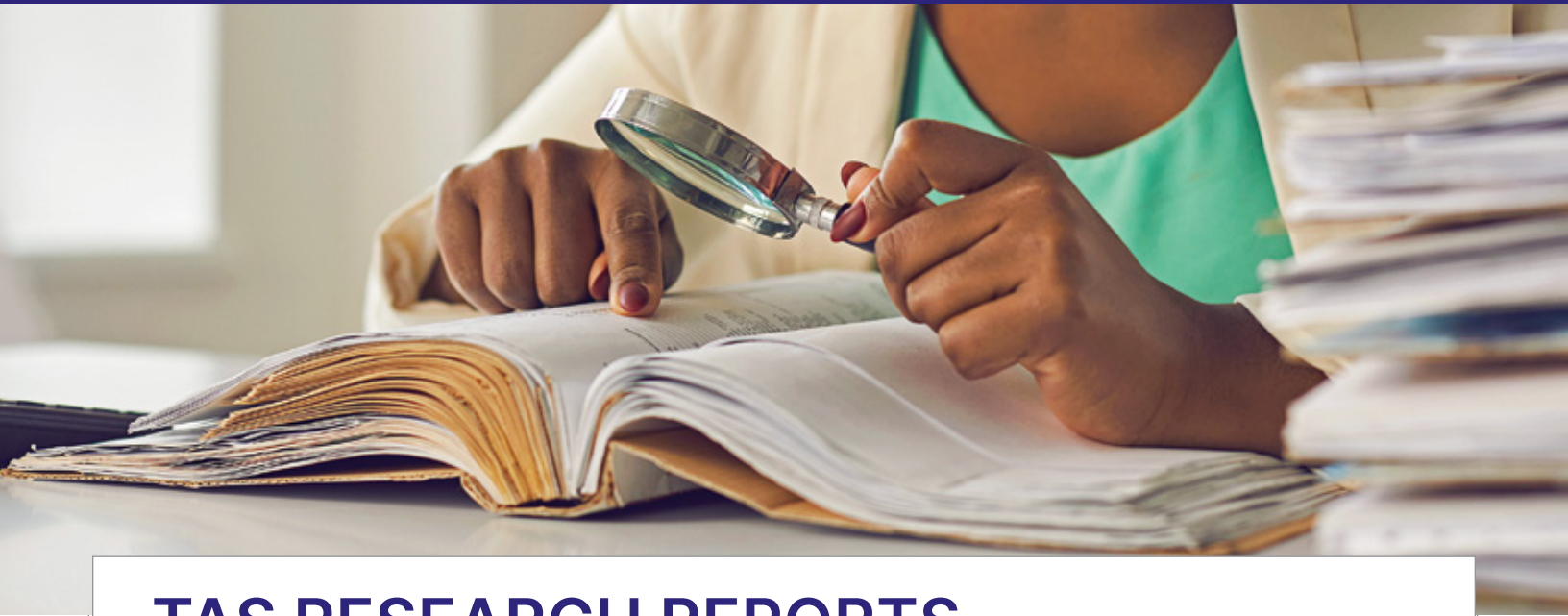




TAS RESEARCH REPORTS

Some Legitimate Taxpayers Did Not Receive a Tax Year 2020 Refund Because They Did Not Respond to an IRS Letter Requesting Identity Verification

EXECUTIVE SUMMARY

Each year, a few million refund returns trigger an IRS fraud filter, and these returns are set aside while the IRS awaits verification of the taxpayer's identity.¹ One of the challenges the impacted taxpayers face is that the IRS only issues one letter notifying the taxpayers of the need to authenticate, with no subsequent follow-up. Beginning in 2024, the IRS updated Where's My Refund? messaging to reflect return delays and the need for identity verification. Although the need to verify information before receiving a frozen refund is now noted on a taxpayer's IRS Online Account, only a small percentage of taxpayers have these accounts.

Last year, in conjunction with the National Taxpayer Advocate 2023 Annual Report to Congress, TAS published an online report describing a research project in which TAS contacted taxpayers likely eligible to receive their frozen tax year (TY) 2020 refunds.² As indicated, IRS procedures only require one letter notifying taxpayers of the need to authenticate their identity before the IRS will release their refund. Many of these refunds remained frozen because the taxpayers had not authenticated their identity with the IRS. In December 2023, TAS sent its first letter offering to help a sample of taxpayers likely eligible to receive their TY 2020 refund with navigating the IRS identity authentication process. TAS sent a follow-up letter in early January 2024 to the same taxpayers, repeating its offer of assistance. The TAS offer of assistance did not circumvent the necessity of the taxpayer authenticating their identity with the IRS but served as a reminder of the authentication requirement and offered to assist taxpayers with the authentication process.

¹ IRS, Wage and Investment (W&I) Business Performance Review (BPR) Q3, Fiscal Year (FY) 2023 (Nov. 2023).

² This study does not focus on taxpayers who are victims of identity theft refund fraud; rather, the focus is on taxpayers who filed legitimate returns but never responded to the IRS letter requesting the taxpayer authenticate their identity. For discussion of the delays faced by taxpayers who were victims of tax-related identity theft refund fraud, see *Most Serious Problem: Identity Theft: Processing and Refund Delays Are Harming Victims of Tax-Related Identity Theft*, *supra*.

TAS believes many legitimate taxpayers may be entitled to their frozen refunds, even though they have not yet authenticated their identity with the IRS. Once the IRS selects a return as potentially being submitted by an identity thief, the taxpayer must authenticate their identity before the IRS will process the return. While IRS procedures only require it to send one letter notifying taxpayers of the need to authenticate their identity, a recent study conducted by TAS and the IRS Refund Integrity Compliance Services (RICS) office, which explored why taxpayers often delay authenticating, found that many taxpayers reported never receiving the IRS letter requesting they authenticate their identity.

The TAS outreach study discussed in this report explored the effect of sending subsequent letters to a sample of potentially legitimate taxpayers who were likely entitled to their claimed refunds even though they had not authenticated their identity with the IRS in the past three years. The letters offered TAS assistance to taxpayers needing to authenticate their identity to receive their TY 2020 refund, which remained frozen by the IRS. TAS tracked both the number of respondents and whether the taxpayers could successfully verify their identity and tax return information as well as the number of taxpayers who successfully authenticated their identity directly with the IRS after receiving the TAS letter.

Our outreach study determined that over seven percent of sampled taxpayers were able to work with TAS or the IRS to successfully authenticate their identity, about 2.3 times the authentication rate of taxpayers from a control group not receiving the TAS outreach letter, where we observed a 3.1 percent authentication rate.³ Respondents in the study received over \$3.8 million in released refunds, and the IRS may release up to \$122,000 in additional refunds to taxpayers who contacted TAS but whose TAS case remains open.⁴

INTRODUCTION

In most years, the IRS freezes the refunds of two to four million returns due to potential identity theft; however, at least half of the returns are false positives, and legitimate taxpayers later authenticate them as properly filed returns.⁵ This report describes a TAS project to determine if taxpayers with characteristics indicating likely eligibility for their claimed TY 2020 refund are indeed legitimate taxpayers entitled to the refund. The refund remains frozen because the taxpayer did not respond to the single IRS letter requesting identity verification.

Beginning in late 2020, the IRS changed its procedure to only issue one letter, instead of two, requesting the taxpayer authenticate their identity. Unless special circumstances exist, such as the taxpayer resides in a federally declared disaster zone or the taxpayer requests the IRS reissue the identity authentication letter, the IRS continues to only send a single letter requesting authentication before the IRS will issue the claimed refund.⁶ Without authentication, the IRS transcribes the return, but does not process it.

3 TAS determined successful identity authentication occurred when, subsequent to the TAS outreach letter, the taxpayer either received their refund or the IRS posted a reversal transaction code (TC) 972 action code (AC) 506 to the account indicating the IRS erroneously froze the refund return. In some cases, the IRS has authenticated the taxpayer's identity but has not yet issued the refund.

4 IRS, Compliance Data Warehouse (CDW), Individual Master File (IMF) (Dec. 5, 2024). Taxpayer Advocate Management Information System (TAMIS) (Oct. 18, 2024). TAS is still working 21 case receipts from taxpayers who received the outreach letters.

5 In calendar year (CY) 2021 (generally TY 2020 returns), the IRS identity theft filters false detection rate was over 61 percent and is expected to be 54 percent in CY 2023. IRS, W&I BPR Q3, FY 2023 (Nov. 2023). As a result of paper shortages and the significant increase in fraudulent returns during the pandemic, the IRS made the decision to only send a single notice in 2021 (generally affecting TY 2020 returns) requesting the taxpayer verify their identity. Notes from System Advocacy and Refund Integrity and Compliance Services Executive call (Oct. 26, 2020) (on file with TAS).

6 Internal Revenue Manual (IRM) 25.25.6.1.7, Taxpayer Protection Program Overview (June 24, 2024), https://www.irs.gov/irm/part25/irm_25-025-006r. IRM 25.25.6.6.2, Procedures for When the Caller Has Not Received or Lost the Taxpayer Protection Program (TPP) Letter (June 24, 2024), https://www.irs.gov/irm/part25/irm_25-025-006r.

On December 1, 2023, TAS mailed letters to a sample of nearly 4,000 taxpayers likely to be eligible for the refund from their TY 2020 return.⁷ This letter offered TAS assistance with completing the IRS identity verification process. The taxpayers were required to meet all IRS identity verification criteria to free up their refunds but were offered the assistance of TAS to walk them through the process. TAS sent a follow-up letter to these taxpayers about 30 days after mailing the first letter.⁸

The results of this study indicate the lack of taxpayer response to the IRS's single letter requesting identity verification does not necessarily indicate that an identity thief submitted the refund claim. While only about seven percent of taxpayers receiving the letters responded to either TAS or the IRS for assistance in authenticating their identity, taxpayers were able to receive millions of dollars of legitimate TY 2020 refunds. Additionally, some taxpayers not receiving an offer of TAS assistance to navigate the TAS identity theft process for their frozen TY 2020 refunds reached out directly to the IRS and authenticated their valid refund claim as late as 2024, clearly demonstrating that taxpayer non-response is not a definitive indicator of identity theft. However, taxpayers receiving the additional offer for assistance from TAS were over two times more likely to authenticate their identity, which allowed the IRS to release their previously frozen TY 2020 refunds. Furthermore, TAS's office telephone messaging about delays in working taxpayer inquiries may have discouraged some taxpayers, thereby lowering the response rate. While the IRS prevents releasing billions of dollars in fraudulent refunds to identity thieves, they also deprive many taxpayers of their legitimate refunds totaling millions of dollars and violating the taxpayer *rights to pay no more than the correct amount of tax, to quality service, and to a fair and just tax system.*⁹

BACKGROUND

The Federal Trade Commission (FTC) received over a million complaints of identity theft in 2023. Overall, the FTC reported dollar losses associated with fraud in 2023 at over \$10 billion, a 14 percent increase over 2022.¹⁰ Increased fraudulent activity increases the burden on the IRS to safeguard our tax system and prevent the release of fraudulently claimed refunds. For its part, the IRS receives millions of refund returns each year.¹¹ It has a difficult job stopping potentially billions of dollars in fraudulent refunds from being issued while ensuring that legitimate taxpayers receive their refunds without extensive delay.

In calendar year (CY) 2021, the IRS selected 4.1 million returns into its Taxpayer Protection Program (TPP) because of suspected identity theft, initially stopping \$7.5 billion of claimed refunds. However, in CY 2021, the IRS incorrectly stopped legitimate refund returns over 61 percent of the time.¹²

The IRS continues to hold TY 2020 refund returns (generally submitted in 2021). These are returns the IRS identified as potentially fraudulent and where the taxpayer never responded to the IRS's letter notifying them of the need to authenticate their identity before the IRS would release the refund. In addition to the 1.6 million TY 2020 returns archived by the IRS with frozen refunds totaling about \$4.8 billion, the IRS has archived the returns and frozen the refunds of nearly 1.9 million taxpayers in TY 2021, totaling over \$10 billion in claimed refunds.¹³ While these totals include many fraudulent refund claims, the total undoubtedly includes legitimate taxpayer refunds. When there is no response to the IRS letter requiring

7 We describe the criteria to determine likely legitimate taxpayers later in the methodology section.

8 Because of overall high case receipt volumes, TAS was often unable to input taxpayers responding to the first TAS letter into its case management system, leading to a delay of about four weeks. As a result, every taxpayer in the TAS sample received both TAS outreach letters.

9 IRS, W&I BPR Q3, FY 2023 (Nov. 2023).

10 FTC Press Release, As Nationwide Fraud Losses Top \$10 Billion in 2023, FTC Steps Up Efforts to Protect the Public (Feb. 9, 2024), <https://www.ftc.gov/news-events/news/press-releases/2024/02/nationwide-fraud-losses-top-10-billion-2023-ftc-steps-efforts-protect-public>.

11 The IRS received nearly 130 million refund returns in 2021 and around 100 million returns in each subsequent year. IRS, Filing Season Statistics Reports (Dec. 2021; Dec. 2022; Dec. 2023; May 2024).

12 IRS, W&I BPR Q4, FY 2023 (Nov. 2023). Generally, these are TY 2020 returns due and filed in 2021.

13 IRS, CDW, IMF and Individual Returns Transaction File (IRTF) Master File Tax (MFT) Code 32 (Oct. 24, 2024).

verification, the IRS presumes an identity thief is claiming the refund, continues to hold the refund, and takes no further action. The IRS will ultimately archive a return when it does not receive a taxpayer response, but it generally does not complete the archiving process until at least a year after the return was initially due. Although the IRS is trying to prevent the release of as many fraudulent refunds as possible, some legitimate taxpayers are harmed due to their lack of authentication.

Each year, thousands of legitimate taxpayers contact the IRS after the 30-day timeframe specified in the letter. The IRS has stated that refund processing on false positive cases of identity theft takes a modest six weeks on average; however, this timeframe can be misleading.¹⁴ Many taxpayers are unable to complete the identity authentication process for many months and are therefore unable to receive their refund. This can be due to confusion about the steps required for resolution, poor IRS service, insufficient correspondence, or other reasons. Figure 5.1.1 depicts the number of TY 2020 returns where the taxpayer authenticated their identity well after the return filing or issuance of the IRS letter requesting authentication. Eventually, over half of these taxpayers received their refund, but some are still waiting for the IRS to finish processing their return and associated refund.

FIGURE 5.1.1, TY 2020 Returns Determined to Be Legitimate After the IRS Archived the Return Because of No Response to the IRS Request for Identity Authentication¹⁵

Tax Year	Accounts Reversed	Average Processing Time for Taxpayer to Authenticate Identity	Accounts Reversed (With Refund)	Average Refund Amount	Median Refund Amount
2020	49,510	18 months	28,230	\$20,974	\$2,194

Figure 5.1.1 shows that thousands of legitimate taxpayers took an average of 18 months to authenticate their identity so they could receive their TY 2020 refund.¹⁶ At this time, we do not know why taxpayers waited so long. It could be they never received the letter, the taxpayer moved, the letter was returned undeliverable, the taxpayer did not understand what was required, or the taxpayer did not comply with the authentication criteria.¹⁷

Taxpayers are often unaware of the IRS letter that requests they authenticate their identity before the IRS will release their refund and thus continue to wait for the processing of their returns. TAS opens many cases each year from taxpayers who do not understand why they have not received their claimed refund.

These occurrences establish that legitimate taxpayers may not authenticate their identity for many months after the IRS froze their refund. This study demonstrates that a number of taxpayers never contact the IRS to authenticate their identity, even though they are the rightful individual and entitled to the refund. As such, the IRS should consider taking additional administrative steps to verify the taxpayer's identity.

¹⁴ TAS notes from Artificial Intelligence (AI) Assurance Team Meeting (June 2024) (on file with TAS).

¹⁵ IRS, CDW, IMF (Oct. 24, 2024). The average time is computed from the received date of the tax return to the input of the first TC 972 AC 124 or 129. The actual average time for a taxpayer to authenticate may be longer. In some cases, the IRS inputs a TC 972 AC 124 or 129, although it takes no other actions, and many months later it inputs a new TC 972 AC 124 or 129 and then issues the refund. IRM 25.25.6.8, Valid Tax Returns That Were Archived - Deleted Returns or Failed Systemic MFT 32 Reversals That Must Be Reprocessed Manually – RIVO and Non-RIVO Employees (Oct. 1, 2024), https://www.irs.gov/irm/part25/irm_25-025-006r. The IRS archives frozen refund returns after not receiving a response from its letter requesting the taxpayer authenticate their identity. Taxpayers who respond to the IRS after it archives the return must wait for the IRS to establish the archived return on IMF.

¹⁶ *Id.*

¹⁷ The IRS destroys letters to authenticate if returned as undeliverable. IRM 25.25.5.2.1.2, General Correspondence Identity Theft Response (Oct. 6, 2022), https://www.irs.gov/irm/part25/irm_25-025-005r. TAS and RICS are currently analyzing the results of a survey designed to determine why taxpayers often take longer than 30 days to authenticate their identity.

OBJECTIVES

- Determine the percent of taxpayers who will respond because of a TAS outreach letter offering to assist them with navigating the IRS identity authentication process to receive a claimed refund, which is still frozen by the IRS.
- Determine the percent of respondents after TAS's outreach letter offering to assist the taxpayer with the IRS identity authentication process who can successfully complete the authentication process and quantify the amount of refunds issued.

METHODOLOGY

TAS Research identified a population of individual taxpayers whose TY 2020 returns triggered the fraud filters, freezing the refunds due to potential identity theft.¹⁸ These same taxpayers, however, did not have any identity theft indication on their subsequently filed TY 2021 tax returns. The subsequent, legitimate refund returns indicate the possibility that the IRS incorrectly detected identity theft in TY 2020. But as a result of taxpayers not following the remedial authentication procedures, the IRS did not process their returns and release their TY 2020 refunds. We also used several other characteristics and supporting data points to identify and refine the population of taxpayers potentially eligible for the refund the IRS is still holding. Criteria incorporated in the methodology include:

- The taxpayer claimed a refund in both TY 2020 and TY 2021. The TY 2020 refund was frozen due to potential identity theft, while the TY 2021 refund was not.¹⁹
- The taxpayer must be 18 or older and with no taxable Social Security entered on Form 1040, unless the taxpayer's age is at least 62.
- There is no processing code on the taxpayer's account that indicates identity theft case resolution is complete.
- Wages from the Form W-2 for the primary or secondary taxpayer must be greater than zero.
- Withholding specified on the taxpayer's return must be no greater than \$100 more than the taxpayer's withholding shown on their Form W-2.²⁰
- The taxpayer has not submitted Form 14039, Identity Theft Affidavit, and the taxpayer's TY 2020 original return has not posted to the IRS Master File.

From the identified population, we created a stratified random sample by state and territory in combination with adjusted gross income (AGI) percentile ranges. The sample included nearly 4,000 taxpayers, 100 of whom were designated as Spanish-speaking taxpayers.

TAS crafted an outreach letter, which was sent to the sample of taxpayers on December 1, 2023.²¹ TAS provided taxpayers receiving these letters with a telephone number to contact the Local Taxpayer Advocate office in the District of Columbia for assistance with navigating the IRS identity authentication process. TAS began receiving calls and opening advocacy cases in response to its outreach letter on December 11, 2023; however, high case inventory prevented TAS from responding quickly to those taxpayers who called in response to the letter. TAS sent a follow-up letter about 30 days later.

18 TAS discussed the methodology to identify the population of likely legitimate filers with the IRS prior to its use.

19 In a few cases, TAS inadvertently sent the TAS outreach letter to taxpayers who claimed but had not received their TY 2021 refund. Only three of these taxpayers responded to TAS. One of these taxpayers never responded to the TAS request for documentation and the case was closed. The other two taxpayers were victims of identity theft; one of these taxpayers was granted full refund relief, and TAS is helping the other taxpayer with the authentication process to have the legitimate return processed so they can receive their refund.

20 Higher withholding reported on the tax return relative to the Form W-2 may be a greater indication of identity theft.

21 The TAS outreach letters were two-sided with an English and Spanish version of the text on opposing sides of the letter.

TAS reviewed the accounts of the sample of taxpayers receiving the TAS outreach letter, as well as the accounts of the more than 84,000 also likely legitimate taxpayers whose TY 2020 refund remained frozen but did not receive an outreach letter. Generally, we considered taxpayers who received their TY 2020 refund or who successfully authenticated their identity after the TAS mailed its outreach letter as successful results of the outreach. After receiving additional input from RICS, we excluded cases where a marker was placed on the account indicating the legitimate taxpayer was a victim of identity theft, even if the IRS had not yet issued the refund. We also ensured subsequent identity authentication markers clearly indicated the original refund freeze was erroneous, and we reviewed cases to ensure the refund was attributable to the return processed after the taxpayer received the TAS outreach letter.

Limitations and Project Deviations

The telephone number provided on the TAS outreach letters presented taxpayers with an office telephone message that TAS might not respond to the call for up to four weeks. This outgoing message may have inhibited some taxpayers from leaving a message with TAS to seek its assistance with recovering their TY 2020 refund. A review of some TAS cases received as a result of the outreach indicated that TAS Case Advocates prematurely closed some of these cases as non-response or provided incorrect guidance to these taxpayers, which may have prevented their successful identity authentication. We expanded our analysis to include taxpayers receiving the TAS outreach letter who chose to work directly with the IRS to release their TY 2020 refund.

ANALYSIS AND DISCUSSION

TAS identified a population of over 88,000 individual taxpayers after selecting returns with the specified criteria indicative of returns with a good likelihood that the claimed refund was legitimate. These taxpayers reported a median AGI of less than \$7,500 and claimed over \$500 million in total unreceived refunds with a median refund amount of about \$1,800.²² Over a quarter of these taxpayers claimed the Earned Income Tax Credit (EITC) with a median EITC claim of more than \$400. As these data points show, the IRS's broad identity theft filters affect a substantial number of taxpayers with low or modest incomes likely in need of claimed refunds and credits.

Figure 5.1.2 illustrates the total number and percent of sampled taxpayers who were able to successfully complete identity authentication. About 7.2 percent of sampled taxpayers were able to authenticate. For the purposes of this study, the authentication rate of 7.2 percent also represents the estimated overall response rate to the outreach letter, reflecting not only those taxpayers who contacted TAS but also those who worked directly with the IRS to authenticate their identity and receive their claimed refund.

FIGURE 5.1.2, Sampled Taxpayers Who Successfully Authenticated²³

Case Type and Status	Total Sample (After Start of Outreach)
TAS Cases Authenticated	62
Cases Authenticated Directly With the IRS	224
Total With Authentication	286 (7.2%)

The data in Figure 5.1.2 includes taxpayers with a posted reversal of identity theft markers in the IRS Master File as well as those where the IRS has now issued the refund to the taxpayer. TAS cases indicate the respondents who contacted TAS for assistance and whom TAS directly helped via the TAS outreach letter. Out of the total 286 sampled taxpayers who authenticated after our outreach began, 62 taxpayers contacted TAS,

²² IRS, CDW, IRTF and IMF (Oct. 24, 2024). The average refund amount claimed was over \$5,500. The sampled taxpayers exhibited similar AGI and refund characteristics as the identified population.

²³ IRS, CDW, IMF (Dec. 5, 2024); TAMIS (Oct. 18, 2024).

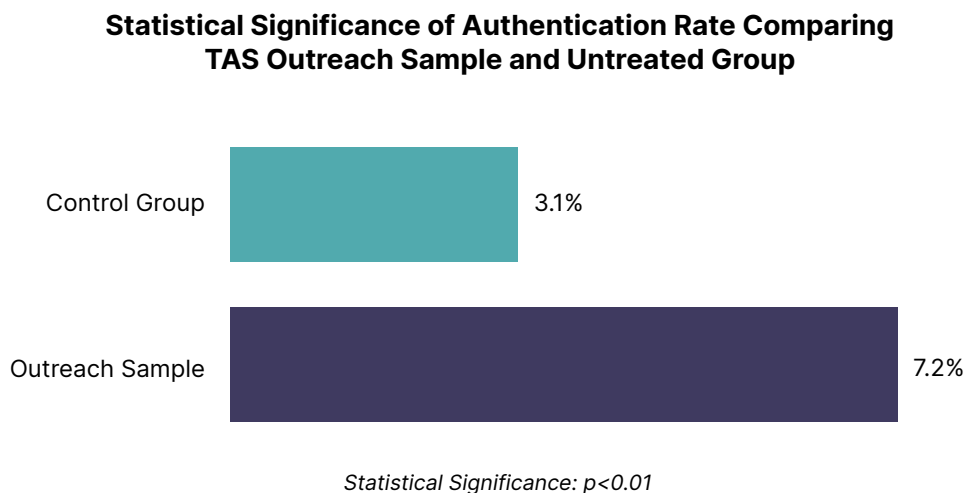
and the remaining 224 taxpayers, who represent those indirectly helped by the outreach letter, authenticated their identity by opting to contact the IRS. Overall, TAS was contacted by 121 taxpayers in the outreach sample, and 62 (51.2 percent) have successfully authenticated their identity.²⁴

To further evaluate the effect of the outreach letter, whether direct or indirect, we performed statistical significance testing on the sample authentication rate and refund rate in comparison to the rates observed for the untreated control group of over 84,000 taxpayers. Through this comparison, we help ensure data integrity in evaluating differences in rates between the treated and untreated groups.

Applying the Pearson's Chi-Square Test and Fisher's Exact Test, the authentication and refund rates achieved in this outreach study demonstrated a statistically significant difference compared to the remaining, untreated control group of over 84,000 taxpayers. We implemented these statistical tests because of their effectiveness in evaluating relationships between categorical variables and their flexibility in handling varying sample sizes. In this study, the categorical variables included whether taxpayers received the outreach letter, whether the taxpayer authenticated, and whether the IRS released the refund.

As shown in Figure 5.1.3, the untreated group had an authentication rate of only 3.1 percent compared to the 7.2 percent authentication rate in the outreach study, resulting in a p value of under 0.01, indicating a less than one percent probability that the differences in authentication rates were due to random chance. Although this study does not delve into the direct effect of the IRS sending a second follow-up letter, the outreach conducted in this study effectively serves as a second, or even third, attempt to notify the taxpayer that they must authenticate their identity to receive their claimed refund. Additionally, we believe the second letter TAS issued had a noticeable positive effect on taxpayer response, given that TAS received over 78 percent of its cases after it sent the second letter.

FIGURE 5.1.3²⁵



Many taxpayers are still waiting for their refund, even though the IRS has authenticated their identity. Figure 5.1.4 summarizes the number of taxpayers in the sample who received their TY 2020 refunds. Out of the 121 taxpayers who directly contacted TAS after our outreach began, over 51 percent successfully authenticated

²⁴ IRS, CDW, IMF (Dec. 5, 2024); TAMIS (Oct. 18, 2024).

²⁵ IRS, CDW, IMF (Dec. 5, 2024). TAS also took three random samples of 4,000 each from the untreated control group using the same stratification criteria by state and AGI as the outreach sample. The average authentication rate from the three samples, compared to that of our outreach sample, achieved the same overall result with a p value less than 0.01.

their identity with about 38 percent having already received their refund. There are 21 respondents with potential refunds that collectively total approximately \$122,000 whose cases remain open in TAS. The IRS issued the claimed refunds to another 129 of the taxpayers receiving an outreach letter who contacted the IRS instead of TAS and authenticated the identity of another 95 taxpayers who contacted the IRS directly, even though they have yet to receive their refunds.²⁶

FIGURE 5.1.4, Sampled Taxpayers by Refund Status²⁷

Case Type	Refund Status	Sampled Taxpayers	Amount of Refund
TAS Case	Refund Released	46	\$902,900
	No Refund Relief	54	-
	Open	21	-
Non-TAS Case	Refund Released	129	\$2,925,400
	Total Taxpayers With Refund Issued	175	\$3,828,300
	Refund Rate	4.4%	-

Given the data in Figure 5.1.4, we determined an estimated refund rate of 4.4 percent.²⁸ While the rate may be relatively low, the IRS had miscategorized these as identity theft and deprived these taxpayers of over \$3.8 million in rightful refunds. Moreover, the TAS outreach letters did not reach these taxpayers until nearly three years after the refund was initially payable, and taxpayers were much more likely to request their still-frozen refunds than taxpayers not receiving the outreach letter.

As shown in Figure 5.1.5, applying the same methodology as before, we also tested the significance of the refund rates between our sample of taxpayers receiving the TAS outreach letter and the control group not receiving the outreach letter. The untreated group had a refund rate of only 2.2 percent compared to the 4.4 percent refund rate in the outreach study, resulting in a *p* value of under 0.01, indicating a significant probability that the differences in refund rates were not due to random chance.

FIGURE 5.1.5, Statistical Significance of Refund Rate Comparing TAS Outreach Sample and Untreated Group²⁹

Percent of Sampled Taxpayers With Refund	Percent of Untreated Group With Refund	Statistical Significance
4.4%	2.2%	<i>p</i> <0.01

The results showed a more pronounced difference in authentication rates between groups compared to the difference seen in refund rates, with an authentication rate in the outreach sample that was about 2.3 times that of the control group. Therefore, while a relatively modest but consequential percentage of those in the sample had a refund released, many more were legitimate taxpayers who successfully authenticated their identity even though the IRS has not yet released their refund.

26 IRS, CDW, IMF and IRTF (Dec. 5, 2024); TAMIS (Oct. 18, 2024).

27 IRS, CDW, IMF (Dec. 5, 2024); TAMIS (Oct. 18, 2024). Where no refund relief is indicated for TAS cases, no refund is expected to be granted for the taxpayer, although TAS may have prematurely closed some cases while the taxpayer continued to work directly with the IRS. Both the outreach and control groups exhibited nearly identical authentication rates prior to the outreach period of about three percent for each group. About \$548,200 of the total refunded amount was attributable to interest.

28 IRS, CDW, IMF (Dec. 5, 2024). TAMIS (Oct. 18, 2024). TAS calculated the refund rate based off those taxpayers where CDW indicated the IRS released the refund, as shown in Figure 5.1.4.

29 *Id.*

After the outreach sample was drawn, we identified 25 taxpayers who passed away, and another roughly 1,100 individuals in the sample had an indication of address changes or the outreach letter was returned for other reasons. Removing these taxpayers who likely did not receive the outreach letter would increase the percent of taxpayers in our study group who successfully authenticated their identity (and the percent who received their refunds). Although we cannot determine with certainty whether these individuals are legitimate taxpayers, the IRS should consider changes in address as a factor, which likely impacted the response rate observed in this study, in evaluating whether a single letter is sufficient.

Looking at the composition of taxpayers who responded relative to those who did not, respondents in the sample had a median AGI that was about 2.4 times that of non-respondents and a correspondingly higher refund claim, as shown in Figure 5.1.6. While those with greater financial resources are generally in a better position to seek resolution of their tax issues, taxpayers with lower incomes caught up in identity theft filters appear to exhibit greater challenges in authenticating their identity; therefore, continued outreach through mailed letters may not yield a noticeable benefit, thus elevating the importance of precision in IRS detection methods. Although the IRS has consistently maintained its stance of allowing a high false detection rate, it should focus on improving the precision of identity theft filters for lower-income taxpayers in greatest need of their claimed refunds and credits.

FIGURE 5.1.6, Median Refund Amounts and AGI for Respondents and Non-Respondents³⁰

Respondent Median Refund Claim	Respondent Median AGI	Non-Respondent Median Refund Claim	Non-Respondent Median AGI
\$2,400	\$16,300	\$1,800	\$6,700

In addition to improving the precision of identity theft filters, particularly with lower-income taxpayers, the IRS could potentially utilize similar criteria outlined in the methodology section to retroactively identify taxpayers most likely to have a legitimate refund. At a minimum, when a taxpayer receives a refund for the year subsequent to the year in which the IRS identified potential identity theft, the IRS should reissue a notice to taxpayers about the steps required to have the IRS release frozen refunds from prior years. The IRS should also consider the timing of the notice reissuance due to the possibility of the taxpayer moving and send the notice shortly after the IRS processes the following year's return to the taxpayer's latest address.

CONCLUSION AND RECOMMENDATIONS

The primary purpose of this study was to determine if legitimate taxpayers are not receiving the refunds to which they are entitled due to IRS fraud filters freezing their accounts and withholding the refunds. Specifically, TAS explored whether taxpayers would respond to an outreach letter offering assistance with navigating the IRS's identity authentication process so they can receive their TY 2020 refund. The study determined the frequency with which taxpayers receiving the letter responded to TAS or the IRS, how often respondents to TAS could successfully complete the IRS identity authentication process, and the amount of money refunded to taxpayers. TAS understands that the IRS has a difficult task trying to prevent the issuance of fraudulent refunds to identity thieves while also ensuring that legitimate taxpayers receive their refunds. But the IRS's identity theft filters have consistently resulted in a high false detection rate, forcing many taxpayers with valid returns to complete verification steps they may not understand or that they require assistance in resolving. IRS procedures assume the taxpayer received the one letter it sent requesting the taxpayer contact the IRS to verify their identity and assume that the return must not be valid if the taxpayer does not respond.

³⁰ IRS, CDW, IMF and IRTF (Dec. 5, 2024).

Through our outreach efforts, TAS determined that based on our response rates and analysis, a meaningful percentage of taxpayers selected by identity theft filters who did not timely authenticate their identity with the IRS are indeed legitimate taxpayers. We also confirmed that our outreach even three years later had a statistically significant effect in prompting taxpayers to authenticate their identity and receive their claimed refunds compared to the control group of taxpayers who did not receive the outreach letter. While taxpayers need to be willing to respond to IRS letters requesting identity authentication, the IRS must ensure that it takes all steps necessary to ensure legitimate taxpayers receive and understand the letters and respond to their authentication requests. TAS is concerned that the IRS's single letter requesting the taxpayer authenticate their identity, which the IRS is not even sure the taxpayer received, is sufficient effort. To add even more complexity, for the past three years, taxpayers with questions about verifying their identity have faced extremely low levels of service on the IRS's TPP line. Between FYs 2021 and 2024 the LOS ranged between 12.6 and 31.0 percent.³¹

TAS has concerns that the IRS procedures do not adequately protect taxpayer rights. Taxpayers have the *rights to quality service, to pay no more than the correct amount of tax, and to a fair and just tax system.*

Administrative Recommendations to the IRS

The National Taxpayer Advocate recommends that the IRS:

1. Provide a second follow-up letter approximately 30 to 60 days later if the taxpayer has not yet responded and authenticated, notifying the taxpayer that they must authenticate their identity before the IRS can release their claimed refund.
2. When the IRS releases a refund for the current year and there are still frozen refunds for prior years, resend a notice to the taxpayer that they still need to authenticate their identity for the prior year. Taxpayers should receive this letter as close as possible to the filing date of the current year return.
3. Perform additional research on taxpayers, particularly those with lower incomes, who had their refunds released much later with the goal of reducing the false detection rate for identity theft filters and to improve administrative processes around identity authentication.

³¹ The IRS's Levels of Service on its TPP line for FYs 2021, 2022, 2023, 2024 were 13.2, 12.6, 31.0, and 20.2 percent, respectively. IRS, Joints Operations Committee, Snapshot Reports: Product Line Detail (weeks ending Sept. 30, 2021; Sept. 30, 2022; Sept. 30, 2023; Sept. 30, 2024).

Improving IRS Telephone Service: A Review of Best Practice Processes and Measures Used by Large Government and Private Sector Call Centers

EXECUTIVE SUMMARY

The National Taxpayer Advocate has included IRS telephone operations as one of the ten Most Serious Problems facing taxpayers since 2020.¹ To its credit, the IRS improved its primary measure – Level of Service (LOS) – on its Accounts Management (AM) phone lines during the 2023 and 2024 filing seasons, setting and achieving its goal of at least an 85 percent LOS. However, the LOS metric is an imperfect, incomplete measure of the service the IRS provides to taxpayers calling for assistance. The IRS has also expanded its online services to taxpayers by developing individual and business online accounts. The expansion of online services provides informative content on a variety of tax topics, allows taxpayers to check the status of their refunds or review their account, and makes it easier to get copies of tax returns and account transcripts, all of which should reduce the number of taxpayers who must call the IRS. Nevertheless, tens of millions of taxpayers continue to call the IRS each year.

The IRS receives approximately 100 million calls each year. It uses an enterprise of phone lines to provide service to taxpayers on a variety of issues, including tax law, compliance services, and other specialty topics. This report compares the telephone processes and metrics of the IRS with other public and private entities, including state and national governmental agencies that receive large call volumes. The goal of this comparison is to recommend metrics and processes that may improve IRS telephone operations.

Although the IRS has increased the likelihood of taxpayers having their calls answered during the filing season, practitioner complaints about IRS telephone service dominated the Town Halls that the National Taxpayer Advocate held at the 2024 IRS Nationwide Tax Forums during the summer. When the IRS provides better service during the filing season (late January to mid-April), it is more likely to receive tax returns with fewer errors. However, taxpayers who have something wrong with their return after the filing season face difficulty reaching the IRS to resolve the problem. For example, in fiscal year (FY) 2024, IRS customer service representatives (CSRs) answered 32.1 percent of the calls it received during the filing season and only 24.4 percent of the calls it received after the filing season through September 30, 2024; the wait time for a CSR to answer more than tripled, increasing from 3.4 minutes to 12.6 minutes.² This is understandable as CSRs wear multiple hats and juggle work from answering telephones to processing correspondence to making account adjustments. That said, the challenge the IRS faces involves allocating its resources to properly adjust and provide taxpayers and practitioners with the quality service to which they are entitled across multiple channels (telephones, online services, and in-person).

1 See National Taxpayer Advocate 2020 Annual Report to Congress 28 (Most Serious Problem: *Telephone and In-Person Service: Taxpayers Face Significant Difficulty Reaching IRS Representatives Due to Outdated Information Technology and Insufficient Staffing*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20_MSP_02_Telephone.pdf; National Taxpayer Advocate 2021 Annual Report to Congress 66 (Most Serious Problem: *Telephone and In-Person Service: Taxpayers Face Significant Challenges Reaching IRS Representatives Due to Longstanding Deficiencies and Pandemic Complications*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_MSP_03_Telephone.pdf; National Taxpayer Advocate 2022 Annual Report to Congress 74 (Most Serious Problem: *Telephone and In-Person Service: Taxpayers Continue to Experience Difficulties and Frustration Obtaining Telephone and Face-to-Face Assistance to Resolve Their Tax Issues and Questions*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_04_Telephone.pdf; National Taxpayer Advocate 2023 Annual Report to Congress 48 (Most Serious Problem: *Telephone and In-Person Service: Despite Improvements in Its Service Levels, the IRS Still Does Not Provide Taxpayers and Tax Professionals With Adequate, Timely Telephone and In-Person Service*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_04_Telephone-InPerson.pdf.

2 IRS, Joint Operations Center (JOC), Snapshot Reports: Enterprise Snapshot, Enterprise Total (FY 2024 data for weeks ending Apr. 20, 2024; Sept. 30, 2024), Snapshot Reports: Enterprise Snapshot, Enterprise Total (Planning Period 2024 data for week ending Apr. 20, 2024). Calls answered by CSRs after filing season are calculated by subtracting the FY 2024 data week ending April 20, 2024, from FY 2024 data week ending September 30, 2024. Wait time after filing season is calculated similarly using a function of calls answered and average speed of answer for both sets of FY 2024 data.

As mentioned, the IRS uses LOS as a primary metric to evaluate its telephone operations. LOS measures how many calls the IRS answers, but this measure is somewhat misleading. During the 2024 filing season, the IRS LOS on its AM lines was 87.6 percent, even though live assistants answered only 32.1 percent of the calls they received.³ The primary reason for this discrepancy is that the IRS does not include calls that drop off before it places the caller in a queue for a live assistant, which impacts its LOS calculation.

We found that public or private entities typically do not use LOS or variations of this metric. Of the entities we reviewed, the IRS was the only one using this specific metric. Other incoming call center operations often measured aspects of the IRS's LOS measure including calls answered, call abandon rate, and callers receiving a busy signal. Both the IRS and other entities included metrics on the time spent answering an inquiry; the wait time before a representative answers a call, which the IRS refers to as the average speed of answer; the percent of calls transferred; and other metrics such as handle and wrap time. Like other entities, the IRS uses customer satisfaction surveys to gauge taxpayer sentiment for its telephone service; however, the percentage of respondents is much lower for the IRS than for other entities. Additionally, we found that many entities track if the caller's first call resolves the issue, but the IRS does not currently track this metric.

In terms of alternate forms of service, the IRS is lagging technologically as it has yet to implement live chat functionality, which many other entities are using. However, the IRS is working to implement this technology when expanding its web services, which could decrease incoming call volumes and allow it to answer more taxpayer inquiries.

Significant conclusions from our study include:

- IRS incoming call volumes significantly exceed the volumes of other entities studied, even considering large national agencies like the Social Security Administration (SSA) or the Department of Veterans Affairs (VA).
- The IRS answers a smaller percentage of calls than the 80 percent standard of most public entities, and it generally answers a smaller percentage of calls than most of the state agencies we reviewed.
- Wait times for IRS callers are higher than the goal of other incoming call operations in the private sector, although wait times are similar during the filing season; wait times for IRS callers are less than those of most of the state agencies we reviewed.
- A common call center metric for many public and private entities is the first contact resolution (FCR) rate. A few state agencies use this metric, but the IRS does not.
- The IRS and most call center operations we reviewed use surveys to measure user satisfaction; however, the IRS should increase the feedback it gathers whether it involves increasing the sample size for its surveys or allowing callers to take the survey at a point in time after their call.

As a result of comparing the IRS to other entities, TAS recommends that the agency strive to implement these changes to improve their telephone service and metrics:

1. Revise the LOS formula so it is a function of total call attempts and include calls answered through automation in the calculation.⁴
2. Implement a procedure for measuring FCR.
3. Offer all callers a customer satisfaction survey.
4. Deploy live chat functionality.

³ IRS, JOC, Snapshot Reports: Enterprise Snapshot, Enterprise Total (Planning Period 2024 data for week ending Apr. 20, 2024).

⁴ The IRS currently measures but does not publicize a metric called Level of Service for Automation, which tracks the total number of calls answered by automation out of all the calls that enter a calling queue.

INTRODUCTION

The National Taxpayer Advocate has frequently expressed concern over the IRS increasingly relying on online channels to communicate with taxpayers while failing to adequately maintain its telephone service. On average, the IRS receives about 100 million telephone calls each year on its toll-free lines. Over the past several decades, the IRS has evaluated its telephone performance using the CSR LOS on its AM lines during the filing season, which is the relative success rate of taxpayers who call for live assistance on the IRS's toll-free telephone lines. The National Taxpayer Advocate acknowledges significant improvement in the IRS's LOS since COVID-19 pandemic era lows but questions the measure's lack of accuracy in gauging the ability to reach a live assistor and whether it is adequately evaluating taxpayers' actual experiences on telephone calls with the IRS.

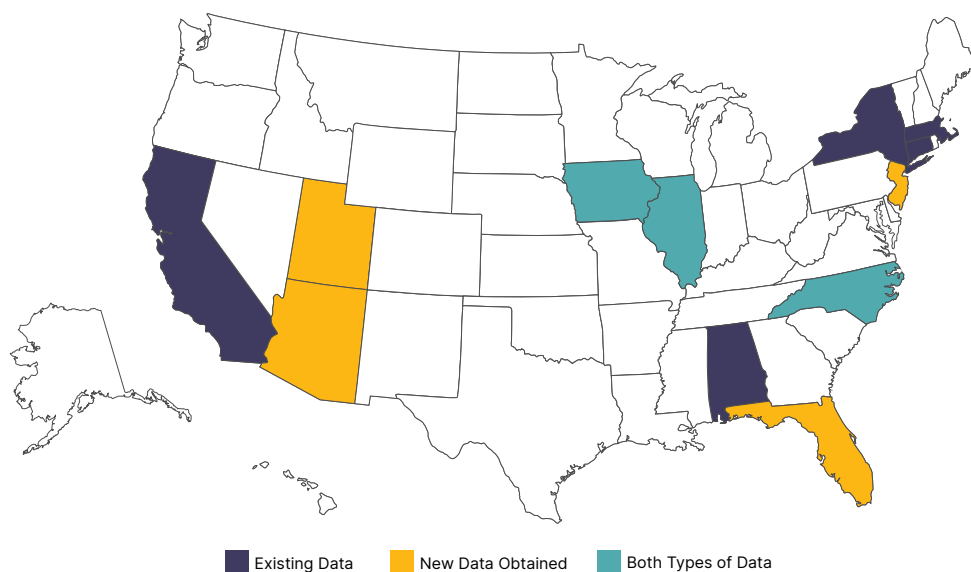
To provide telephone service that meets the needs of taxpayers in the 21st century, the IRS should learn from and follow the approaches taken by other organizations in private industry and the government that treat telephone service as an essential part of their service. TAS's research shows that quality metrics designed to assess timely service and satisfaction should drive the way the IRS evaluates its own telephone service.

This report analyzes measures commonly used in the public and private sector to evaluate and improve call center performance, reviews IRS measures, compares and contrasts those measures with other entities, and makes recommendations for improvement.

TAS used data from several state taxation agencies to make comparisons with the IRS telephone processes and metrics. Figure 5.2.1 shows states for which the IRS used existing data, for which it obtained new data, and for which it had existing data and received additional data.

FIGURE 5.2.1

State Taxation Agencies Compared With the IRS



BACKGROUND

Taxpayers primarily contact the IRS for assistance by calling its telephone lines. Each fiscal year, the IRS receives about 100 million calls, with a significant number – though not a majority – during the filing season. In FY 2024, the IRS spent 5,038 full-time equivalent hours on its enterprise of phone lines.⁵ Figure 5.2.2 shows the breakdown of total call volume from FYs 2020 to 2024 and the number of calls answered by a live assistant, automation, or a general information message. The COVID-19 pandemic and related issues such as site closures and delayed return and refund processing affected the number of calls received and answered for FYs 2021-2022. Aside from the two anomalous years, the IRS is trending slightly higher each year in the percentage of calls it answers. However, even including calls answered by automation, the IRS still answers less than half of the calls it receives.

FIGURE 5.2.2, Calls Received by Fiscal Year⁶

Fiscal Year	Total Calls Received	Total Calls Answered	Percent of Calls Answered
FY 2020	100,514,299	47,504,009	47%
FY 2021	281,708,009	72,236,417	26%
FY 2022	173,265,572	51,755,136	30%
FY 2023	92,875,396	44,268,385	48%
FY 2024	98,927,201	48,764,587	49%

The IRS has broken down its phone structure for specific purposes to serve taxpayers and their diverse needs, with a total of 99 phone lines catering to different business purposes. A subset of 35 phone lines relates to AM functions. The IRS evaluates its phone lines using LOS, which is a function of total calls answered by a live assistant or through informational messaging divided by the total calls answered or disconnected after the caller joins a queue. The IRS does not consider callers who hung up during the calling tree to have joined a calling queue and does not factor them into the LOS calculation. Originally, the IRS used its publicly reported LOS to anticipate what percentage of calls it could answer under various budget and workforce priorities.⁷ However, over the past 20 years, the LOS for only AM phone lines during the filing season has become the primary measure of success or failure. But this measure may be an inaccurate representation because it evaluates only a limited number of phone lines over just a few months of the year.

OBJECTIVES

As an institution that receives nearly 100 million calls each year, it is imperative that the IRS work to improve its operations so it can provide quality service while answering the queries of taxpayers. To evaluate the IRS's telephone service, TAS will compare IRS operations to other entities who also receive large call volumes or perform similar services. This report will review the operations, metrics, and results of other incoming call telephone service providers through both direct and indirect means to develop benchmarks and recommend metrics and goals for IRS consideration. We section the report into four objectives:

⁵ IRS response to TAS information request (Oct. 21, 2024).

⁶ IRS, JOC, Snapshot Reports: Enterprise Snapshot, Enterprise Total (FY data for weeks ending Sept. 30, 2020; Sept. 30, 2021; Sept. 30, 2022; Sept. 30, 2023; Sept. 30, 2024). Total Calls Answered = Net Attempts; Total Calls Answered = Assistant Calls Answered + Integrated Customer Communications Environment (ICCE)-Phones + Interactive Voice Response (IVR) Open Hours + Info Msg; Percent of Calls Answered = Total Calls Received/Total Calls Answered. Percent of Calls Answered is made up of Percent Calls Answered by a Live Assistant and Percent Calls Answered With Automated Assistance. The Percent of Calls Answered by Live Assistant from FYs 2020 to 2024 was 24 percent in FY 2020, 11 percent in FY 2021, 13 percent in FY 2022, 29 percent in FY 2023, and 31 percent in FY 2024. The percent of Calls Answered With Automated Assistance was 23 percent in FY 2020, 14 percent in FY 2021, 17 percent in FY 2022, 18 percent in FY 2023, and 18 percent in FY 2024. All numbers in the figure are rounded.

⁷ National Taxpayer Advocate 2001 Annual Report to Congress 9 (Most Serious Problem: Access to Customer Service Toll-Free Telephone Service), <https://www.taxpayeradvocate.irs.gov/reports/2001-annual-report-to-congress/full-report/>.

1. Review public information available for several large incoming call services, particularly focusing on their operations, metrics, and results.
2. Contact entities with large incoming call telephone services to obtain unpublished details of their operations, metrics, and results.
3. Review IRS operations, metrics, and results of their toll-free telephone service.
4. Compare and contrast the operations, metrics, and results of IRS toll-free telephone operations to those of other large entities with large incoming call services.

METHODOLOGY

Objective 1: Review public information available for several large incoming call services, particularly focusing on their operations, metrics, and results.

TAS Research conducted a thorough review of online sources to gather any information for public and private entities on their telephone service. Sources included government entities, including several taxation entities, private companies, and organizations dedicated to telephone service. TAS Research also reached out to contacts at the IRS for any relevant published reports or studies, ensuring a comprehensive understanding of the current landscape.

Objective 2: Contact entities with large incoming call telephone services to obtain unpublished details of their operations, metrics, and results.

On behalf of TAS Research, the Privacy, Governmental Liaison, and Disclosure (PGLD) team reached out to several state taxation agencies. Several agencies provided insights into their telephone processes and data. TAS Research also reached out to contacts at several private entities in the airline, banking, and pharmaceutical industries. However, only one entity was willing to provide more context on its operations via a phone interview. We were able to find and describe industry standards for incoming call center operations.

Objective 3: Review IRS operations, metrics, and results of their toll-free telephone service.

TAS Research reviewed call volumes and other metrics using data available from the IRS Joint Operations Center and conducted a site visit in Atlanta, Georgia, to gather more details on telephone service processes. We also held discussions with staff from both the Treasury Inspector General for Tax Administration and the Government Accounting Office to gain their perspective on IRS telephone operations. Finally, TAS reviewed the customer transactional surveys that IRS Taxpayer Services conducted.

Objective 4: Compare and contrast the operations, metrics, and results of IRS toll-free telephone operations to those of other large entities with large incoming call services.

TAS Research analyzed all the information collected in the first three objectives. We discuss metrics used by other call centers and goals for certain metrics that the IRS should adopt to provide better service to telephone callers. We also explore differences between the IRS LOS measure and the LOS metrics used by other call centers, both private and public.

FINDINGS

Objective 1: Review public information available for several large incoming call services, particularly focusing on their operations, metrics, and results.

Public Entities

Two of the publicly available resources that TAS Research accessed were the resources of the SSA and VA. Both report information about their telephone operations and their call volumes on their respective websites.

The SSA is a federal agency that manages Social Security benefits and programs for the American population. The agency receives large call volumes, and in FY 2023, it received 51,933,760 calls.⁸ Unlike the IRS, the SSA receives about the same number of calls each month, whereas the IRS receives many of its calls during the filing season or in the months soon thereafter. The SSA evaluates itself by the CSR Busy Rate, which is the number of calls offered to CSRs who received a busy message divided by the total number of calls offered to CSRs.⁹ The SSA tries to minimize this rate; for FY 2023, it was eight percent.¹⁰

The VA is a federal agency that provides benefits to veterans and their families. In 2020, the VA offered live agent support 24 hours a day throughout the year. In FY 2022, the VA fielded over 50 million calls and received a 72.7 percent satisfaction score from its customers.¹¹ To make telephone access easier, the agency established a hotline that allowed customers to simply dial 988 and then press 1 to reach an assistor. In FY 2022, the VA received 717,000 calls through this hotline.¹² Additionally, the VA allows customers to reach them through SMS texting, the AskVA website, and a chatbot service on the VA website.

Private Entities

We also reviewed suggested metrics in the public domain, provided by companies specializing in call center operations, technology, and metrics. There is a consensus among private industry, and many entities agree that the following list reflects the most common key performance indicators:¹³

1. FCR Rate: A metric that measures a call center's performance for resolving customer interactions on the first call or contact, eliminating the need for follow-up contacts.
2. Customer Satisfaction Score: This is based on a post-call phone or email survey conducted within one business day of an interaction. Score scales vary, but most common is a five-point scale.
3. Net Promoter Score: A one-question survey, typically on a zero to ten scale, to gauge customer loyalty and satisfaction.
4. Average Handle Time: The average time for an agent to resolve a customer issue or problem. Average Handle Time (*i.e.*, agent talk time + hold time + after-call task time) starts when an agent answers the customer's call and ends after they wrap up the call.
5. Service Level and Response: A call center's ability to answer a certain number of calls in a predetermined amount of time. The call center industry standard for service level is to answer 80 percent of calls in 20 seconds.
6. Average Speed of Answer: This assesses call center responsiveness by measuring the average time for a CSR to answer a call. It is typically calculated by taking the total wait time of answered calls and dividing by the total number of answered calls.
7. Occupancy Rate: The percentage of time that agents spend handling (*e.g.*, talk, hold, and wrap-up time) customer inquiries and problems. Occupancy rate is a common measurement of how busy agents are dealing with customers.

8 SSA, Open Government Initiative, <https://www.ssa.gov/open/data/800-number-call-volume-and-agent-busy-rate.html> (last visited Nov. 26, 2024). Dataset updated on August 27, 2024; provides monthly call volumes and statistics dating back to FY 2010. Data cited is in cell C196.

9 SSA, Open Government Initiative, <https://www.ssa.gov/open/data/800-number-call-volume-and-agent-busy-rate.html> (last visited Nov. 26, 2024).

10 *Id.* Dataset updated on August 27, 2024; provides monthly call volumes and statistics dating back to FY 2010. Data cited is in cell E196.

11 VA, VA Contact Centers Modernize to Improve Veteran Experience (June 5, 2023), <https://news.va.gov/120581/va-contact-centers-improve-experience/>.

12 *Id.*

13 What Are the Industry Standards for the Top Call Center KPIs?, SQM GRP. (Jan. 19, 2023), <https://www.sqmggroup.com/resources/library/blog/industry-standards-top-call-center-kpis>; Jayadeep Subhashis, Top 17 Contact Center Metrics to Monitor in 2024, SPRINKLR (Apr. 1, 2024), <https://www.sprinklr.com/blog/contact-center-metrics/>; Alex Doan, 12 Key Call Center Metrics and KPIs to Drive Better Performance, NEXTIVA (Feb. 12, 2024), <https://www.nextiva.com/blog/call-center-metrics.html>.

8. Abandon Rate: The percentage of calls dropped by customers before they can reach an agent. The call center industry standard for call abandon rate is six percent.
9. Callers Put on Hold: The average on-hold time is 55 seconds. The call center industry standard for callers put on hold when talking to an agent is 46 percent.
10. Caller's Call Transferred: The call center industry standard for the percentage of caller's calls transferred to another agent or supervisor is 19 percent.
11. Complaint Calls: Most call centers underreport the percentage of calls that callers would describe as complaint calls. The call center industry standard for callers who describe their call as a complaint is 13 percent.

Objective 2: Contact entities with large incoming call telephone services to obtain unpublished details of their operations, metrics, and results.

Public Entities

TAS Research contacted several state government agencies and requested new or additional information on their telephone service. We received responses from the Departments of Revenue (DORs) for Arizona, Florida, Iowa, Illinois, and North Carolina; the New Jersey Division of Taxation; and the Utah State Tax Commission. Figure 5.2.3 compiles a summary of the responses. Unless explicitly noted, the data provided by each agency was from the most recent full fiscal year or calendar year.

FIGURE 5.2.3, Unpublished Telephone Data From State Tax Agencies¹⁴

Agency	Total Calls Received	Percent of Calls Answered	First Contact Resolution	Call Wait Time	Call Handle Time
Arizona DOR (July 2023-June 2024)	920,715	25%	77%	25.5 min	13 min
Florida DOR	461,803	52%	n/a	Not Reported	12 min
Florida DOR: Child Support Enforcement	887,803	80%	n/a	13 min	11 min
Iowa DOR	132,726	83%	Not Reported	6.5 min	7 min
Illinois DOR	895,876	89%	Not Reported	7.5 min	Not Reported
New Jersey Division of Taxation (July 2023-June 2024)	774,438	76%	n/a	9.5 min	12 min
North Carolina DOR	779,268	71%	80%	13 min	9 min
Utah State Tax Commission: Taxpayer Resources (Main Tax Call Center)	150,495	86%	Not Reported	6 min	6 min
Utah State Tax Commission: Collections Call Center	116,923	95%	92%	0.5 min	5 min

Arizona reported an LOS of 18 percent; however, its definition of the metric is different from the IRS. Arizona defines LOS as the ratio of calls that enter the queue and assistants answer within 15 minutes. Iowa defines LOS similarly as the ratio of calls answered within five minutes and reported an LOS of 67 percent. Florida DOR reports a service level of 32 percent, which is the ratio of calls answered within 20 seconds.

Utah and New Jersey did not report an LOS, but they reported answering approximately 90 percent and 76 percent, respectively, of all the calls they received. Three entities reported using an FCR measure with Arizona reporting 77 percent, North Carolina reporting 80 percent, and Utah Collections Contact Center reporting 92 percent.

¹⁴ Responses to PGLD for telephone service metrics from state agencies (Nov. 8, 2024; Nov. 13, 2024).

In Arizona, calls disconnected while waiting in queue was 32 percent, while calls disconnected pre-queue was 63 percent. In Iowa, the definition of a “received call” is when a call enters a queue and is on hold for at least five seconds without disconnecting. Iowa’s abandonment rate was approximately 17 percent. Utah only tracks secondary abandons, which are calls that enter a queue, and excludes calls abandoned within 30 seconds. The abandonment rates for both Utah’s Taxpayer Resources (Main Tax Call Center) and the Collections Contact Center were four percent each. Florida DOR reports 16 percent as the calls abandoned in the queue before the caller connected to an agent. Florida DOR: Child Support Enforcement reported an abandonment rate of 20 percent. Illinois and New Jersey reported abandonment rates of 11 percent and 21 percent, respectively, though they did not provide specific definitions.

The Arizona DOR measures customer satisfaction by asking three questions it scores on a five-point scale. In 2024, 58,187 responses produced these average scores:

1. Was your wait time reasonable? Score=3.4
2. Do you feel your questions and concerns have been resolved during today’s call? Score=3.9
3. Were you satisfied by the quality of service provided by the customer service representative you just spoke with? Score=4.5

Utah measures satisfaction on a four-point scale. Details about the questions were not provided, but its Taxpayer Resources (Main Tax Call Center) received an average score of 3.58. Utah’s Collection Contact Center also measures satisfaction on a four-point scale but reports it differently with a score of 92.3 percent.

The Illinois DOR reported that 78 percent of callers express 100 percent satisfaction with the service they received.

Private Entities

Unpublished data was difficult to obtain for private entities as they preferred not to disclose any data they had not already made publicly available. There are still outstanding requests to companies in the airline, telecommunications, and banking industries, so it is possible that we may receive data from them in the future.

We did, however, receive some relevant telephone data from a pharmaceutical company subsidiary. The company, which requested to remain anonymous, provides support for a well-known drug. The calls they receive typically deal with product questions, financial assistance, and replacements for damaged products. The company does not currently use any automation, and live assistants in the United States answer all calls. The company has 79 full-time employees with 15 Spanish-speaking employees. The hours of operation are 8:30 a.m. to 6 p.m. Eastern Time.

The company received about 250,000 calls in 2022 and 2023. One measure that the company uses to evaluate its service is Answer Rate, which is the percentage of incoming calls answered by a live assistant; its Answer Rate was about 50 percent. Its average hold time was five minutes and ten seconds, and it answered 53 percent of calls within 30 seconds. Additionally, about 73 percent of callers received a resolution during their first call about their particular issue.

With call volumes expected to increase each year, this company does plan to implement some sort of artificial intelligence to automate some call functions. Also, the company wants to use translation services to accommodate callers who do not speak English.

Objective 3: Review IRS operations, metrics, and results of its toll-free telephone service.

The IRS splits up its telephone service among 99 different lines with IRS employees dedicated to specific taxpayer activities for each phone line. By doing this, the IRS can avoid having to cross-train all employees on all taxpayer functions. However, this does lead to challenges where many calls to certain phone lines overwhelm IRS employees while employees for other phone lines sit idle. While the IRS measures the LOS for

each individual line, it has a consolidated LOS figure for all AM lines, which is publicly reported. Because of this, the IRS makes an effort to prioritize resources for AM phone lines. In Figure 5.2.4, we compare FY 2024 figures for the IRS's consolidated AM phone lines against the top five non-AM phone lines by call volume.

FIGURE 5.2.4, AM Comparison to Non-AM Phone Lines, FY 2024¹⁵

Phone Lines	Calls Received	Percent of Total Calls	Total Calls Answered	Percent of Calls Answered	Level of Service
All AM Phone Lines	68,796,374	70%	35,211,028	51%	65%
Non-AM: Installment Agreement/Balance Due	10,996,409	11%	5,270,308	48%	48%
Non-AM: Taxpayer Protection Program	6,193,982	6%	1,159,050	19%	20%
Non-AM: Automated Collection System (ACS)	5,972,831	6%	3,984,941	67%	51%
Non-AM: Automated Underreporter	1,295,755	1%	626,514	48%	58%
Non-AM: Refundable Integrity Compliance Services Automated Questionable Credit Hotline	864,560	1%	162,626	19%	22%

Figure 5.2.4 shows us that the 35 combined AM phone lines accounted for 70 percent of all the calls the IRS received in FY 2024. The numbers of calls answered by either a live assistor, automation, or general information message was about 51 percent. Out of the non-AM phone lines, only the ACS line was higher, though that is likely attributable to automation answering more than half of ACS calls,¹⁶ which is not typical for other phone lines. Though the Taxpayer Protection Program line received over six percent of all phone calls, it is possible the IRS allocated fewer live assistants to the line because it is not under the AM umbrella of lines. This resulted in the IRS answering less than one out of every five incoming calls for that phone line.

The LOS for AM was 65 percent, which was far higher than the five non-AM phone lines. While it may seem that ACS performed better, its LOS was only 51 percent and is attributable to the IRS not factoring automated call answering into its formula. The IRS has created a separate LOS for automation referred to as Level of Service (Automation), but this makes it difficult to compare phone lines that answer using both live assistants and automation with phone lines that do not answer by automation.

The IRS also conducts transactional surveys on a sample of taxpayers for multiple phone lines. It uses one dedicated survey for all 35 AM toll-free phone lines. If the taxpayer consents, the IRS immediately prompts them with a seven-question survey following the completion of their call with the IRS. The IRS asks taxpayers the following questions on a five-point scale (1-Strongly Disagree; 2-Disagree; 3-Neither Disagree nor Agree; 4-Agree; 5-Strongly Agree). The IRS considers 4-Agree and 5-Strongly Agree to be positive outcomes. Figure 5.2.5 shows the results of a positive outcome in FY 2024.

15 IRS, JOC, Snapshot Reports: Product Line Detail (Enterprise Performance) (week ending Sept. 30, 2024); Snapshot Reports: Enterprise Snapshot, Enterprise Total (week ending Sept. 30, 2024). Percent of Total Calls = Calls Received/(Net Attempts in FY 2024, which is 98,927,201); LOS = Numerator Divided by Denominator. Numerator = Assistor Calls Answered + Info Messages. Denominator = Assistor Calls Answered + Info Messages + Emergency Closed + Secondary Abandons + (Add either Calculated Busy Signals OR Network Incompletes)* + (Add either Calculated Network Disconnects OR Total Disconnects). *Note: If the sum of Variable Call Routing (VCR) Answered + Informational Messages + ICCE-Phones is greater than or equal to one, use Calculated Busy Signals and Calculated Network Disconnects to determine CSR LOS. Otherwise, use Total Busy Signals (Network Incompletes) and Total Disconnects.

16 The ACS phone line has an automated function that allows taxpayers to enter into an installment agreement for their tax balance due. Taxpayers who call the ACS line are typically calling for this function.

FIGURE 5.2.5, Results for AM Toll-Free Transactional Survey, FY 2024¹⁷

Question	Respondents Who Chose “4-Agree” or “5-Strongly Agree”
Satisfied With Service Received	87%
Interaction Increased Trust in the IRS	77%
Addressed Need	86%
Easy to Complete	77%
Reasonable Amount of Time	72%
Treated Fairly	93%
Employees Were Helpful	94%

While it is encouraging to see taxpayers reporting a positive experience of over 70 percent for all seven questions, this reflects the opinions of only 4,721 respondents, which equates to about a 1.9 percent response rate for the survey.¹⁸

Objective 4: Compare and contrast the operations, metrics, and results of IRS toll-free telephone operations to those of other large entities with large incoming call services.

In 2023, the IRS Performance Measure Tiger Team (PMTT) conducted a study that benchmarked customer service metrics across different organizations. The IRS examined several taxation authorities and how they provide customer service. The entities from the United States that were evaluated included the California Department of Tax and Fee Administration (CDTFA), California’s Employment Development Department, California’s Franchise Tax Board, New York Taxation, and the DORs for Illinois, Iowa, Massachusetts, North Carolina, Alabama, and Connecticut. International entities included the Danish Tax Authority, Swedish Tax Agency, New Zealand Inland Revenue, Ireland Revenue Authority, Inland Revenue Authority of Singapore, and Canadian Revenue Agency. The study asked each entity if they offer customer service via telephone, live online chat, chatbot, email, social media, and a physical presence. It also evaluated if they used a customer callback service. The data in this section differs from the data in Objective 2 because it is sourced from an existing report. The data in Objective 2 is new data collected to support this report.

These agencies offered phone support; however, their call volumes were much lower than the IRS. The study reported that the CDTFA receives about 700,000 calls each year, the North Carolina DOR receives about 800,000 calls each year, and the Alabama DOR receives about 300,000 calls each year.¹⁹ Internationally, the Danish Tax Authority receives 3.6 million calls annually, the New Zealand Inland Revenue receives 2.2 million calls annually, and the Canadian Revenue Agency receives about 23 million calls each year.²⁰ All the entities, except for the North Carolina DOR and the Alabama DOR, use a callback service. The IRS uses a callback service but only for a limited number of phone lines. In FY 2024, for the Taxpayer Protection Program line, 771,000 taxpayers opted to use this service; their average callback time was two hours. Overall, in FY 2024, 11,331,367 taxpayers opted to use this service, and their average callback time was 28 minutes. The IRS uses callback service on a variety of its toll-free lines, representing the potential for a call back offering to 95 percent of the live agent call demand.²¹

About half of the entities, both domestic and international, reported using a live chat service and chatbots. The IRS does not currently utilize live chat but it plans to deploy it in FY 2025.

¹⁷ FY 2024 Accounts Management Toll-Free Survey Annual Report, Page 2, Figure 1 (Nov. 2024).

¹⁸ FY 2024 Accounts Management Toll-Free Survey Annual Report, Page 1, Background (Nov. 2024).

¹⁹ Benchmarking Customer Service Metrics Across Different Organizations, Slide 3, PMTT (2023).

²⁰ *Id.* at Slide 4.

²¹ IRS response to TAS fact check (Nov. 21, 2024).

All the agencies reported using social media for outreach. The IRS uses Facebook, YouTube, X, Instagram, and LinkedIn.²² All agencies reported having physical offices, except the Canadian Revenue Agency. Canada only deploys a few offices in its northern provinces during the tax season.

The PMTT also compiled a list of several common measures and what each domestic taxation entity uses. Specifically, they are:

- FCR;
- Level of Access/LOS;
- Abandon Rate;
- Call Handle Time;
- Customer Satisfaction;
- Call Wait Time; and
- Average Speed of Answer.

Figure 5.2.6 shows the list of domestic entities and the statistics they reported. A checkmark indicates that the entity uses that measure but did not report it.

FIGURE 5.2.6, Operational Customer Service Metrics by Domestic Taxation Entities²³

Agency	First Contact Resolution	Level of Access/Level of Service	Abandon Rate	Call Handle Time	Customer Satisfaction	Call Wait Time/Average Speed of Answer	Number of Taxpayers/Users
California Department of Tax and Fee Administration	-	✓	✓	✓	✓	✓	18.1 mil
California Employment Development Department	✓	✓	✓	✓	✓	✓	n/a
California Franchise Tax Board	✓	✓	✓	✓	✓	✓	n/a
Illinois DOR	-	-	-	-	✓	-	5.9 mil
Iowa DOR	✓	✓	<5%	<6.5 min	>90% satisfaction	<5 min	1.5 mil
Massachusetts DOR	✓	✓	2%	✓	✓	2 min average (16 max)	3.5 mil
North Carolina DOR	85-88%	-	11%	-	-	-	4.8 mil
Alabama DOR	✓	✓	✓	3-5 min 5.5 average call time	-	✓	2.1 mil
Connecticut DOR	-	-	-	3-4 min	-	-	1.8 mil
New York Taxation	✓	✓	✓	✓	✓	✓	9.6 mil
IRS	-	✓	✓	✓	✓	✓	137.7 mil

22 IRS, IRS Social Media, <https://www.irs.gov/newsroom/irs-social-media> (last updated Aug. 29, 2024).

23 Benchmarking Customer Service Metrics Across Different Organizations, Slide 5, PMTT (2023).

Regarding FCR, only some states use such a measure. The IRS does not collect or report it, though some satisfaction surveys do ask taxpayers and practitioners if the IRS addressed their needs and if they needed to call again for the same problem. A 2017 survey conducted by TAS on IRS service found that 38 percent of the taxpayers surveyed reported being unable to resolve their issue during their first call with the IRS.²⁴

Most, but not all of the agencies reviewed, have a Level of Access/LOS measure. Such measures vary significantly in what they measure and how. The IRS has a very specific LOS measure that it publicly reports, but it uses a calculation for only a subset of phone lines over the filing season, which is limited to a few months.

Abandon Rate is a common measure, with some setting goals below five percent. The IRS does track both primary abandoned calls (calls where taxpayers hang up before entering a calling queue) and secondary abandoned calls (calls where a taxpayer hangs up once in a calling queue), though it factors in only the secondary abandoned calls into its LOS measure. Overall, in FY 2024, taxpayers abandoned 38 percent of their calls to the IRS.²⁵

Call Handle Time is also common, with several states seeking calls lasting about five minutes or less. Such a measure may be difficult for the IRS to standardize given the number of diverse lines and possibly complicated issues to resolve; however, it does track the Average Call Handle Time for phone calls, which for AM calls was 16.5 minutes in FY 2024.²⁶

Several of the states reviewed use Customer Satisfaction data, with Illinois using it as the only listed measure and New York considering it highly important. While the IRS does not publicize it, it does survey callers for several satisfaction measures.

Call Wait Time of five minutes or fewer is often an IRS filing season goal, similar to other entities, but the reality for many lines, even during the filing season, is that calls can last many more minutes than the goal.²⁷

Next, we examine how the IRS compares to the tax authorities of other countries. Figure 5.2.7 shows the list of international entities and what statistics they reported. A checkmark indicates that the entity uses that measure but did not report it.

24 See National Taxpayer Advocate 2017 Annual Report to Congress vol. 2 (Research Study: *A Further Exploration of Taxpayers' Varying Abilities and Attitudes Toward IRS Options for Fulfilling Common Taxpayer Service Needs*), <https://www.taxpayeradvocate.irs.gov/reports/2017-annual-report-to-congress/research-and-related-studies/>.

25 IRS, JOC, Snapshot Reports: Enterprise Snapshot, Enterprise Total (week ending Sept. 30, 2024). Percent of Calls Abandoned = (Primary Abandoned + Secondary Abandoned)/Net Attempts. There were 25,052,745 primary abandoned calls and 13,014,268 secondary abandoned calls.

26 IRS, JOC, AM CSR LOS Dashboard, Data tab (Oct. 3, 2023-Oct. 1, 2024).

27 See IRS Fact Sheet, FS-2023-25, IRS Achieves Key Paperless Processing Initiative Goal, Outlines Improvements for Filing Season 2024 (Nov. 2023), <https://www.irs.gov/newsroom/irs-achieves-key-paperless-processing-initiative-goal-outlines-improvements-for-filing-season-2024>.

FIGURE 5.2.7, Operational Customer Service Metrics by International Taxation Entities²⁸

Agency	First Contact Resolution	Level of Access/Level of Service	Abandon Rate	Call Handle Time	Customer Satisfaction	Call Wait Time/Average Speed of Answer	Total Population
Danish Tax Authority	✓	✓	✓	✓	✓	9.4 min	5.8 mil
Swedish Tax Agency	✓	✓	✓	✓	✓	✓	10.4 mil
New Zealand Inland Revenue	✓	-	✓	✓	✓	4.5 min	5 mil
Ireland Revenue Authority	✓	✓	✓	✓	✓	✓	5 mil
Inland Revenue Authority of Singapore	✓	✓	✓	✓	✓	80% in 2 min	6 mil
Canadian Revenue Agency	✓	60% of calls answered in 15 min	✓	✓	✓	✓	40 mil
IRS	-	✓	✓	✓	✓	✓	334.7 mil

In this comparison of countries, the IRS stands out as it serves by far the largest population of over 300 million people. Canada is second on the list, serving about 40 million people, and reports that it answers about 60 percent of its calls within 15 minutes. Singapore is also notable for its 80 percent of calls answered within two minutes, though it only serves about six million people. All six of the other countries reportedly use a FCR measure. It is possible that the larger scale of operation makes FCR more difficult for the IRS to track. However, it may be worth considering implementing as the IRS was the only country that did not use this measure. Resolving a taxpayer's issue during the first call prevents subsequent calls on the same issue, reducing the number of calls received. While all the countries indicated they measure Abandon Rate, none reported the actual rate they experience. In addition to the Abandon Rate, it might be helpful to measure how long callers were on the telephone before disconnecting the call. For the IRS, these additional data points may help explain why over 25 million callers abandoned their call to the IRS.²⁹

CONCLUSION AND RECOMMENDATIONS

The IRS has a tall order of providing service for nearly 100 million calls each year. To better evaluate its taxpayer service, it needs to develop a more representative calculation of how many calls it answers and if taxpayers are getting their issues resolved. Additional taxpayer survey data would also be helpful to understand this. The IRS needs to keep up with other entities and provide different methods of accessing service. Specific conclusions include:

1. IRS incoming call volume significantly exceeds the volumes of other entities studied, even considering large national agencies like the SSA or the VA.
2. The IRS answers a smaller percentage of calls than the 80 percent standard of most public entities, and it generally answers a smaller percentage of calls than most of the state agencies we reviewed.

²⁸ Benchmarking Customer Service Metrics Across Different Organizations, Slide 6, PMTT (2023).

²⁹ IRS, JOC, Snapshot Reports: Enterprise Snapshot, Enterprise Total (FY data for week ending Sept. 30, 2024). Primary Abandoned Calls.

3. Wait times for IRS callers is higher than the goal of other incoming call operations in the private sector, although wait times are similar during the filing season, and wait times for IRS callers are less than for most of the state agencies we reviewed.
4. A common call center metric for many public entities is the FCR. A few states also use this metric, but the IRS does not.
5. The IRS and most call center operations we reviewed use surveys to measure customer satisfaction; however, the IRS should gather more feedback by increasing the sample size for its surveys or by giving callers the opportunity to take the survey at a point in time after their call with the IRS.
6. The average Call Handle Time for the IRS was about three times higher than that of state agencies that reported the measure.
7. None of the entities studied reported an official measure for only a subset of the calls they received, unlike the IRS and its LOS measure.
8. The IRS should further investigate abandoned calls by collecting data on how long taxpayers are on the telephone before abandoning a call. It does not currently collect this data, which could give insight on the interaction of taxpayers within the IRS calling tree.

Administrative Recommendations to the IRS

The National Taxpayer Advocate recommends that the IRS:

1. Revise the LOS formula so it is a function of total call attempts and includes calls answered through automation in the calculation. This formula will not only be more representative of the taxpayer experience, but it will allow for a better comparison between phone lines that only use a live assistor and phone lines that use both a live assistor and automation.
2. Implement a procedure for measuring FCR.
3. Offer all callers a survey in a separate call if the taxpayer consents. Because there is a risk of disconnection when the IRS transfers the caller to a survey after the call is complete, a separate call may lead to a higher response rate. By offering the survey to all callers, the IRS could capture more feedback that may be more representative of the population.
4. Deploy live chat functionality, which could redirect calls and provide faster taxpayer service.

The authors thank the States of Arizona, Florida, Iowa, Illinois, North Carolina, New Jersey, and Utah for their assistance in providing data for this report. We further appreciate the prior work of the IRS PMTT. By adding to the body of knowledge on phone service, the IRS and others can better set goals and measure themselves in pursuit of quality service.

IRS Processing of Individual Taxpayer Identification Numbers

EXECUTIVE SUMMARY

Individual Taxpayer Identification Numbers (ITINs)¹ are an essential tool for individuals who are not eligible for a Social Security number (SSN) to fulfill their tax obligations in the United States. While ITINs are often linked with immigration policy, their primary purpose is to allow a non-SSN holder to report and pay taxes. Congress created the ITIN program in 1996 to facilitate tax return processing and payment for those without SSNs, emphasizing that ITINs are for tax purposes only. Over time, however, various private and public entities, including financial institutions and state agencies, have used ITINs as proof of identity for services like credit card applications or driver's licenses.² The 2015 Protecting Americans from Tax Hikes (PATH) Act introduced significant changes to the ITIN program. These include stricter application rules and automatic expiration of ITINs if unused for three consecutive tax years. Despite these updates, the ITIN program faces operational challenges that burden both the IRS and taxpayers.³

This report examines the scope and impact of ITINs, focusing on the characteristics of ITIN-related tax returns, including the size of the ITIN tax return filing population, taxes paid, credits received, and other characteristics. It discusses the IRS administration of the program, including the challenge of the IRS reviewing and processing hundreds of thousands of ITIN applications. Finally, we look at the challenges faced by ITIN applicants, particularly when errors occur because the IRS erroneously deactivated their ITIN and the additional burdens imposed by the IRS issuance of ITIN-related math error notices, which taxpayers may not understand leading to delays and loss of millions of dollars in credits.⁴ The specific objectives for this study and corresponding significant conclusions are to:

1. Determine the size and composition of the ITIN program and quantify its impact on U.S. taxation.
 - Millions of tax returns include at least one ITIN annually, contributing billions of dollars in tax revenue, even after allowable credits, which range from about \$2 to \$4 billion.
 - ITIN filers are predominately low-income taxpayers with a median adjusted gross income (AGI) of slightly over \$31,000.
 - ITIN applicants who use a Certifying Acceptance Agent (CAA) to certify the documents submitted with their ITIN application are 15 percent more likely to have the IRS accept their application, while ITIN applicants without CAA support face more than double the rejection rate of ITIN applications submitted by a CAA.
 - Volunteer Income Tax Assistance (VITA) sites may offer free CAA services to certify documents submitted with the ITIN application but are limited to only 17 states, leaving taxpayers without adequate support.

1 See Most Serious Problem: *Individual Taxpayer Identification Number Processing: IRS Dependence on Paper Forms and Manual Document Review Is Causing Delays, Mistakes, and Potential Security Risks*, *supra*.

2 Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2024-400-012, *Administration of the Individual Taxpayer Identification Number Program 1-2* (2024), <https://www.tigta.gov/reports/audit/administration-individual-taxpayer-identification-number-program-0>.

3 Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Division Q, Title IV, § 203(b), 129 Stat. 2242, 3079 (2015) [hereinafter referred to as the "Protecting Americans from Tax Hikes Act of 2015" (PATH Act)].

4 At a future date, TAS also intends to explore the amount of tax revenue lost for ITIN filers who are self-employed or who work for cash as wages not reported on an employment tax return; however, TAS is still pursuing an external vendor to assist with this economic analysis.

2. Assess the IRS's administration of the ITIN program.

- The IRS assigns hundreds of thousands of ITINs each year. In calendar year (CY) 2023, the IRS issued nearly 900,000 ITINs and rejected more than 250,000 ITIN applications.
- Navigating the IRS process may be quite difficult for taxpayers, and if they submit critical identification documents with their applications, they risk not receiving them back.
- In tax year (TY) 2022, the IRS invalidated ITINs for almost 22,000 taxpayers impacting nearly 32,000 dependents, and IRS-issued math error notices eliminated over \$6 million in claimed Other Dependent Credits.

INTRODUCTION

The U.S. government requires individuals who are ineligible for an SSN but need a Taxpayer Identification Number (TIN) for filing a federal income tax return to get an ITIN. These individuals must apply for an ITIN on Form W-7, Application for IRS Individual Taxpayer Identification Number.⁵ The Form W-7 instructions list several categories of individuals who require an ITIN, including:⁶

- Nonresident alien individual claiming reduced withholding under an applicable income tax treaty;
- Nonresident alien individual not eligible for an SSN who must file a U.S. federal tax return or who is filing a U.S. federal tax return only to claim a refund;
- Nonresident alien individual not eligible for an SSN who elects to file a joint U.S. federal tax return with a spouse who is a U.S. citizen or a resident alien;
- U.S. resident alien (based on the number of days present in the United States, known as the “substantial presence” test) who files a U.S. federal tax return but who is not eligible for an SSN;
- Nonresident alien student, professor, or researcher required to file a federal tax return but who isn’t eligible for an SSN or who is claiming an exception to the tax return filing requirement;
- Alien spouse claimed as an exemption on a U.S. federal tax return who is not eligible to get an SSN; and
- Alien individual whom another taxpayer can claim as a dependent on a U.S. federal tax return but who is not eligible to get an SSN.

In general, a federal income tax return must accompany Form W-7.⁷ There are five exceptions to this rule:

1. Passive income – third-party withholding or tax treaty benefits;
2. Other income;
3. Mortgage interest – third-party reporting;
4. Dispositions by a foreign person of U.S. real property interest – third-party withholding; and
5. Treasury Decision (T.D.) 9363.⁸

While some taxpayers do file a Form W-7 because of one of these exceptions, nearly 90 percent of the assigned ITINs since 2022 have been associated with Forms W-7 accompanying federal income tax returns filed by nonresident aliens or resident aliens and their spouses or dependents.⁹

5 TIGTA, Ref. No. 2024-400-012, *Administration of the Individual Taxpayer Identification Number Program 1-2* (2024), <https://www.tigta.gov/reports/audit/administration-individual-taxpayer-identification-number-program-0>.

6 IRS, Form W-7 Instructions (Nov. 2023), <https://www.irs.gov/pub/irs-pdf/iw7.pdf>.

7 *Id.*

8 This exception may apply to those who have an IRS reporting requirement as a non-U.S. representative of a foreign corporation who needs to obtain an ITIN for the purpose of meeting their e-filing requirement under T.D. 9363. IRS, Form W-7 Instructions (Nov. 2023), <https://www.irs.gov/pub/irs-pdf/iw7.pdf>.

9 IRS, Compliance Data Warehouse (CDW), Entity Application Programs (EAP), Form W7 Database (through Sept. 26, 2024).

The IRS has the difficult task of timely processing hundreds of thousands of ITIN applications each year while attempting to prevent their issuance to unqualified individuals. Since its inception, the ITIN program has faced persistent fraud risk and logistical hurdles. Fraudsters try to submit invalid or falsified documents to gain access to either the nation's tax system or to privileges often afforded to holders of a TIN. Since 2022, applicants have submitted over 1.8 million ITIN applications, of which the IRS rejected over 500,000.¹⁰

The IRS ITIN application process places significant burdens on individuals needing to either report a tax liability or claim a refund where the IRS has collected more tax from them than what they are liable to pay. Applicants must either supply the original identification documents necessary to prove their identity to receive an ITIN or use a CAA to validate their documents before submitting copies with the application. Often, the fees paid to CAAs to certify a document are quite expensive, which can be difficult for many ITIN holders to afford. For TY 2022, the average and median AGI of filers with an ITIN on their return was only \$45,821 and \$31,033, respectively. If a taxpayer elects to mail the original documents to the IRS with their Form W-7, the taxpayer risks not receiving the documents back. To add to the issue, some taxpayers may have moved after making the ITIN application. In fact, in 2023, the IRS returned over 6,000 passports to embassies and destroyed nearly 8,000 taxpayer documents because the IRS had lost contact with the applicant after the IRS determined it needed additional documentation to perfect the ITIN application.¹¹

This study explored the volume of tax returns filed with an ITIN, some of the tax consequences emanating from these returns, and other characteristics of returns filed with ITINs. It also explored the IRS administration of this program, including the large number of ITIN applications the IRS must process each year and some characteristics of the applicants and their applications. Finally, we looked at burdens individuals face when applying for an ITIN or when using an ITIN to file a subsequent tax return. By analyzing these aspects, this study seeks to identify opportunities for improving the ITIN program, ensuring compliance, and reducing undue burdens on taxpayers and the IRS.

BACKGROUND

In 1996, the Treasury Department issued regulations requiring foreign individuals to obtain IRS-issued ITINs to file federal tax returns. Treasury formulated the ITIN requirements to address IRS concerns about its ability to effectively identify taxpayers and their tax returns without a TIN. ITINs are nine-digit numbers emulating SSNs, but they always begin with the digit nine and have certain middle digits to distinguish them.

The IRS only issues ITINs to taxpayers who are ineligible to receive SSNs, for the sole purpose of fulfilling federal tax obligations. Immigration status does not affect eligibility: both legal and illegal immigrants may have tax reporting responsibilities and payment due. Only individuals with a federal tax obligation or their spouses or dependents who, if claimed, provide them with an allowable tax benefit or who can claim less withholding under an income tax treaty may obtain an ITIN. Since the inception of the IRS ITIN program, the IRS has issued about 26 million ITINs through the end of 2022.¹²

Expanded Use and Legislative Changes

Although ITINs are intended for federal tax purposes, public and private entities began accepting ITINs for other purposes including opening bank accounts and obtaining loans, receiving state driver's licenses, and opening credit card accounts. Congress passed the PATH Act in 2015. A significant impact of this new law was the requirement for the IRS to deactivate ITINs issued prior to 2013, as well as those not used on federal

¹⁰ IRS, CDW, EAP, Form W7 Database (through Sept. 26, 2024).

¹¹ IRS response to TAS information request (Sept. 24, 2024).

¹² TIGTA, Ref. No. 2024-400-012, *Administration of the Individual Taxpayer Identification Number Program* 1 (2024), <https://www.tigta.gov/reports/audit/administration-individual-taxpayer-identification-number-program-0>.

tax returns for three consecutive tax years. For ITINs issued before 2013, the PATH Act provides that ITINs will no longer be in effect according to the following schedule, unless the ITIN has already expired due to non-use for three consecutive years as described above.¹³

- ITINs issued before 2008 will remain in effect until January 1, 2017;
- ITINs issued in 2008 will remain in effect until January 1, 2018;
- ITINs issued in 2009 or 2010 will remain in effect until January 1, 2019; and
- ITINs issued in 2011 or 2012 will remain in effect until January 1, 2020.

ITIN applicants must submit documentation to establish their identity and their foreign status, often including passports. Figure 5.3.1 lists the possible acceptable documentation and whether the applicants can use the documents to establish foreign status, identity, or both.

FIGURE 5.3.1, Documents That May Support an Application for an ITIN¹⁴

Documentation Description	Foreign Status	Identity
Passport (<i>Must not be expired</i>)	Yes	Yes
U.S. Citizenship and Immigration Services Photo Identification	Yes	Yes
Visa Issued by the U.S. Department of State	Yes	Yes
U.S. Driver's License	-	Yes
U.S. Military Identification Card	-	Yes
Foreign Driver's License	-	Yes
Foreign Military Identification Card	Yes	Yes
National Identification Card (<i>Must contain name, photograph, address, date of birth, and expiration date</i>)	Yes	Yes
U.S. State Identification Card	-	Yes
Foreign Voter's Registration Card	Yes	Yes
Civil Birth Certificate	Yes	Yes
Medical Records (<i>Valid only for dependents under age 6</i>)	Yes	Yes
School Records (<i>Valid only for a dependent under age 18 if a student</i>)	Yes	Yes

Additionally, applicants over age 14 must submit one document with a picture, and dependents must provide additional documentation if their passport does not specify a date of entry. Being without many of these critical documents for an extended period may cause hardships for applicants and their families.

According to IRS.gov, the IRS takes an average of seven to 11 weeks to process ITIN applications, which historically would have left ITIN applicants without critical original documents for about two to three months.¹⁵ As discussed below, the IRS has recently modified its process to return documents to applicants more quickly. The PATH Act also codified the use of CAAs who can review and certify documents so that an ITIN applicant would not have to mail original documents to the IRS with their Form W-7. Using a CAA prevents an applicant from being without critical original documents for an extended period, but the cost to use a CAA may be significant. Additionally, in some states and foreign countries, only a small number of CAAs exist in proportion to the number of ITIN

13 PATH Act, Pub. L. No. 114-113, Division Q, Title IV, § 203(b), 129 Stat. 2242, 3079 (2015).

14 IRS, Form W-7 Instructions (Nov. 2023), <https://www.irs.gov/pub/irs-pdf/iw7.pdf>.

15 IRS, ITIN Expiration Frequently Asked Questions, <https://www.irs.gov/individuals/itin-expiration-faqs> (last updated Aug. 19, 2024).

applications submitted by individuals residing there. For example, in TY 2022, taxpayers in Illinois submitted over 170,000 ITIN applications with the filing of their return, but the state currently has only 198 CAAs; taxpayers in the United Kingdom submitted over 15,000 ITIN applications but had only 34 CAAs, according to a list on IRS.gov.¹⁶

The number of passports returned to embassies and the number of documents declassified and destroyed because the IRS could not communicate with ITIN applicants both increased by over 400 percent from 2023 to 2024.¹⁷

IRS Improvements and Persistent Issues

The IRS recently made improvements to its processing of ITIN applications. It has implemented a system that expedites critical documents through the ITIN system and returns them prior to fully processing the ITIN application. This change is expected to reduce the time an ITIN applicant must be without important original documents and decreases the volume of unreturned documents. However, the IRS continues to rely on paper-based processing leading to administrative inefficiencies. Invalid ITIN deactivations and the issuance of thousands of math error notices related to dependent ITINs remain significant issues often causing taxpayer confusion and financial losses. Taxpayers may not understand why the IRS issued an ITIN-related math error, especially if the math error occurred because of an expired ITIN or because the IRS erroneously deactivated the ITIN.

OBJECTIVES

This ITIN study has two primary objectives, each with several related subobjectives:

1. Determine the size and composition of the ITIN program and quantify its impact on U.S. taxation. Factors studied include:
 - Returns filed containing an ITIN;
 - Taxes paid;
 - Credits received;
 - Other filing characteristics; and
 - Geographic distribution of ITIN filers.
2. Describe the IRS administration of the ITIN program including:
 - ITIN application submissions;
 - IRS ITIN unit operations;
 - Erroneous deactivation of ITINs; and
 - Return processing math errors related to ITINs.

METHODOLOGY

We conducted the first study objective, which examines the quantity of tax returns with ITINs and other characteristics of returns with ITINs, by identifying Form 1040 series returns with an ITIN as the primary, secondary, or one of four dependent SSNs recorded in the IRS Individual Returns Transaction File (IRTF). We use the IRTF to define other characteristics of the returns such as filing status, AGI, income from Schedule C, Profit or Loss from Business, and to determine where the Form 1040 series return with an ITIN originates.

¹⁶ IRS, CDW, Individual Returns Transaction File (IRTF), (through Sept. 26, 2024). See also IRS, Acceptance Agent Program, <https://www.irs.gov/individuals/international-taxpayers/acceptance-agent-program> (last updated Oct. 15, 2024).

¹⁷ IRS response to TAS information request (Sept. 24, 2024). The IRS explains the significant increases from 2023 to 2024 as follows: "The Loose Document Database (LODO) tracking mechanism failed resulting in limited purging of documents in 2023. Using an Excel spreadsheet as the current tracking mechanism, purging classified waste has resumed."

For the second objective on IRS processing of ITIN applications, we examine the IRS Form W-7 database to determine the number of ITIN returns assigned, rejected, or suspended, as well as the reason the taxpayer requested the ITIN. We toured the IRS Taxpayer Services ITIN unit in Austin, Texas to understand how the IRS processes ITIN applications and the challenges faced by the IRS when processing ITIN applications and returns. When discussing deactivated ITINs, we limit our examination of this issue to those that were on returns submitted within three tax years prior to the year of deactivation. Under PATH Act guidelines, taxpayers using an ITIN in one of the three subsequent tax years will prevent the IRS from deactivating their ITIN. For example, if the IRS assigns an ITIN in 2020 for a TY 2019 return, the taxpayer must file a tax return no later than TY 2022 (by December 15, 2023, if a timely extension is filed) for the ITIN to remain active. To locate ITINs suspected of erroneous deactivation, we first generated a list of all ITINs the IRS had deactivated at the conclusion of CYs 2016-2023 using the Data Master-1 (DM-1) table from Social Security Administration data.¹⁸ Then, we matched this list of deactivated ITINs to the IRS IRTF to determine if they exist on a return a taxpayer had submitted within the three previous tax years prior to deactivation.¹⁹ We consider all ITINs satisfying these two criteria as “erroneously deactivated.” We also used the IRTF to find returns where the IRS issued a dependent ITIN-related math error and cross-referenced this data to the IRS Form W-7 database to determine how many of these taxpayers tried, successfully or unsuccessfully, to reactivate their expired dependent ITIN.

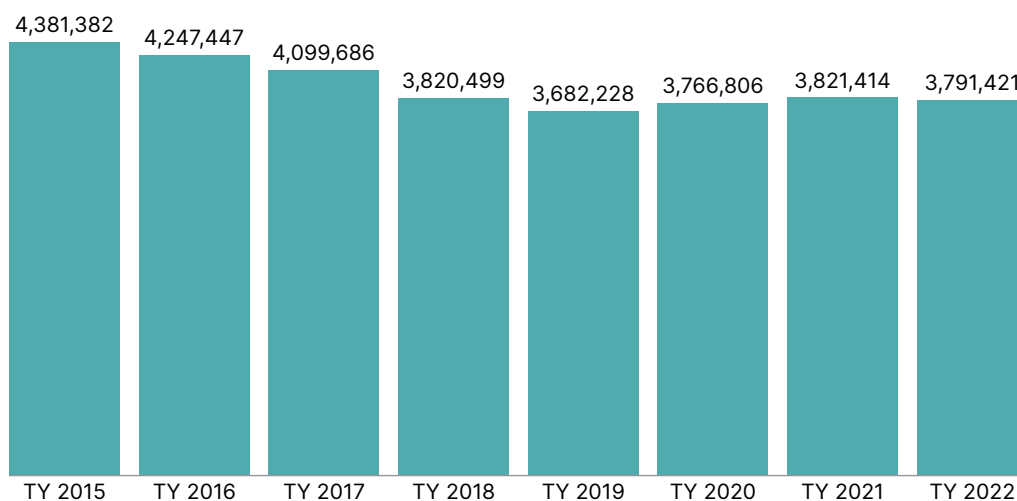
FINDINGS

ITIN Filing Population

Millions of taxpayers with ITINs file resident and nonresident Forms 1040, U.S. Individual Income Tax Return, each year. Once they receive their ITIN, taxpayers can continue to use it to file federal income tax returns for years after the ITIN issuance unless they fail to use the ITIN on a tax return for three consecutive tax years, in which case the ITIN will be deactivated. Figure 5.3.2 shows the number of Form 1040 series returns filed for TYs 2015-2022, containing at least one ITIN.

FIGURE 5.3.2²⁰

Count of Returns Filed With at Least One ITIN, TYs 2015-2022



¹⁸ ITINs are deactivated as a result of PATH Act criteria at the end of calendar years.

¹⁹ A return filed in the last of the three consecutive years after the IRS assigned the ITIN must have been timely filed (including valid extensions).

²⁰ IRS, CDW, IRTF, TYs 2015-2022 (through Sept. 26, 2024). Data for TY 2023 is not complete as taxpayers with extensions have until December 15, 2024, to timely file an ITIN return. Through September 26, 2024, taxpayers had filed about 3.3 million ITIN returns.

In TY 2022, taxpayers filed almost 3.8 million returns with at least one ITIN. The numbers of ITINs issued have declined somewhat since the passage of the PATH Act in 2015. The IRS requires most individuals seeking an ITIN to submit their ITIN application in conjunction with a federal income tax return.²¹ The number of returns where the primary taxpayer is an ITIN holder shows a similar pattern. For TY 2023, over 2.4 million taxpayers filed Form 1040 or Form 1040NR with the ITIN holder as the primary taxpayer.²² In the remaining returns, either the spouse or a dependent was the ITIN holder.

As indicated by Figure 5.3.3, returns with ITINs result in billions of dollars of income tax.

FIGURE 5.3.3, Tax Paid, Credits Received, and Amount of Refunds by Tax Year²³

Tax Year	Total Income Tax Before Credits	Total Income Tax After Credits	Credits	Total Tax Paid	Net Refund and Balance Due
2017	\$15,883,626,037	\$13,397,477,360	\$2,486,148,677	\$15,283,349,533	-\$6,197,598,770
2018	\$16,341,035,385	\$12,384,659,498	\$3,956,375,887	\$14,432,852,937	-\$4,801,898,654
2019	\$15,969,896,165	\$12,138,382,932	\$3,831,513,233	\$14,136,907,317	-\$4,590,293,213
2020	\$15,889,175,404	\$12,533,665,484	\$3,355,509,920	\$14,832,013,938	-\$5,024,559,700
2021	\$19,019,736,300	\$17,313,039,371	\$1,706,696,929	\$20,154,593,652	-\$5,535,947,851
2022	\$18,205,798,218	\$14,511,054,710	\$3,694,743,508	\$17,308,825,668	-\$3,313,974,360
2023	\$16,470,905,155	\$13,162,654,179	\$3,308,250,976	\$15,695,272,870	-\$3,027,032,853

In TYs 2017-2022, income tax returns with ITINs reported nearly \$16 billion to over \$19 billion in income tax before credits and after credits paid in at least \$12 billion in tax. Total credits during this time were generally between \$2 to \$4 billion, although credits only totaled about \$1.7 billion in TY 2021. Taxes overpaid (refunds) decreased from over \$6 billion before the Tax Cuts and Jobs Act, which became effective for TY 2018, to about \$5 billion per year for TYs 2018-2021. Refunds further decreased in 2022 and 2023 to slightly over \$3 billion.²⁴

Although taxpayers generally have paid their income tax bill through withheld taxes, they would lose hundreds of millions of dollars in refunds from withholdings and other credits if they did not obtain an ITIN to file their income tax returns. The IRS subjects taxpayers who are unable to navigate the complex ITIN application process to an unfair tax system that violates their *right to pay no more than the correct amount of tax*. Moreover, ITIN taxpayers report Schedule C income and pay tax that they have not already paid to the IRS through withholding. In TY 2022, returns filed with ITINs reporting a Schedule C profit account for about ten percent of the total income reported on returns with ITINs.²⁵

The IRS assigns hundreds of thousands of ITINs each year.²⁶ Taxpayers filed most returns with an ITIN with the single or married filing jointly filing status. Specifically, 35 percent of ITIN filers in TY 2022 claimed the single filing status, while 41 percent claimed the married filing jointly filing status, 19 percent claimed the head of household filing status, and the remaining five percent filed as married filing separately, generally because one taxpayer has an ITIN while the spouse has an SSN.²⁷ Taxpayers with an ITIN are also generally low income. The median AGI of returns with at least one ITIN was only \$31,033, easily qualifying the taxpayer for the VITA program, which currently has an income limit of \$67,000.²⁸

21 PATH Act, Pub. L. No. 114-113, Division Q, Title IV, § 203(b), 129 Stat. 2242, 3079 (2015).

22 IRS, CDW, IRTF (through Sept. 26, 2024).

23 IRS, CDW, IRTF, Information Returns Master File (IRMF), TYs 2017-2022, (through Sept. 26, 2024).

24 IRS, CDW, IRTF (through Sept. 26, 2024).

25 *Id.*

26 IRS, CDW, EAP, Form W7 Table, CYs 2020-2023 (through Sept. 26, 2024).

27 IRS, CDW, IRTF (through Sept. 26, 2024).

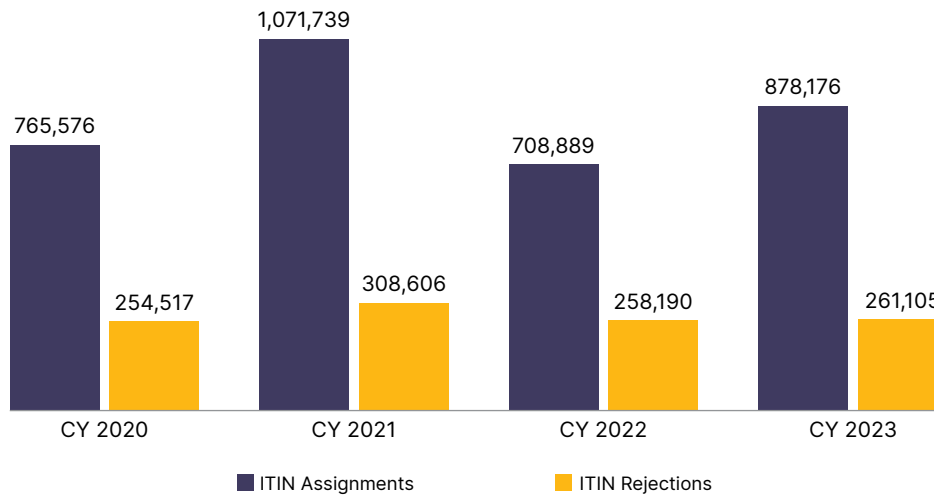
28 IRS, Free Tax Return Preparation for Qualifying Taxpayers, <https://www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers> (last updated Oct. 17, 2024). The VITA income limit for TY 2022 tax returns prepared in 2023 was slightly less.

IRS Administration of Application Submissions

The IRS has a difficult task – processing over a million ITIN applications in most years and ensuring it processes legitimate applications while stopping hundreds of thousands of applications that contain documents that either do not meet legislatively mandated standards or are clearly fraudulent. In 2023, the IRS assigned nearly 900,000 ITINs and rejected over 250,000 applications. Figure 5.3.4 shows the number of ITINs assigned and the number of ITIN applications rejected since CY 2020.

FIGURE 5.3.4²⁹

ITIN Assignments and Rejections, CYs 2020-2023



Geographic Distribution of ITIN Filers

As stated, ITIN holders can use their ITIN if they file at least one return in one of the three consecutive tax years after the IRS assigns the ITIN. ITIN holders from all 50 states file returns, as Figure 5.3.5 shows.

²⁹ IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024).

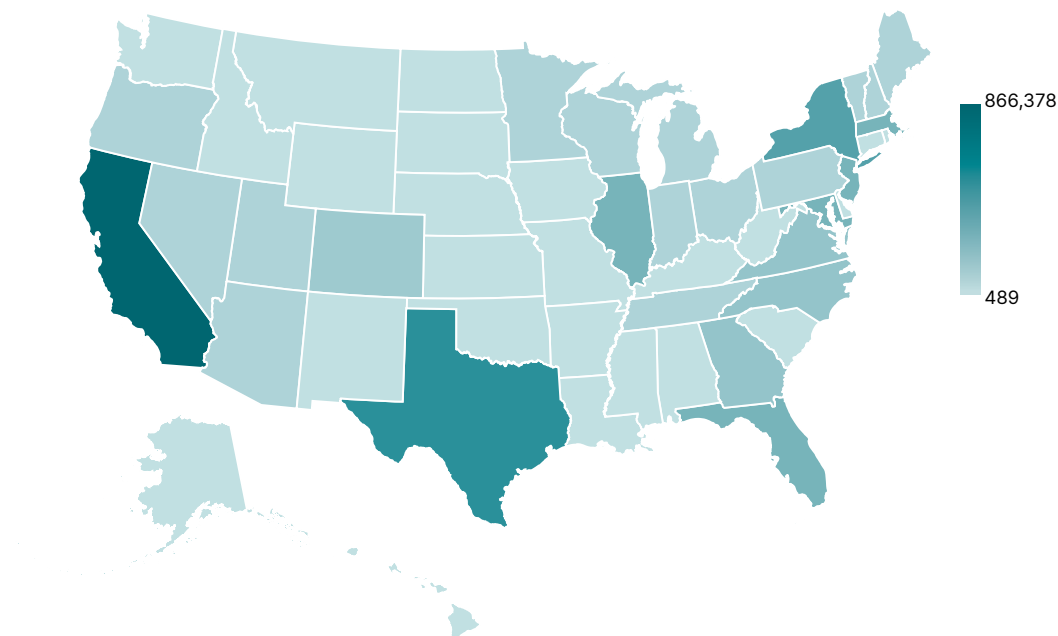
FIGURE 5.3.5³⁰**ITIN Filers in U.S. States and Washington, D.C.**

Figure 5.3.6 shows the top 15 states where taxpayers filed returns containing at least one individual with an ITIN in TY 2022.

FIGURE 5.3.6, Top 15 States With ITIN Filers³¹

State	Count	State	Count
California	866,378	North Carolina	111,982
Texas	446,522	Virginia	109,434
New York	254,779	Washington	88,816
Florida	185,119	Colorado	72,928
New Jersey	172,349	Massachusetts	65,244
Illinois	170,218	Arizona	54,824
Georgia	142,125	Nevada	50,185
Maryland	131,511		

³⁰ IRS, CDW, IRTF (through Sept. 26, 2024).

³¹ *Id.*

Taxpayers, spouses, and dependents with ITINs in several foreign countries also filed returns in TY 2022, as Figure 5.3.7 shows.

FIGURE 5.3.7³²

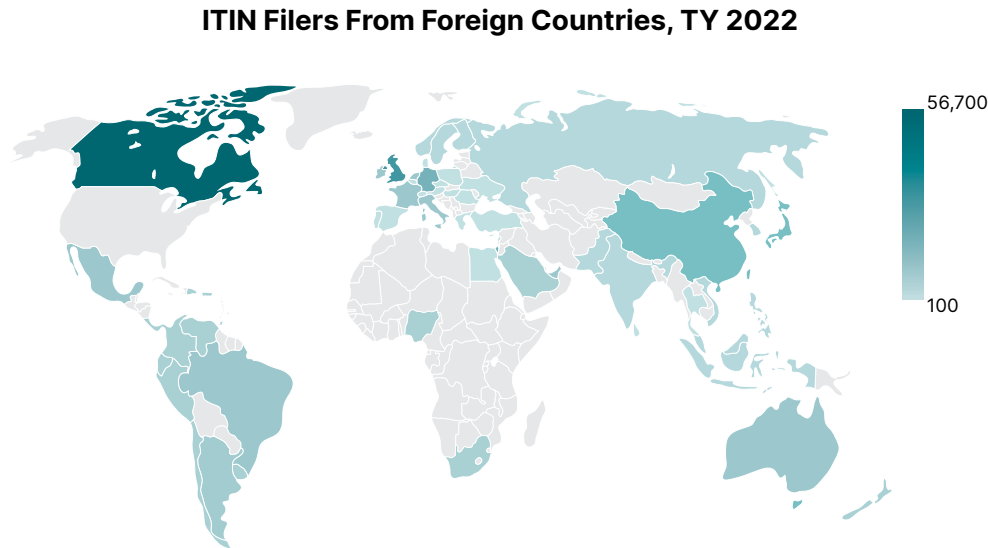


Figure 5.3.8 shows the top 15 foreign countries where taxpayers filed returns containing at least one individual with an ITIN in TY 2022.

FIGURE 5.3.8, Top 15 Foreign Countries With ITIN Filers³³

Country	Count	Country	Count
Canada	56,700	Mexico	2,512
Israel	19,239	Australia	2,284
United Kingdom	15,085	Singapore	2,250
China	12,687	Ireland	2,134
Germany	5,840	Taiwan	1,996
Japan	5,149	India	1,833
Brazil	3,288	Switzerland	1,618
France	3,090		

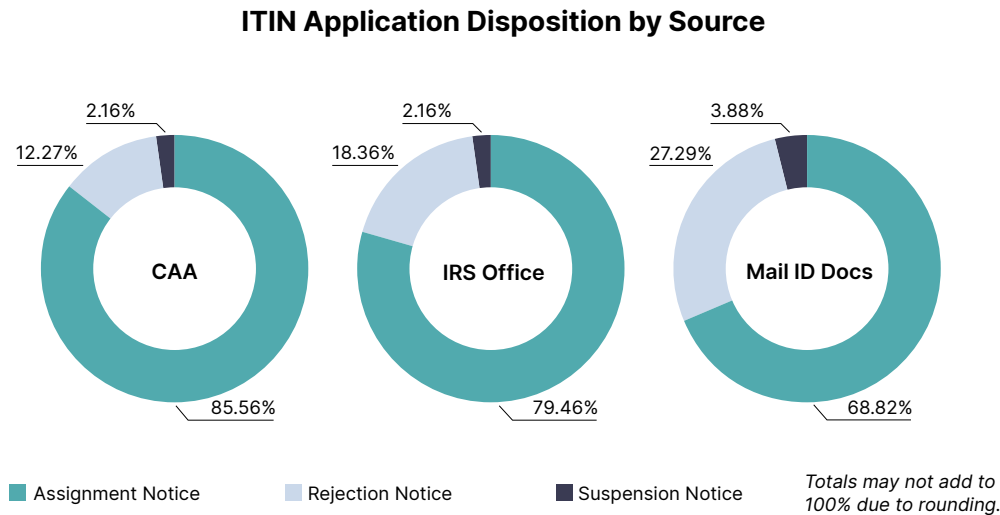
As discussed previously, ITIN applicants can use a CAA to avoid sending original documents to the IRS and being without their original documents for an extended period of time. Taxpayers using CAAs to certify the validity of their documents are over 15 percent more likely to receive an ITIN than taxpayers mailing in their documents, while applicants not using a CAA are over twice as likely to have the IRS reject their ITIN application and significantly more likely to have their applications suspended. Figure 5.3.9 shows the

³² IRS, CDW, IRTF (through Sept. 26, 2024).

³³ *Id.*

percentages of ITIN application acceptances (ITIN assignments), rejections, and suspensions by whether the taxpayer used a CAA, relied on employees at an IRS office, or mailed original documents from CY 2023 to September of CY 2024.

FIGURE 5.3.9³⁴



Despite their benefits, the cost of accessing CAAs is prohibitive for many taxpayers. Some VITA sites do provide CAA services; however, in 2023, VITA sites only had the services of 81 CAAs.³⁵ According to IRS.gov, these 81 CAAs are only available in 17 states.³⁶ Furthermore, VITA programs are not allowed under statute to use grant funds to provide CAA services. To address this limitation, TAS has recommended legislative changes to allow VITA programs to use grant funding to provide CAA services.³⁷ Increasing the availability of CAAs at no cost could lead to more accurate ITIN applications and improve return preparation for ITIN filers. In TY 2022, VITA and Tax Counseling for the Elderly (TCE) sites prepared slightly over one percent of ITIN-related returns, despite more than 78 percent of ITIN returns being eligible based on income thresholds.³⁸ Notably, over 80 percent of ITIN-related returns are completed by paid preparers, with fewer than 20 percent self-prepared.³⁹ Figure 5.3.10 displays the percentages of returns with at least one ITIN that are self-prepared, prepared by a non-credentialed preparer, and prepared by a credentialed preparer.

³⁴ IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024). Percentages may not total 100 percent due to rounding.

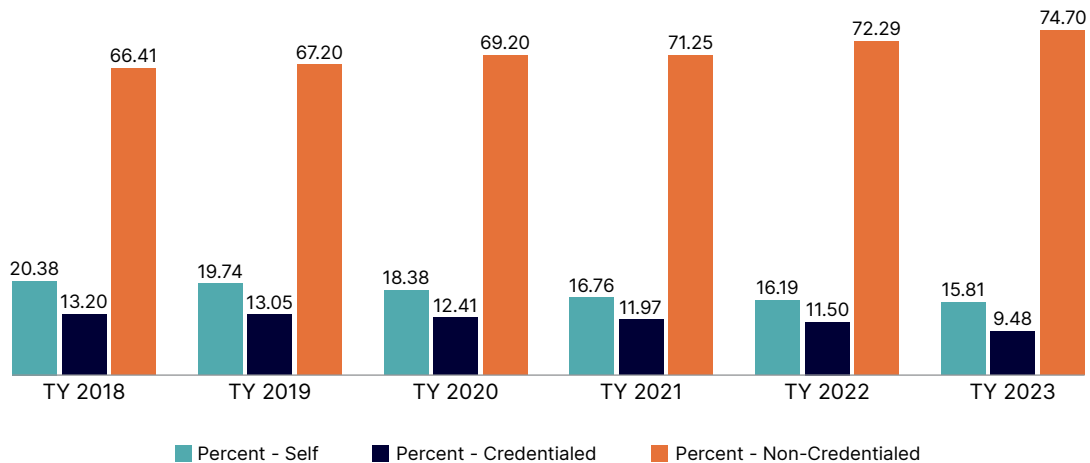
³⁵ IRS response to TAS fact check (Nov. 21, 2024).

³⁶ *Id.*

³⁷ National Taxpayer Advocate 2025 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration (Authorize the Use of VITA Grant Funding to Assist Taxpayers with Applications for Individual Taxpayer Identification Numbers)*.

³⁸ IRS, CDW, IRTF (through Sept. 26, 2024). The VITA income limit for 2023 was \$64,000; however, other exclusions to using the VITA program may apply.

³⁹ IRS, CDW, IRTF, Individual Master File (through Sept. 26, 2024). Return Review Program Preparer Tax Identification Number Table (through Sept. 26, 2024).

FIGURE 5.3.10⁴⁰**Form 1040 Returns Filed With at Least One ITIN by Percent, TYs 2018-2023**

The number of ITIN returns prepared by non-credentialed preparers has increased to almost 75 percent by TY 2023, and non-credentialed preparers are more likely to file noncompliant federal income tax returns.⁴¹

IRS ITIN Operations

The ITIN processing unit places ITIN applications in batches of 25. It batches English and Spanish applications separately, although ITIN applications also come from individuals who speak and write in other languages. An IRS employee initially enters the applicant's name, address, and date of birth in the IRS W-7 Real-Time System. Under new procedures, employees review applications in a two-stage process. First, they review documents supporting the application to ensure they are originals or copies that a CAA has verified as a true copy of the original document. IRS employees conduct a secondary review to ensure the supporting documents' legitimacy, including ensuring the presence of the appropriate seals authenticating them.

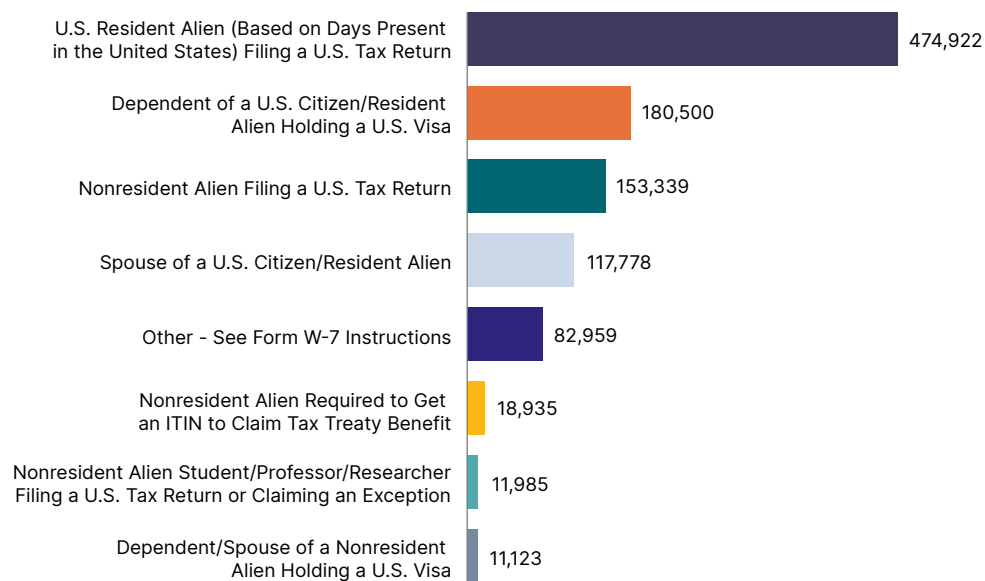
After employees review the documents to ensure either their originality or their certification by a CAA and their authenticity, the IRS returns the documents to the applicant. However, the IRS may still take weeks to return the documents, and it does not return them by certified mail. Therefore, there is no guarantee that the applicant will see the documents again. The IRS ITIN unit destroys mail returned to it, except for passports, which it mails to the embassy of the issuing country.

Most ITIN recipients request an ITIN so they can file a federal tax return, which often allows them to recoup a substantial amount of withheld taxes that exceed their federal income tax liability. For ITINs assigned from CY 2020 to 2023, an average of 58 percent of resident aliens requested an ITIN, while 23 percent of individuals requesting an ITIN did so as the dependent or spouse of a resident alien or U.S. citizen, meaning that over 80 percent of the ITIN requests were for one of these two purposes.⁴² Figure 5.3.11 shows the reasons taxpayers applied for an ITIN in CY 2023.

⁴⁰ IRS, CDW, IRTF (through Sept. 26, 2024). Percentages may not total 100 percent due to rounding.

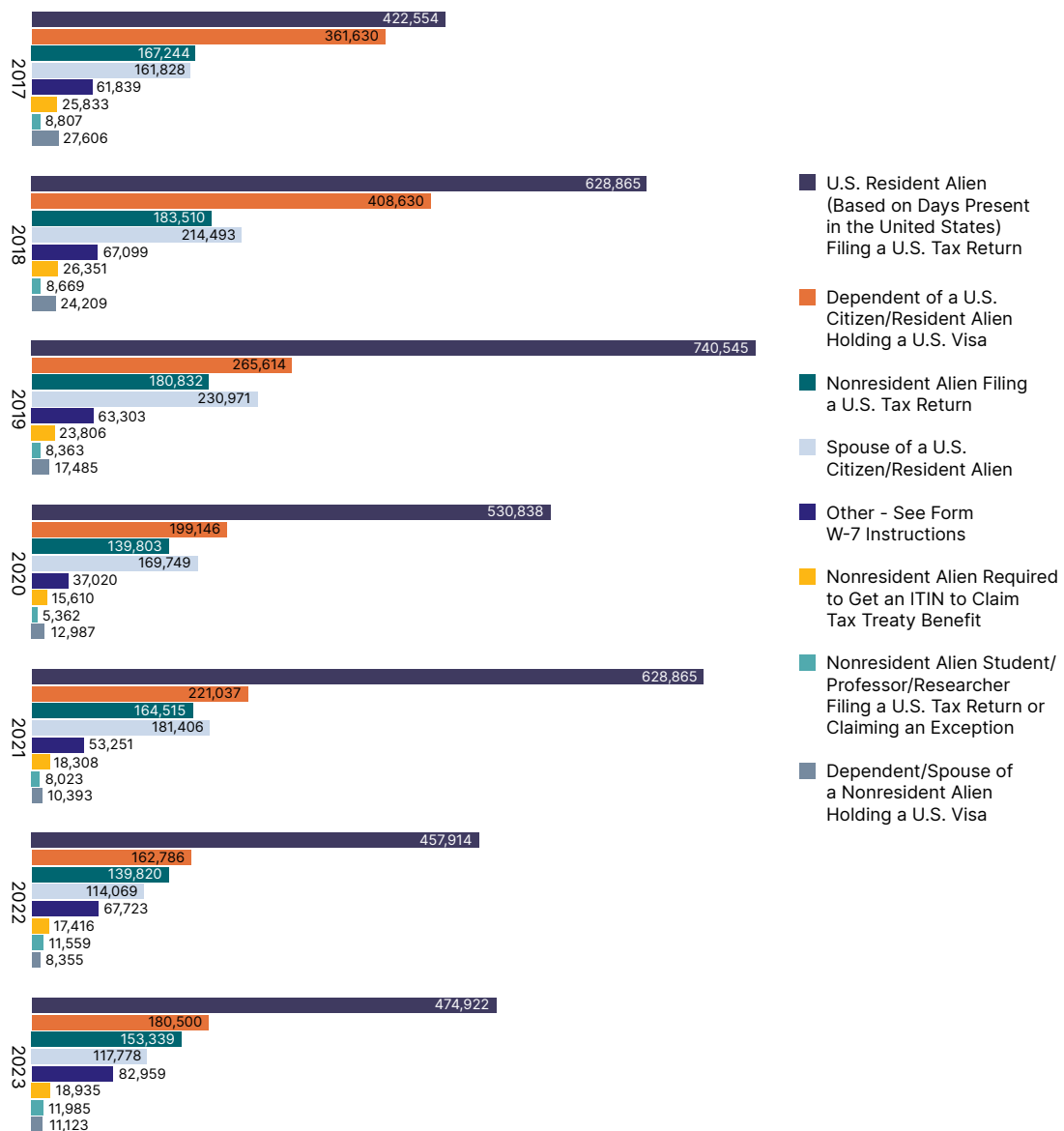
⁴¹ See National Taxpayer Advocate 2023 Annual Report to Congress 65 (Most Serious Problem: Return Preparer Oversight: The Lack of Return Preparer Oversight Endangers Taxpayers, Burdens the IRS, and Harms Tax Administration), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_05_Return-Preparer.pdf.

⁴² IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024).

FIGURE 5.3.11⁴³**Form W-7 Submissions by Reason, CY 2023**

43 IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024).

Figure 5.3.12 shows that applications from dependents and spouses of nonresident aliens holding a U.S. visa have a significant downward trend, partially influenced by changes under the TCJA. Under this legislation, spouses no longer receive a deduction as a dependent, and claimed ITIN dependents are entitled to smaller credits. The next largest change occurred in the percentage of applications submitted by U.S. resident aliens filing Form 1040, which shows a significant increase in 2017-2021.

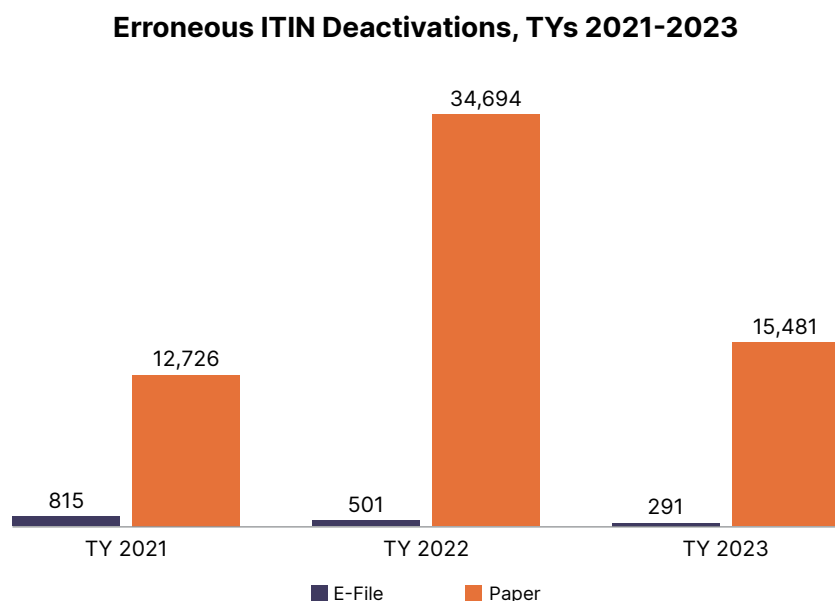
FIGURE 5.3.12⁴⁴**Reasons for Form W-7 Submissions, CYs 2017-2023**

44 IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024).

Erroneously Deactivated ITINs

We also address erroneously deactivated ITINs. TAS received a Systemic Advocacy Management System issue concerning about 2,700 ITIN deactivations in TY 2021. The IRS deactivated these ITINs even though they satisfied the parameters necessary to remain active, in accordance with the PATH Act.⁴⁵ Upon further investigation, we discovered that in CYs 2021-2023, the IRS deactivated tens of thousands of ITINs even though they appeared on Form 1040 within the previous three consecutive tax years. Moreover, we confirmed that the IRS had processed the returns, and they existed within the IRS Master File, eliminating the possibility that filers submitted them late or that the IRS otherwise did not recognize them when deactivation occurred. Figure 5.3.13 depicts the volume of erroneous ITIN deactivations since TY 2021 by whether the ITIN appeared on a paper or electronic return.

FIGURE 5.3.13⁴⁶



After discussions with IRS ITIN unit management, TAS explored counts of deactivated ITINs by whether the taxpayer submitted the return via paper or e-file and whether the taxpayer filed their returns toward the end of the filing deadlines for returns for TYs 2021-2023. We performed these analyses to address the possibility that electronically filed returns may have contributed to deactivation of the ITINs. TAS's analysis shows that these taxpayers with deactivated ITINs had clearly filed a return within the three tax years prior to the deactivation of their ITIN, and most filed paper returns. However, even if the taxpayer filed an electronic return, IRS ITIN application instructions clearly state that ITIN holders can e-file after they file their initial return on paper and include it with the ITIN application.⁴⁷

⁴⁵ IRC § 6109(i)(3)(A).

⁴⁶ IRS, CDW, IRTF, DM-1 Table (through Sept. 26, 2024).

⁴⁷ IRS, Form W-7 Instructions (Nov. 2023), <https://www.irs.gov/pub/irs-pdf/iw7.pdf>.

ITIN Return Processing Math Errors

Considering dependents in the IRS ITIN application database, almost 22,000 taxpayers received a math error notice in TY 2022 because of an invalid ITIN, affecting nearly 32,000 dependents.⁴⁸ The IRS later determined over 6,800 (about 31 percent) of these taxpayers to have claimed dependents with a valid ITIN; however, they lost about \$4.4 million in claimed Other Dependent Credits. These same taxpayers claimed an additional \$1.6 million in Other Dependent Credits for ITIN dependents, which the IRS has not yet validated. Given that most of these taxpayers claimed dependents who previously had an active ITIN, and they have now reactivated their ITIN, it seems quite likely that these taxpayers did not understand the provisions of the PATH Act that caused previously valid ITINs to expire. Taxpayers also submitted thousands of ITIN applications in 2023 (the year in which the TY 2022 tax return was due), suggesting that these taxpayers believed their dependent was eligible for an ITIN, but the IRS found some part of their ITIN application or supporting documents to be incomplete or unacceptable.

CONCLUSION AND RECOMMENDATIONS

ITINs play a critical role in tax administration, enabling the IRS to process millions of tax returns annually, reflecting billions of dollars in revenue. These numbers highlight the program's significance for compliance and revenue collection while providing financial relief for low-income taxpayers through tax credits. However, challenges exist for both taxpayers and the IRS.

While most taxpayers already pay tax through withholding, enabling taxpayers to file federal income tax returns allows them to recover hundreds of millions of dollars in overpaid taxes, including millions of dollars in credits allowed for dependents with ITINs. The IRS generally processes more than a million applications for ITINs each year and faces many challenges while trying to correctly process these applications; however, taxpayers also face burdens as they must forgo the presence of critical original documents necessary to process their ITIN applications or pay often expensive fees to have a CAA certify the documents so they can retain the originals. Additionally, thousands of taxpayers must deal with erroneous IRS deactivations of their ITINs and IRS-issued math errors likely stemming from taxpayers not understanding that the PATH Act required the deactivation of older ITINs. We draw specific conclusions for each of the study's two objectives.

1. Determine the size and composition of the ITIN program and quantify its impact on U.S. taxation.

- Taxpayers file millions of returns with at least one ITIN each year. These returns report billions of dollars in taxes, even after allowable credits, which in most years range from about \$2 to \$4 billion.
- ITIN filers typically have low incomes, with a median AGI of only slightly over \$31,000.
- Taxpayers from every state and many foreign countries file returns with ITINs, with some locations filing significant volumes of returns with ITINs.
- Taxpayers who use a CAA to certify the documents submitted with their ITIN application are 15 percent more likely to have their application accepted, while ITIN applicants not using a CAA are more than twice as likely to see their ITIN application rejected.
- Taxpayers may use CAAs to certify the documents supporting their ITIN application; however, doing so may be costly. Though VITA sites may offer free CAA services, they are available in only 17 states.

48 CDW, IRTF (through Sept. 26, 2024); DM1 (through Sept. 26, 2024); Form W7 table (through Sept. 26, 2024).

2. Assess the IRS's administration of the ITIN program.

- The IRS assigns hundreds of thousands of ITINs each year. In 2023, the IRS assigned nearly 900,000 ITINs and rejected more than 250,000 requests for an ITIN.
- Navigating the IRS process may be quite difficult for taxpayers, and if they submit critical identification documents with their applications, they risk not receiving them back.
- The IRS also has a significant burden evaluating the validity of ITIN applications and their supporting documentation, which is often not in the English language.
- Resident aliens, their spouses, and dependents comprise over 80 percent of ITIN applicants; however, in 2017, being a dependent or spouse of a U.S. citizen or resident alien was the most likely reason for filing a return with an ITIN.
- In each of the last few tax years, the IRS has erroneously deactivated thousands of ITINs.
- In TY 2022, the IRS issued math error notices to almost 22,000 taxpayers affecting nearly 32,000 dependents because of a deactivated dependent ITIN. This use of math error authority erased over \$6 million in claimed Other Dependent Credits.

Administrative Recommendations to the IRS

The National Taxpayer Advocate recommends that the IRS:

1. *Survey ITIN taxpayers:* Conduct a survey of ITIN taxpayers to determine which aspects of the IRS ITIN application process are especially burdensome.
2. *Expand CAA services:* Increase the number of VITA sites that offer CAA services, focusing on high application areas to reduce processing burdens and costs for taxpayers.
3. *Resolve systemic errors:* Fix recurring systemic problems causing the erroneous deactivations of ITINs to prevent unnecessary hardships.
4. *Enhance taxpayer outreach:* Provide comprehensive outreach to taxpayers with deactivated dependent ITINs, explaining reactivation requirements and steps to secure associated tax credits.

By implementing these recommendations, the IRS can improve the ITIN program's efficiency, reduce taxpayer burdens, and enhance compliance, ensuring that taxpayers can meet their tax obligations while accessing appropriate credits and refunds.