an original tax return for the period ended December 31, 2018, by its April 15, 2019, due date. The return was subsequently amended to claim an overpayment of tax. The IRS received the amended return on April 10, 2020. If the refund was issued by May 25, 2020, within 45 days of the claim, interest would have been calculated through the April 10 date of the claim. If the refund was issued more than 45 days after April 10, 2020, additional interest would be due.

Page 5

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In the report, the GAO infers that the IRS should periodically communicate information on the extent and reasons for refund interest payments, as such information may be useful to Congress in helping it better understand the potential financial impact of new tax legislation and help it and other stakeholders evaluate whether there are actions they want to take to limit that impact. We publish a wealth of statistical information summarizing each filing season at its conclusion and are glad to assist Congress with any requests for data it may have that are not addressed by existing report formats. Our role is to administer the Tax Code as it is enacted. Our business processes track the age of inventory, and we take every

measure to ensure processing is either completed within the 45-day interest-free window or we take other steps to avoid or reduce interest paid when it is evident a return will not complete processing within the 45-day period.

We do not believe the amount of interest paid is a reliable or meaningful business measure. Interest rates are variable, dependent on prevailing economic conditions, and are reviewed and subject to change on a quarterly basis. Our operating conditions in 2020 and 2021 were uncharacteristic due to the COVID-19 pandemic. We are striving to reduce our in-process inventory to normal levels and return to completing processing within normal timeframes.

We disagree with the statement in the report that the IRS does not have plans to modernize the existing “Where’s My Refund” (WMR) application. There are technical limitations in the ability of the application to communicate with processing systems that contain the detail needed to provide more substantive responses beyond indicating a return has been received. We have requested enhancements to the application in the past and continue to do so; however, it is important to note that enhancements to existing applications or the creation of new applications must compete with other critical needs of the IRS for funding and resources. Funding has been requested to update WMR to provide information on multiple tax years, improve messaging when returns have been stopped for manual review, including detailed information on the reason(s) why returns were stopped, and to provide the ability for taxpayers to self-initiate a refund trace when a refund was issued but not received. It is important to note, however, that when we are operating during periods of continuing budget resolutions, funding requests for new work are held in abeyance until our annual appropriations have been enacted and the amounts available are certain. Operating during periods of continuing resolutions can therefore impact the timeline for implementing improvements and upgrades to our systems.

Page 6

We disagree with the context in which the discussion of our in-person service model is presented. Since 2014, our approach to meeting customer service needs has been to guide taxpayers first to online services, then to telephone services for needs that cannot be addressed online. This strategy reserves capacity at our TAC locations, where face-to-face service is provided, for those taxpayers with more complex issues and needs that cannot be addressed online or over the telephone. Since adopting this approach, our experience has been that approximately 50 percent of the individuals who would come to a TAC for assistance can have their issues successfully resolved over the telephone. This is a convenience to taxpayers as it permits them to resolve their issues without leaving their homes or offices and taking the time to travel to a TAC. This approach also benefits the IRS in that more individuals are served through low-cost channels. Face-to-face service is the

**Appendix III: Comments from the Internal
Revenue Service**

costliest service channel for the IRS to operate and it is imperative that its use be reserved for those issues that cannot be resolved through other service options.

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,
Douglas W. O'Donnell Deputy Commissioner for
Services and Enforcement

Enclosure

Appendix IV: GAO Contact and Acknowledgments

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