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## NTA Blog: 2021 Filing Season Bumps in the Road: Part I



Over the years, the IRS has gotten quite good at processing tax returns and issuing refunds quickly and efficiently. The IRS website says that normal processing time for an electronically filed return is 21 days, but in reality, millions of taxpayers receive their refunds even quicker — sometimes within a week, sometimes in days. Similar to past years, IRS employees are working tirelessly to get taxpayers their much-needed refunds as quickly as possible. However, a combination of the high volume of 2020 tax returns requiring manual processing, the backlog of unprocessed 2019 paper tax returns, congressional mandates to issue economic impact payments (EIPs) and provide other relief to taxpayers during the pandemic, limited resources, and technology issues have contributed to more refund delays and longer refund delays than are typical in a normal filing season.

On a positive note, the IRS has processed over 91 million 2020 Forms 1040, U.S. Individual Income Tax Returns, issued about 68 million refunds to date, and is in the process of delivering the third round of EIPs. To date, the IRS has provided over 159 million EIPs to individuals and their families in the middle of the filing season and has taken steps to program its systems so that, unlike last year, taxpayers will not have to take additional steps to receive an increased EIP based upon the filing of their 2020 federal income tax return. After the processing of the 2020 Form 1040, if applicable, taxpayers should receive an increased EIP. It is good news for taxpayers that the IRS will be making periodic payments throughout 2021 to “push up” the third round of EIPs previously issued based upon their 2019 income tax return.

### But the 2021 Filing Season Has Been Challenging At Best

Some additional complexities this year necessitated manual reconciliation of returns, slowing down processing times. For example, any inconsistencies between the IRS's records for the EIP and the recovery rebate credit (RRC) reflected on a taxpayer's 2020 Form 1040 or Form 1040-SR, U.S. Tax Return for Seniors, require manual review and corrections before processing. A manual review of a tax return is also required if the taxpayer elected the 2019 “income lookback” to calculate the Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC). More specifically, the Consolidated Appropriations Act, 2021, signed into law on December 27, 2020, included a lookback rule allowing taxpayers to elect to use their 2019 income for the purpose of calculating their EITC or ACTC on their 2020 tax return.

Due to the late passage of the law, the IRS was unable to timely adjust its forms and computer systems before the start of the filing season to allow for systemic processing of returns where taxpayers elected to use 2019 income. Thus, the IRS had to create a manual process instead. Any corrections to the RRC or verification of the 2019 lookback election is being manually processed by IRS's Error Resolution System (ERS) unit, and the IRS is placing the associated return in “suspense” until an IRS employee can review it to verify the 2019 income or the prior EIP. Essentially, the return is in a queue waiting to be reviewed and processed, and during this time, it is not evident on IRS systems why the return is being held.

Holding returns has resulted in a significant increase in ERS inventory and delays in taxpayer refunds. As of the week ending April 9, 2021, more than eight million individual returns (Form 1040 or 1040-SR) were in suspense status awaiting review and manual processing. For context, during a normal filing season when the ERS unit is fully operational, it does not suspend returns, as it is able to review and process them as they come in.

In addition to the eight million returns of individuals in the IRS ERS unit, there are millions of other returns in other IRS units also awaiting manual processing:

- 3 million individual 2019 and 2020 paper returns;
- 7 million individual returns with processing errors or fraud identification issues requiring responses from taxpayers; and
- 11 million business and other returns.

**In total, the IRS is now holding over 29 million returns for manual processing.** As one would expect, IRS employees are stretched thin working through the manual processing of these returns, so if a taxpayer's return is pulled for manual processing, there will be delays.

### IRS Announcement

In a news release dated March 18, 2021, the IRS explained that tax refunds may be delayed for a variety of reasons, including:

- errors on the returns;
- the claiming of the EITC or ACTC;
- possible identity theft or fraud issues; or
- delays between the time the IRS issues the refund and the time the refund is direct deposited into the taxpayer's bank account.

**Refund delayed? Our ability to help may be limited.**



tools only tell taxpayers that their return is being processed but fail to provide any details as to whether they need to provide additional information or when the refund will be released.

Many frustrated taxpayers may attempt to call the IRS for a status update on their tax refund. But as we know, this year it is difficult to get through to the IRS on its toll-free lines. This filing season, the IRS has seen an increase in calls to its Accounts Management (AM) toll-free lines of over 300 percent. As of April 10, 2021, IRS employees have answered about two percent of the roughly 70 million taxpayer calls to the IRS's 1040 telephone line and the IRS has reported an official "Level of Service" of five percent. In other words, only about one out of every 50 calls has gotten through to a telephone assistant, and the taxpayers who managed to get through have waited on hold an average of 20 minutes.

To date, the 1040 toll-free line accounts for about 60 percent of the incoming AM calls. Overall, the IRS has received about 115 million calls on its AM lines; employees have answered approximately 7 percent of all such calls, and the IRS has reported an official "Level of Service" of 14 percent. If a taxpayer is one of the lucky ones to get through, it's unlikely the assistant can provide much useful information regarding the reason for the delay because IRS systems don't identify why the return needed manual intervention by an IRS employee.

Similarly, TAS employees are frustrated as they cannot identify the potential problem with the return or how they can best assist the taxpayer, leaving both the employee and the taxpayer with unanswered questions. From a taxpayer's perspective, it feels like their return has fallen into a black hole: they do not know what is going on, when they will get their refund, why it is being delayed, or how to get answers or help.

## Recommendations

Because of the pandemic, congressional directives, and reduced staffing, we understand the delays taxpayers have experienced this year have been largely unavoidable, and we salute the hard work IRS employees have performed to make the system work as well as possible. But even if the delays are unavoidable, there are steps the IRS can take to mitigate their impact. Most immediately, the IRS can provide taxpayers with more specific information so they know what to expect and, where possible, they can make adjustments to manage their finances. Specifically, to ease taxpayer concerns, the IRS should be more transparent and specific regarding the status of taxpayer refunds.

The recently issued news release informing taxpayers their refunds may be delayed was a start. However, the IRS should build on this initial communication and directly inform taxpayers that if they claimed the RRC and the claim conflicts with IRS records or if they used their 2019 earnings to calculate the EITC or ACTC on their 2020 return, their return will require additional review and manual processing, resulting in a refund delay. The IRS should also provide information on the number of returns in backlog or suspense status and the anticipated timeframes for working through them, while acknowledging that the situation is fluid and the timeframes may change along with circumstances.

As a longer-term solution, and as TAS has recommended previously, the *Where's My Refund?* tool and IRS2GO app should provide taxpayers with more specific information regarding the status of their refunds, rather than merely stating that refunds are "being processed." Providing more details and including a general timeframe as to when a refund may be released would be beneficial and could eliminate calls to the toll-free lines in pursuit of this information. For example, the status might read, "Your return has been selected for review due to inconsistency between our EIP records and the Recovery Rebate Credit claim on your return. We expect to conclude this review by ...," etc.

If the IRS had adequate funding for its computer systems, it could provide a robust online account with an ability to update the status of IRS reviews in real time and the anticipated payment date of the refund. Additionally, adequate resources would allow the IRS to upgrade its telephone systems to provide a customer callback feature, so taxpayers don't have to endure long hold times and low levels of service. Further, such resources would allow the IRS to continue to explore alternative telephonic support that would include a voice chatbot option, allowing taxpayers to obtain answers to simple inquiries. Undoubtedly, these enhancements will require a commitment of resources, both time and money. But these enhanced customer service options will have the added benefit of informing taxpayers about the status of their refunds and reducing the number of taxpayer calls, thereby freeing up toll-free lines for taxpayers needing assistance for more complex or account-specific questions.

During the past year, IRS employees have risen to meet the unprecedented challenges caused by the pandemic. They will meet this challenge, too, and in time, these refunds will be processed. But for taxpayers still waiting for their refunds, the unknown causes additional anxieties. Most individuals can deal with adversity, but the unknown creates unnecessary concerns. I know there are no easy answers or solutions given what the IRS is dealing with, but I am confident that complete transparency as to the status of a taxpayer's refund will improve their understanding of these circumstances and further the taxpayer's *right to be informed*.

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