August 10, 2022

The Honorable Richard Neal
Chairman
United States House of Representatives
Ways and Means Committee
Washington, D.C. 20515

The Honorable Kevin Brady
Ranking Member
United States House of Representatives
Ways and Means Committee
Washington, D.C. 20515

Re: Congress Should Direct the IRS to Implement Scanning Technology

Dear Chairman Neal and Ranking Member Brady:

The Texas Society of Certified Public Accountants (TXCPA) is a nonprofit, voluntary professional organization representing more than 28,000 members. One of the expressed goals of the TXCPA is to speak on behalf of its members when such action is in the best interest of its constituency and serves the cause of the CPAs of Texas, as well as the public interest. TXCPA has established a Federal Tax Policy Committee to represent those interests on tax-related matters. The committee has been authorized by the TXCPA Board of Directors to submit comments on such matters of interest to the committee membership. The views expressed herein have not been approved by the Board of Directors or Executive Board and, therefore, should not be construed as representing the view or policies of the TXCPA.

We are writing to strongly urge Congress to require the IRS to implement modern technology for processing tax returns. The technology currently available would enable the IRS to be more efficient and accurate in processing returns.

We fully support National Taxpayer Advocate Erin Collins' Objectives Report to Congress Fiscal Year 2023[1] that the IRS should implement scanning technology, including 2-D barcoding, optical character recognition or similar technology by the start of the 2023 filing season or, if that is not feasible, by the start of the 2024 filing season. This existing technology could significantly increase the productivity of the IRS workforce and would provide more efficient service to taxpayers and tax practitioners. Collins has since escalated her push for the IRS to implement scanning technology in a Memorandum to Commissioner Charles Rettig.[2] (Importantly, the National Taxpayer Advocate's office recommended that the IRS consider 2-D barcoding two decades ago.[3])

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[1] 2023 Objectives Report to Congress - Taxpayer Advocate Service (irs.gov).
[2] https://www.irs.gov/pub/irs-utl/tad-2022-1-appeal.memo-from-nta.pdf
[3] National Taxpayer Advocate 2004 Annual Report to Congress vol. 1, at 89, 101 (Most Serious Problem: Electronic Return and Filing Preparation), https://www.taxpayeradvocate.irs.gov/reports/2004-annual-report-to-congress.

Currently, the IRS manually inputs the data from paper returns by entering, keystroke by keystroke, all the information including every number on the returns. The inefficiency implicit in this process has contributed to the current backlog that is estimated to be 8 million returns.

Additionally, errors in manually entering data are to be expected. The National Taxpayer Advocate has estimated that manually keying the tax return information has resulted in an error rate of over 20%.[4] It is our understanding that the Large Business and International Business Division of the IRS scans a large portion of the paper-filed returns, which they review for purposes of making them available for IRS compliance and data analysis projects. The 2-D scanning technology or similar optical recognition capability would eliminate the need for this scanning process done by the IRS and save money and free up precious IRS resources needed in taxpayer services where the IRS remains significantly underfunded.

Yet another problem with utilizing staff to manually download tax return information is that they are not available to address taxpayer questions. As the table below shows, during the 2022 tax season, the IRS received 73 million telephone calls from taxpayers but only responded to 7.5 million. As in the 2021 season, only one in 10 calls reached an IRS employee and average hold times increased 45%, from 20 minutes to 29 minutes. Notably, the significant 50% decrease in number of calls answered (from 15.7 million in 2021 to 7.5 million in 2022) seems to indicate that many have given up on trying to reach the IRS by phone. Ultimately, answering questions from taxpayers who are trying to comply with the tax law is an essential service that the IRS must provide, and their lack of availability only exacerbates the challenges faced by all parties, taxpayers, practitioners and IRS employees alike.

Figure 2: IRS Enterprise Telephone Results Comparing Weeks Ending May 21, 2021, and April 23, 2022

Filing Season	Calls Received	Number of Calls Answered by an IRS Employee	Percentage of Calls Answered by an IRS Employee	Time on Hold
2021	167 million	15.7 million	9%	20 minutes
2022	73 million	7.5 million	10%	29 minutes

[5]

These problems can be resolved for the benefit of both the IRS and taxpayers. The processing of the returns would be much more efficient if Congress were to require the IRS to implement scanning technology for paper returns to be machine-read and 2-D barcoding technology to retain the taxpayer's return information. Implementing this capability would significantly reduce if not altogether eliminate the backlog in processing returns. Also, by reducing the number of employees required to input tax return data, more employees would be available to address taxpayer telephone calls and provide more appropriate customer service. By implementing updated technology to process the majority of returns, more resources would be available to assist taxpayers who lack

[4] News release June 22, 2022, TAS Objectives FY 2023, Automating the processing of paper tax returns, Newsroom - Taxpayer Advocate Service (irs.gov).
[5] https://www.irs.gov/newsroom/national-taxpayer-advocate-issues-midyear-report-to-congress-expresses-concern-about-continued-refund-delays-and-poor-taxpayer-service.

access to the technology necessary to produce scannable or barcoded returns due to financial or cultural limitations.

From a funding perspective, the U.S. House and Senate appropriations committees recently approved a $1 billion increase to the IRS' budget for FY 2023 (to $13.6 billion), [6] and if passed, the *Inflation Reduction Act of 2022* will provide a supplemental 10-year funding of $4.8 billion for business systems modernization.[7]

There may be a question of what authority the IRS has to implement a scanning program. While a recently issued program manager technical advice supported the ability to design returns (including to incorporate a scannable bar code), the IRS' position seems to be that "(it) does not have the authority to **require** that tax-software developers include barcodes on returns, forms and schedules created through their software."[8] Congress' providing direction for the IRS to acquire the scanning technology would help address these concerns for the benefit of the IRS, taxpayers and tax practitioners.

The Texas Society of CPAs wants to help the IRS in the efficient administration of our tax laws. We would be pleased to further discuss our comments with you or your staff. Please feel free to contact me at 214-749-2462 or at dcolmenero@meadowscollier.com or TXCPA Staff Liaison Patty Wyatt at 817-656-5100 or pwyatt@tx.cpa.

Sincerely,

David E. Colmenero, J.D., LL.M., CPA
Chair, Federal Tax Policy Committee
Texas Society of Certified Public Accountants

cc: U.S. House Ways and Means Committee
     U.S. Senators and Representatives from Texas
     The Honorable Charles P. Rettig, Commissioner of Internal Revenue
     National Taxpayer Advocate Erin Collins

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[6] Checkpoint: Federal tax update (July 6, 2022), *House appropriators boost IRS, Treasury funding for 2023.*
[7] Congressional Research Service (Aug. 3, 2022) *IRS-Related Funding in the Inflation Reduction Act*, https://crsreports.congress.gov/product/pdf/IN/IN11977.
[8] https://www.irs.gov/pub/lanoa/pmta-2022-02.pdf.