Internal Revenue Service Advisory Council

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INTRODUCTION

Effective tax administration is essential to the functioning of our nation. It provides the resources necessary to carry out the responsibilities of government, supports public confidence in the fairness and integrity of our tax system, and affects the lives and livelihoods of millions of taxpayers, businesses, and organizations in the United States and around the world. Achieving that effectiveness requires more than sound tax policy. It requires a tax administration system that is practical, accessible, responsive, and capable of adapting to changing circumstances.

The Internal Revenue Service Advisory Council (IRSAC) contributes to this effort by bringing together experienced professionals from outside government to offer independent perspectives and constructive recommendations to the IRS. As the successor to the Commissioner's Advisory Group established in 1953, the IRSAC has a long tradition of providing a forum for meaningful dialogue between the IRS and the communities it serves.

The IRSAC's members represent a broad range of professional disciplines, industries, and taxpayer interests. They bring experience in tax preparation and compliance, representation, information reporting, business operations, technology, academia, and other fields. Although their professional backgrounds and perspectives differ, they share a common commitment to improving the effectiveness, efficiency, and fairness of federal tax administration.

The recommendations presented in this report reflect that commitment. They are informed not only by the professional knowledge and practical experiences of IRSAC members, but also by extensive discussions with IRS leadership, employees, and subject matter experts. These exchanges provide an opportunity to examine administrative challenges from multiple perspectives, understand operational constraints, and identify opportunities for meaningful improvement.

The IRSAC’s recommendations are developed through dialogue, not in isolation. Throughout the year, IRS employees generously shared their time,

knowledge, and experience with the IRSAC. Their willingness to explain existing processes, discuss operational challenges, answer difficult questions, and consider perspectives from outside the agency has been invaluable. We are especially grateful to those who engaged openly and thoughtfully with our members, including when our discussions explored areas where existing practices might be improved. Their participation strengthens both the substance of our recommendations and the collaborative process through which they are developed.

The IRSAC also extends its sincere appreciation to the IRS Communications and Liaison (C&L) staff whose work makes our efforts possible. In particular, we recognize Derek Ganter, who leads the outreach and education programs within C&L and who has been a reliable partner throughout the year. We also express our thanks to our now-retired Designated Federal Official (DFO) John Lipold, and current DFO Margaret Romaniello, for their extraordinary dedication, professionalism, and support.

The IRSAC is also especially appreciative to IRSAC Program Manager Anna Millikan; Management and Program Analyst Maritza Rabinowitz; and Subgroup Liaisons Paul Ferrell, Brian Ward, and Christine Kingston, for their support of our many working sessions, meetings and queries. Their contributions extend far beyond the coordination of meetings and administrative details. They facilitate communication, help navigate the complexities of a large federal agency, and provide the continuity and institutional knowledge essential to the IRSAC's work. Their patience, responsiveness, and commitment have been indispensable to the development of this report, and we are deeply grateful.

The IRSAC also expresses our appreciation to CEO Frank Bisignano and the Office of the Secretary of the Treasury for the renewal of the IRSAC's charter in September 2026. The ongoing work of the IRSAC reflects the enduring value of independent public participation in federal tax administration and preserves an important channel for the exchange of ideas between the IRS and the communities it serves. The IRSAC is grateful for the opportunity to continue contributing to this important work.

Finally, we recognize the members of the Internal Revenue Service Advisory Council themselves. IRSAC members volunteer substantial time and professional expertise, often alongside demanding careers and other responsibilities, because they believe that a well-functioning tax system serves the public good. Their contributions involve countless hours of research, discussion, collaboration, and careful consideration of complex issues. They approach this work not merely as representatives of their respective professions or industries, but as individuals committed to improving tax administration for everyone it touches.

Public service takes many forms. For IRSAC members, it takes the form of sharing their experience, challenging assumptions, listening to differing perspectives, and working together to develop thoughtful, practical recommendations. It is both a responsibility and a privilege.

The IRSAC offers this report in that spirit: with respect for the dedicated public servants who administer our nation's tax laws, appreciation for the opportunity to contribute, and a shared commitment to a tax system that serves taxpayers and the nation with fairness, efficiency, and integrity.

The IRSAC believes in transparency. This report was researched and written by human beings. Artificial Intelligence (AI, specifically ChatGPT) helped with the layout, formatting, and some graphics.

Progress on Recommendations from Recent IRSAC Reports

The IRSAC's work does not end when its annual report is published. Recommendations and ideas developed through the IRSAC's work can—and do—result in meaningful changes in tax administration. Just as important, learning and the exchange of ideas occur throughout the year in meetings and discussions between IRSAC members and IRS personnel. Those conversations bring the real-world experience of taxpayers, tax professionals, filers, and other users of IRS systems directly into discussions about IRS programs and projects. They can help shape the direction of work already underway, identify practical problems or unintended consequences, and improve initiatives while they are still being developed.

The examples below are a partial list of recommendations made by IRSAC in our November 2024 and January 2026 reports that have subsequently been reflected in IRS actions or initiatives, as well as ideas advanced through our other interactions with the IRS. They should not be read to suggest that the IRSAC was solely responsible for these developments. In many cases, the IRS was already considering or working on an issue, and the IRSAC provided additional perspective, support, or practical user context.

Regardless of where an idea originated, however, when collaboration produces better service, stronger taxpayer protections, or more effective tax administration, we all win.

Customer Service

- Wage and Income transcripts are now available to taxpayers earlier in the filing season.
- Customer Service Representatives were provided training to facilitate assistance with both phones and paper processing.
- The IRS expanded the data collected concerning level of service measures, including both live and automated responses.

- Work is in progress to provide an acknowledgment form upon submission of documents via the Document Upload Tool (Documentation Upload Tool (DUT)).
- Automation has been adopted that greatly improved processing times for Central Access File (CAF) authorizations
- Tax Pros can now access their Tax Pro Accounts, Transcript Delivery System, and manage their Preparer Tax Identification Number (PTIN) accounts through a single sign-in, rather than re-authenticating for each task type.
- Improvements made to the Tax Pro Account include enabling tax professionals to manage powers of attorney forms.

Public Education

- Work continues to identify unscrupulous promotions such as non-existent tax credits by monitoring the dark web and social media channels. When such promotions are discovered, the IRS works to address them and counter with accurate information to assist the public in sorting through the misinformation.
- Expanded opportunities to help the public understand what the tax gap is and its significance to all taxpayers.
- Subscriptions for “news and tax law updates” was expanded to include “Recent Developments for Tax Products – Updates to tax forms and publications,” alerting subscribers to the release of draft tax forms and publications.
- The SB/SE Division continues to work with internal partners on ways to increase tax literacy.
- The IRS’ social media campaigns to educate the public about filing deadlines, IRS resources available, and countering scams reach an increasing number of viewers.

Modernization

- Continuing work on digitizing more processes and reducing the need for wet-ink signatures.
- Actively considered the IRSAC's numerous suggestions for additional features for Business Online Accounts that were categorized into high, medium and low priority improvements.
- A filer of an information return can export an XML file from the fillable PDF published on the IRS website to aid in downstream processing, validation and data exchange.

Protecting Taxpayers and the Federal Treasury

- To address identity theft issues, including authentication of self-prepared e-filed returns, the IRS in August 2025 launched a new option enabling taxpayers to authorize and transfer their prior year adjusted gross income (AGI) and Identity Protection (IP) PIN to participating tax-software products through the IRS's Data Authorization & Transfer Service (DATS).
- Implemented a PTIN validation pilot for the 2025 filing season to reduce identity theft.
- To improve reporting of identity theft and other scams, the IRS consolidated its information and added a "Report Fraud" link to its home page.
- The IRS reversed its position and will continue allowing sole proprietors and other disregarded entities completing Form W-9 to use either their Employer Identification Number (EIN) or Social Security Number (SSN) on the form, thereby allowing these taxpayers to protect their SSN from unnecessary disclosure.

Taxpayer Guidance

- The IRS issued Revenue Procedure 2026-25, which prevented contributions to a Trump Account from generating a gift tax return filing requirement when one otherwise did not exist.
- Proposed regulations (REG-105064-25) were issued in March 2026 addressing an option for digital asset brokers to use an alternative process to obtain customer consent to receive Forms 1099-DA electronically without the need to offer a paper delivery alternative.
- A statement was added to the website with the digital asset FAQs released in 2019 that they generally apply to transactions completed before January1, 2025.
- Instructions were added to Pub. 1099, *General Instructions for Certain Information Returns,* to let filers know that if the IRS revises forms during the reporting year, a new form does not need to be issued to the taxpayer unless changes to the form impact the initial reporting.
- Changes will be made to the 2027 Form 1065, *U.S. Return of Partnership Income* and instructions to eliminate obsolete questions and reporting codes.

Collection and Compliance

- The SB/SE Division continues to work on expansion of Alternative Dispute Resolution (ADR) opportunities for taxpayers.
- In January 2026, SB/SE Division personnel were issued interim guidance on the mandatory use of digital tools, including tools concerning Offers in Compromise.
- The IRS' web page "How to Know it's the IRS," explains how the IRS contacts taxpayers, the identification IRS revenue officers and other IRS employees carry, and how to prepare for a visit.

ISSUE ONE: IRS Resources Enabling Increased Revenue Collection

Executive Summary

The Internal Revenue Service (IRS) is the Federal government's principal revenue collection agency. In Fiscal Year (FY) 2025, the IRS collected approximately $5.3 trillion in gross taxes and processed 271 million tax returns and forms.[1]

The U.S. tax system depends principally on voluntary compliance. The vast majority of Federal tax revenue is collected through withholding, required deposits, estimated tax payments, and payments accompanying returns, rather than through examination or collection activity.[2]

The IRS collects more than $300 in gross taxes for every $1 spent on its total budget. Resources devoted to the IRS support the Federal government's ability to collect taxes legally due, promote voluntary compliance, protect compliant taxpayers from bearing a disproportionate share of the tax burden, and finance Federal operations.[3]

Nonetheless, the resource environment has changed materially, and annual appropriations have declined. The IRS received $11.2 billion for FY 2026, compared with $12.3 billion in FY 2025. The FY 2027 budget requests $9.8 billion in discretionary appropriations, a further $1.4 billion, or 12.2 percent, decrease from the FY 2026 enacted level. The IRS states that it will continue to rely on

[1] IRS, *Fiscal Year 2027 Congressional Budget Justification & Annual Performance Report and Plan*, Publication 4450 (Rev. 4-2026), pp. ii-2, https://www.irs.gov/pub/irs-pdf/p4450.pdf.

[2] Treasury Inspector General for Tax Administration (TIGTA), *Trends in Compliance Activities Through Fiscal Year 2025*, Report No. 2026-3S0-045, pp. 14-17, https://www.tigta.gov/sites/default/files/reports/2026-08/20263S0045fr.pdf; *see also* withholding-related recommendations included elsewhere in this report, including *Elective Withholding by Partnerships for Partners* and *Simplification of Form W-4 and Changes to Protect Employee Privacy.*

[3] IRS, *Fiscal Year 2027 Congressional Budget Justification & Annual Performance Report and Plan*, Publication 4450 (Rev. 4-2026), pp. ii-2, https://www.irs.gov/pub/irs-pdf/p4450.pdf.

supplemental resources – nearly $6.1 billion in FY 2027, including $4.2 billion remaining from 2022's Inflation Reduction Act (IRA) funding – for key enforcement, technology, and service activities.[4]

The resources most directly associated with the IRS's capacity to sustain and increase revenue collection include: a skilled compliance workforce; data, analytics, and artificial intelligence (Artificial Intelligence (AI)) that improve case selection and fraud detection; modern technology and integrated data; effective automated and field collection programs; and taxpayer services that make voluntary compliance easier. These capabilities are interdependent. Technology can improve productivity and direct scarce personnel to higher-value work, but it does not eliminate the need for experienced employees to resolve complex cases, protect taxpayer rights, and administer a changing tax code.

The IRS is now orienting its operations around data-driven enforcement, a simplified digital-first taxpayer experience, and renewed taxpayer privacy and security. Those priorities are consistent with the IRS's proposed FY 2026-2030 strategic goals, which include strengthening compliance, transforming technology and leveraging data, improving taxpayer services, enabling efficient operations, and addressing the tax gap. The central resource question is therefore not simply how much the IRS receives, but whether the agency has stable, appropriately allocated resources and measurable plans to deploy them where they produce the greatest compliance, service, and revenue benefits.[5]

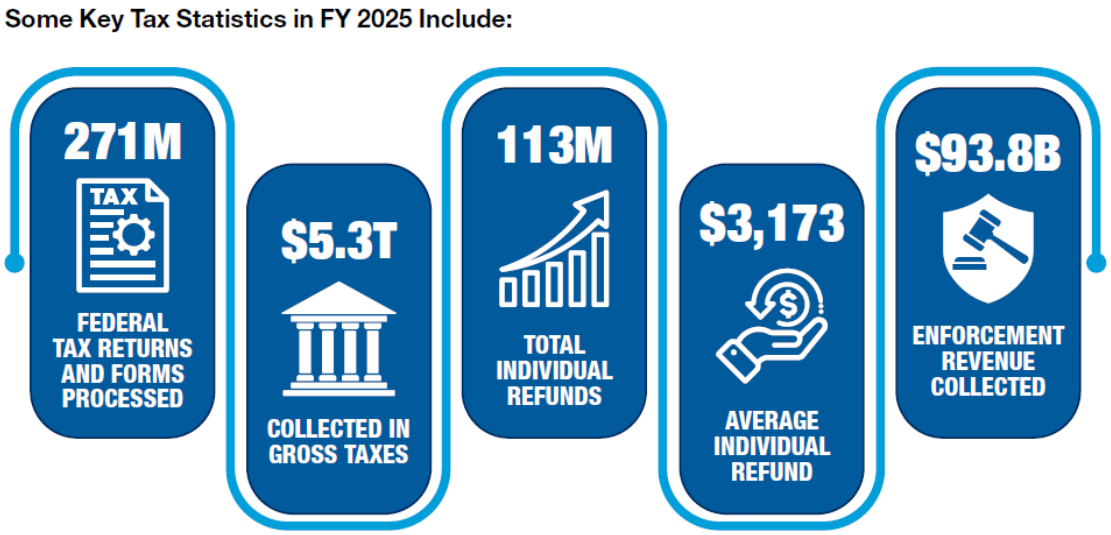
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[4] IRS, *Fiscal Year 2027 Congressional Budget Justification & Annual Performance Report and Plan*, Publication 4450 (Rev. 4-2026), pp. 2, 5-9, https://www.irs.gov/pub/irs-pdf/p4450.pdf; TIGTA, *Trends in Compliance Activities Through Fiscal Year 2025,* Report No. 2026-3S0-045, pp. 1-2, https://www.tigta.gov/sites/default/files/reports/2026-08/20263S0045fr.pdf.

[5] IRS, *Fiscal Year 2027 Congressional Budget Justification & Annual Performance Report and Plan*, Publication 4450 (Rev. 4-2026), Message From the Chief Executive Officer, https://www.irs.gov/pub/irs-pdf/p4450.pdf; TIGTA, *Snapshot: The IRS's Inflation Reduction Act Spending Through March 31, 2026*, Report No. 2026-IE-R014, pp. 2-3, https://www.tigta.gov/sites/default/files/reports/2026-09/2026ieR014fr.pdf.

Background

The IRS's mission is to provide taxpayers top-quality service by helping them understand and meet their tax responsibilities and to enforce the law with integrity and fairness to all. The scale of that responsibility is substantial, and FY 2025 demonstrates the breadth of the IRS's work.[6]



Tax Gap

The IRS has projected a gross tax gap of $696 billion for tax year 2022: $63 billion attributable to non-filing, $539 billion to underreporting, and $94 billion to underpayment. After late and enforced payments, the projected net tax gap is $606 billion.[7]

The tax gap is not equivalent to immediately collectible revenue. Some noncompliance is difficult to detect, some assessments are disputed or uncollectible, and enforcement actions may take years to produce final collections. Nonetheless, the size of the gap illustrates the fiscal importance of effective tax

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[6] IRS, *Fiscal Year 2027 Congressional Budget Justification & Annual Performance Report and Plan*, Publication 4450 (Rev. 4-2026), pp. 1-2, https://www.irs.gov/pub/irs-pdf/p4450.pdf.

[7] IRS, *Federal Tax Compliance Research: Tax Gap Projections for Tax Year 2022*, Publication 5869 (Rev. 10-2024), pp. 4, 7-10., https://www.irs.gov/pub/irs-pdf/p5869.pdf.

administration and the opportunity cost when the IRS lacks capacity to identify and address noncompliance.

Enforcement

Enforcement revenue is a relatively small share of total federal tax revenue. In FY 2025, $93.8 billion in enforcement revenue represented about 1.7 percent of the $5.3 trillion paid by taxpayers. Yet enforcement also has effects that are not fully captured by same-year collections, including future compliance by taxpayers who are contacted or examined and deterrence among other taxpayers. The timing of enforcement revenue can also lag the resources that generated it, particularly for complex examinations.[8]

The Congressional Budget Office (CBO) has estimated that reductions in IRS enforcement resources reduce Federal revenues.[9] The Treasury Inspector General for Tax Administration (TIGTA) found that Examination and Collection staffing reductions coincided with a 30 percent decline in examination starts in FY 2025 compared with FY 2024, and cautioned that the downstream effects of the workforce reductions may become more apparent over time.[10]

Collections and Compliance Results

The recent compliance data show both the potential of targeted resources and the difficulty of interpreting short-term results. Total enforcement revenue increased from $86.1 billion in FY 2023 to a record $98.7 billion in FY 2024, then declined5percent to $93.8 billion in FY 2025. Collection revenue increased

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[8] TIGTA, *Trends in Compliance Activities Through Fiscal Year 2025*, Report No. 2026-3S0-045, pp. 1, 3-5, https://www.tigta.gov/sites/default/files/reports/2026-08/20263S0045fr.pdf.

[9] TIGTA , *Snapshot: The IRS's Inflation Reduction Act Spending Through March 31, 2026*, Report No. 2026-IE-R014, p. 1 (summarizing Congressional Budget Office estimates), https://www.tigta.gov/sites/default/files/reports/2026-09/2026ieR014fr.pdf; Congressional Budget Office, *How Changes in Funding for the IRS Affect Revenues*, February 2024, https://www.cbo.gov/system/files/2024-02/59972-IRS-Rescissions.pdf.

[10] TIGTA, *Trends in Compliance Activities Through Fiscal Year 2025,* Report No. 2026-3S0-045, pp. 14-17, https://www.tigta.gov/sites/default/files/reports/2026-08/20263S0045fr.pdf.

sufficiently over the three-year period to offset declines in other enforcement categories, while examination revenue fell sharply in FY 2025.[11]

A major driver of Collection revenue was the February 2024 restart of automated collection notices that had been paused intermittently since the pandemic. Automated notices generated the largest enforcement revenue stream, and the restart also increased work flowing to the Automated Collection System (ACS), Field Collection, nonfiler programs, balance-due work, and levy activity. This demonstrates that automated contacts can generate substantial revenue, but they also create downstream inventories that require sufficient staff and systems to resolve taxpayer cases accurately and timely. TIGTA cautioned against interpreting the resulting increases in revenue per employee as pure productivity gains because restarted notices increased collections while year-end staffing fell.[12]

The examination results illustrate a different timing challenge. Workforce reductions in FY 2025 contributed to fewer examination starts. Because complex examinations can take multiple years to complete, reductions in staff today may affect assessments and collections in later years. A resource strategy focused only on current-year enforcement revenue could therefore under-invest in work that has longer lead times but significant future compliance value.

Alignment With the IRS's Emerging Strategy

The resource choices described herein align with the proposed FY 2026-2030 IRS Strategic Plan reported by TIGTA. The proposed goals are to improve taxpayer services; strengthen compliance; transform technology, leverage data,

[11] TIGTA, *Trends in Compliance Activities Through Fiscal Year 2025,* Report No. 2026-3S0-045, pp. 3-5, 16-17, https://www.tigta.gov/sites/default/files/reports/2026-08/20263S0045fr.pdf.

[12] TIGTA, *Trends in Compliance Activities Through Fiscal Year 2025,* Report No. 2026-3S0-045, pp. 6-8, https://www.tigta.gov/sites/default/files/reports/2026-08/20263S0045fr.pdf.

and protect privacy; enable efficient and effective operations; and support legislative implementation and address the tax gap.[13]



The strategic framework is useful because it recognizes that enforcement, service, technology, and privacy are interdependent components of effective tax administration. Effective tax administration requires all of them. The more consequential question for FY 2027 and beyond is how the IRS will translate these goals into resource allocations, milestones, and outcome measures that allow Congress and the public to assess whether investments are increasing compliance and collections while improving taxpayer experience and protecting taxpayer information.

The ability to achieve these strategic goals ultimately depends on the resources available to execute them. Technology, automation, and improved analytics can make the IRS more efficient, but they cannot fully substitute for sufficient staffing and specialized expertise. This is particularly true for complex examinations involving large corporations, partnerships, and high-income

[13] TIGTA, *Snapshot: The IRS's Inflation Reduction Act Spending Through March 31, 2026*, Report No. 2026-IE-R014, pp. 2-3, Figure 2, https://www.tigta.gov/sites/default/files/reports/2026-09/2026ieR014fr.pdf.

taxpayers, where sophisticated transactions may require experienced personnel with specialized tax, accounting, legal, and industry knowledge.

Accordingly, resource adequacy should not be treated solely as a question of how the IRS allocates a fixed or declining level of funding. The IRS should also assess whether overall resources are sufficient to administer the tax system effectively and collect taxes legally due. This question becomes more consequential as annual appropriations decline and temporary supplemental resources are depleted. In its 2026 Annual Report to Congress, the Electronic Tax Administration Advisory Committee (ETAAC) identified stable and predictable funding as the single biggest challenge facing the IRS and recommended that Congress establish a sustainable replacement for IRA supplemental funding before those resources are exhausted. ETAAC cautioned that without a planned transition to a stable funding base, the agency could face simultaneous pressure on staffing, taxpayer service, and modernization.[14] Efficiency gains should continue to be pursued, but sustained revenue collection requires an appropriate combination of technology, skilled personnel, taxpayer service, and enforcement capacity.

Resources That Can Enable Increased Revenue Collection

The evidence supports a portfolio approach to IRS resources. Increased collections are most likely to be sustained when workforce, technology, data, service, and enforcement processes reinforce one another rather than being treated as substitutes.

Skilled enforcement and compliance personnel

Revenue agents, revenue officers, tax examiners, contact representatives, attorneys, analysts, and specialized technical personnel perform different parts of the compliance process. Automated systems can identify cases and issue notices,

[14] Electronic Tax Administration Advisory Committee, *2026 Annual Report to Congress*, Recommendation 7, IRS Publication 3415 (Rev. 6-2026), https://www.irs.gov/pub/irs-pdf/p3415.pdf.

but complex examinations, high-risk collection cases, appeals, and taxpayer-specific resolutions require trained personnel. Hiring also has a delayed return because many compliance positions require extensive training before employees reach full productivity. Stable and reliable staffing levels are therefore particularly important for work involving large corporations, partnerships, high-income taxpayers, non-filers, and other complex cases.

Data-driven case selection and responsible use of AI

IRS CEO Frank Bisignano has identified data-driven enforcement as a strategic priority, including expanded use of AI, advanced analytics, and improved data integration to identify high-risk noncompliance and fraud, deter identity theft, and direct enforcement resources to higher-value cases. Better selection can increase the yield of scarce examination and collection resources while reducing unnecessary contacts with compliant taxpayers. These tools should be paired with governance, validation, privacy safeguards, and transparent performance measures so that efficiency gains do not compromise taxpayer rights or public trust.[15]

Modern, integrated technology and secure data

Technology is both a direct resource and a productivity multiplier. Modernized account systems, digital correspondence, document upload, automation, and integrated data can reduce manual processing, improve the speed and accuracy of case resolution, and allow employees to devote more time to substantive compliance work. The IRS reported eliminating approximately $2 billion in planned Information Technology (IT) spending in FY 2025 through contract renegotiations and reprioritization, demonstrating the importance of disciplined portfolio management alongside continued modernization. Remaining IRA resources are now concentrated heavily in Technology and Operations

[15] IRS, *Fiscal Year 2027 Congressional Budget Justification & Annual Performance Report and Plan*, Publication 4450 (Rev. 4-2026), Message From the Chief Executive Officer, pp. ii-iii, https://www.irs.gov/pub/irs-pdf/p4450.pdf.

Support, making prioritization, sequencing, and measurable benefits especially important.[16]

Automated collection and non-filer programs supported by downstream capacity

The FY 2024 restart of collection notices illustrates the revenue potential of automated compliance contacts. But automation is not self-contained: notices generate calls, correspondence, payment arrangements, disputes, and cases that may move to ACS or Field Collection. TIGTA also reported that resource limitations affected non-filer work and that revenue officer compliance sweeps of high-income non-filers were not conducted in FY 2025. A balanced resource model should therefore measure both automated yield and the downstream capacity needed to resolve cases and protect taxpayers from avoidable delays or repeated contacts.[17]

Taxpayer service and digital tools that support voluntary compliance

IRS resources contribute to collections by helping taxpayers file correctly, pay balances, respond to notices, and resolve issues before they become more costly enforcement cases. The IRS's second strategic priority is a simplified, digital-first taxpayer experience while retaining high-quality telephone and in-person assistance. Secure online accounts, digital payments, document upload, clear notices, and accessible live assistance can lower the cost of compliance for taxpayers and the cost of administration for the IRS. This is especially important as the agency implements significant tax law changes with a smaller workforce.

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[16] IRS, *Fiscal Year 2027 Congressional Budget Justification & Annual Performance Report and Plan*, Publication 4450 (Rev. 4-2026), pp. iii, 2, https://www.irs.gov/pub/irs-pdf/p4450.pdf; TIGTA, *Snapshot: The IRS's Inflation Reduction Act Spending Through March 31, 2026*, Report No. 2026-IE-R014, Highlights and pp. 2, 4-5, https://www.tigta.gov/sites/default/files/reports/2026-09/2026ieR014fr.pdf.

[17] *See* collection-related recommendations included elsewhere in this report, including *Collection: Improve Early Identification of Non-Filed Employment Tax Returns and Collection of Unpaid Employment Taxes;* TIGTA, *Trends in Compliance Activities Through Fiscal Year 2025,* Report No. 2026-3S0-045, pp. 6-10, https://www.tigta.gov/sites/default/files/reports/2026-08/20263S0045fr.pdf.

Recommendations

The IRSAC recommends:

1. Identify and communicate multi-year funding needs tied to measurable tax administration outcomes

Sufficient, stable, and predictable funding would enable the IRS to plan multi-year workforce, technology, service, and compliance investments. As remaining IRA supplemental resources are depleted, the IRS should identify and communicate to Treasury and Congress the funding and transition plans needed to avoid abrupt disruptions to critical enforcement, service, security, and modernization capabilities. Funding requests and internal allocation decisions should be accompanied by transparent measures showing how resources affect collections, voluntary compliance, taxpayer service, security, and modernization outcomes, including recognition that some investments produce benefits over multiple years rather than in the year funds are spent.

2. Prioritize resources for high-value compliance work using validated data and analytics

The IRS should continue expanding data-driven enforcement, advanced analytics, and responsible AI to improve case selection and direct limited compliance resources toward higher-risk and higher-value noncompliance. The IRS should publish appropriate performance measures addressing yield, cycle time, no-change rates and other indicators of case-selection accuracy, and taxpayer burden, together with information concerning safeguards for privacy and taxpayer rights.

3. Maintain sufficient downstream staffing when expanding automated collection and non-filer activity

When the IRS increases automated notices or other systematic compliance activity, it should allocate sufficient resources to address the related ACS, Field Collection, examination, appeals, and taxpayer service workloads. Planning

should explicitly account for inventory generated by automated programs so that increased initial contacts do not create avoidable backlogs or taxpayer burden.

4. Prioritize modernization investments that improve employee productivity and voluntary compliance

The IRS should prioritize remaining Technology and Operations Support resources toward projects with clear operational benefits, including integrated data, secure digital taxpayer and practitioner services, electronic correspondence and payments, automation of manual work, and retirement of high-risk legacy systems. The IRS should report milestones, lifecycle costs, realized savings, and productivity or compliance benefits for major investments.

5. Develop an integrated workforce and revenue-capacity plan for FY 2027-2030

The IRS should identify the minimum sustainable staffing and skill mix needed across Examination, Collection, Taxpayer Services, technology, data, cybersecurity, and legal functions to execute its FY 2026-2030 strategic goals. The plan should distinguish positions that can be augmented through automation from positions requiring specialized human judgment and should account for hiring, training, attrition, and the multi-year lag between staffing investments and collections.

ISSUE TWO: Reducing Compliance Friction

Executive Summary

The IRS has made considerable progress in expanding electronic services for taxpayers and tax professionals. Modernized e-File (MeF), Digital Mobile Adaptive Forms (DMAFs), the Document Upload Tool (DUT), Individual Online Accounts, Business Tax Accounts, and Tax Pro Accounts each provide important capabilities for electronic filing, document submission, account access, payments, authorization management, and taxpayer communication. These initiatives demonstrate that different taxpayer interactions can appropriately utilize digital pathways depending upon their requirements.

Despite these advances, many taxpayer interactions continue to involve transitions between electronic and manual processes. A taxpayer may complete a form electronically but still be required to print, sign, and mail it or submit through a secure electronic channel only to have it manually processed by an IRS employee without access to subsequent processing information or confirmation. These disconnected processes create additional administrative burdens for taxpayers, tax professionals, and the IRS.

The next phase of IRS modernization should focus on the entire transaction rather than individual submission methods. Electronic intake should be designed to support downstream validation, processing, and resolution, with secure digital access available to taxpayers and appropriately authorized representatives throughout the transaction.

The IRSAC recommends that the IRS expand secure electronic submission options, including DUT and DMAF, for forms and documents not suited to existing e-file workflows; prioritize structured, machine-readable data and automation; reduce unnecessary digital-to-manual transitions; expand digital capabilities for taxpayers and authorized representatives; measure transaction completion, not just electronic intake; and maintain an inventory of digital processing gaps to guide

future modernization.

Background

Internally, the IRS has made tremendous advances in modernizing the taxpayer experience, receiving submissions from taxpayers electronically, and helping large groups of taxpayers conduct their business online. Behind the scenes, however, electronic submissions often remain an attachment or PDF digital submission instead of becoming structured data that can move through downstream processes without human intervention.[18]

Digital Submission Pathways

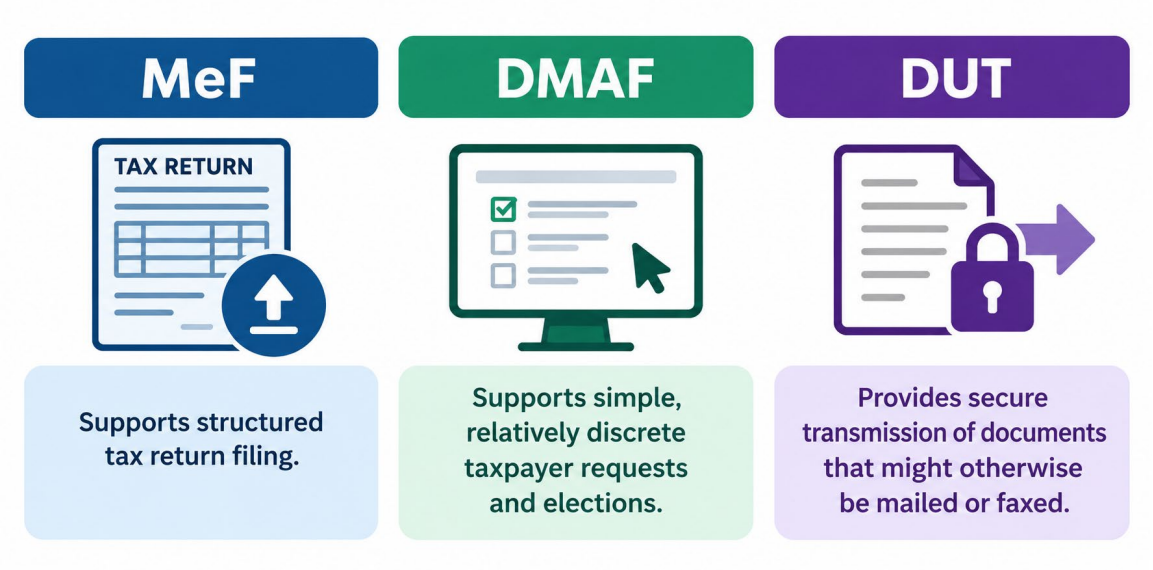
The IRS has made substantial progress in expanding electronic submission options. Modernized e-File (MeF) remains the appropriate platform for tax returns and other submissions that benefit from structured data, software validation, and integration with IRS return-processing systems. Other taxpayer interactions, however, have been better served with simpler digital pathways.

Digital Mobile Adaptive Forms (DMAFs) has provided a web-based, guided means of completing and submitting relatively straightforward forms on the taxpayer's own device without requiring specialized software.

The Document Upload Tool (DUT) offers a secure electronic pathway for submitting documents and supporting materials that do not require the structured

[18] For example, the Internal Revenue Manual (IRM) instructs clerical employees in Campus Examination Operations to download taxpayer documents submitted through the DUT as PDFs, validate and process the documents, convert and combine files as necessary, apply standard naming conventions to them, and then cut and paste the resulting document into the Correspondence Digitization Initiative (CDI) intake folder. *See* IRM 4.19.21.2.1(5)-(7).

data environment of MeF.



This approach has been a key component of the IRS's continuous modernization of tax administration. The objective has not been and need not be to move every form or document into MeF, but rather to provide an electronic pathway appropriate to the nature of the transaction. MeF can support structured tax return filing; DMAFs support simple, relatively discrete taxpayer requests and elections; and the DUT provides secure transmission of documents that might otherwise be mailed or faxed. Using these tools according to their strengths has reduced development complexity while giving taxpayers more convenient ways to interact with the IRS and reducing the amount of paper the IRS must receive, route, scan, and process.

The next opportunity is to complete these submission pathways with digitized downstream engagement. A transaction is not fully modernized merely because one step can be completed electronically. A taxpayer may complete a form digitally but still be required to print and mail it; electronically file a return but use a separate process to make the associated payment; or upload a document electronically only to have it enter a manual downstream workflow. The measure of successful modernization should therefore be not only whether a digital submission option exists, but whether the ensuing pathway allows the transaction

to move efficiently from submission through processing and confirmation.

Viewed from the taxpayer's perspective, these interactions generally fall along a continuum of digital maturity: Paper/Manual, Partial Access, Fragmented Digital, and Straight-Through Processing.

Paper/Manual Processes. Some business transactions remain outside the IRS's electronic filing and submission systems altogether, requiring taxpayers to submit information through paper-based or other manual processes. Form 2553, *Election by a Small Business Corporation*, illustrates this gap. Hundreds of thousands of corporations begin S-Corporation status each year.[19] Form 2553 filers must generally submit the election to the IRS by mail or fax, even though the election involves no payment and the resulting Form 1120-S income tax return can typically be e-filed.[20] Providing an electronic submission pathway for this type of routine business election would ease the filing process for taxpayers while also relieving the IRS of the significant burdens the IRS bears in manually receiving and processing paper and fax submissions.

Other examples of Paper/Manual submissions:

- Form 730, *Monthly Tax Return for Wagers*, must be filed on paper. The IRSAC previously identified processing errors in which more than $500 million of Form 730 wagering excise tax revenues have been misclassified

[19] IRS Statistics of Income, *Corporation Income Tax Returns: Line Item Estimates* (Publication 5108), tax years 2018–2022. Available online at https://www.irs.gov/statistics/soi-tax-stats-corporation-income-tax-returns-line-item-estimates-publication-5108. For 2022, the IRS estimates that 309,604 Forms 1120-S answered "Yes" to Question G, "Is the corporation electing to be an S corporation beginning with this tax year?" For tax years 2018–2022, the average estimated number of Forms 1120-S answering "Yes" to Question G was 272,496.

[20] The National Taxpayer Advocate recently recommended Congress modify IRC §1326(b)(1) to allow small businesses to elect S Corporation status by checking a box on their first timely-filed income tax return. National Taxpayer Advocate 2026 Purple Book, *Extend the Time for Small Businesses to Make Subchapter S Elections,* pp. 16-17 (2025) https://www.irs.gov/pub/irs-pdf/p5286.pdf.

as overpayments.[21]

- Form W-7, *Application for IRS Individual Taxpayer Identification Number*, generally requires taxpayers applying for an Individual Taxpayer Identification Number (ITIN) to submit a paper application package, including the associated federal income tax return and supporting documentation. The taxpayer is unable to e-file their income tax return using an ITIN in the calendar year the ITIN is assigned.
- Income tax returns and amended returns from more than two years before the current filing season must be filed on paper; the IRS only accepts electronic filing for current-year tax returns and returns from the prior two years.

Partial Access Processes. In other cases, the IRS has developed an electronic pathway for a transaction, but that pathway is available only to certain taxpayers. Form 8802, *Application for United States Residency Certification*, illustrates this type of gap. In 2025, the IRS introduced a Digital Mobile Adaptive Form (DMAF) that permits individual applicants to submit Form 8802 electronically; however, the electronic option is not available to business and other nonindividual applicants at this time. The IRSAC has recommended electronic submission of Form 8802 in four prior reports[22] and again addresses the limitation in this year's

[21] IRSAC January 2026 Report, *Processing of Form 730 and Excise Tax Payments*, pp. 41-46, https://www.irs.gov/pub/irs-pdf/p5316.pdf [Need a new link for the printed report]

[22] IRSAC 2021 Report, *Ensuring the Timely Issuance of Certificate of Residency Forms*, pp. 88-90 (2021), https://www.irs.gov/pub/irs-prior/p5316--2021.pdf.

IRSAC 2022 Report, *Accelerate Issuance of IRS Form 6166, Certification of U.S. Residency*, pp. 46-48, (2022) https://www.irs.gov/pub/irs-prior/p5316--2022.pdf.

IRSAC 2023 Report, *Accelerate Issuance of IRS Form 6166, Certificate of Residency*, pp. 56-58 (2023), https://www.irs.gov/pub/irs-prior/p5316--2023.pdf.

IRSAC 2024 Report, *Capabilities for Business Online Tax Accounts*, identified filing Form 8802 through Business Tax Accounts as a Top Priority Business Tax Account capability; pp. 56-61 (2024) https://www.irs.gov/pub/irs-prior/p5316--112024.pdf.

report.[23]

Other examples of Partial Access:

- Form 56, *Notice of Fiduciary Relationship*, can be e-filed by fiduciaries for individual accounts, but not by fiduciaries of entities, such as estates and trusts.
- Partial access can also occur at the account level. The IRS continues to expand Business Tax Account functionality, but access depends upon the type of business and the user's relationship to that business, leaving some business taxpayers able to complete transactions electronically while other similarly situated taxpayers cannot.

Fragmented Digital Processes. Still other transactions have been partially digitized but contain breaks that prevent them from moving electronically from beginning to end. Form 15620, *Section 83(b) Election*, illustrates this type of gap. To their credit, the IRS has developed Form 15620 as a DMAF, allowing taxpayers who were previously required to draft their own Section 83(b) election statements, the option of completing a standard form on their device. Unfortunately, the completed form must be printed, signed and mailed to the IRS. Hence, the taxpayer begins the transaction in a digital environment but is left to print and mail the form, after which the IRS must receive and process the paper submission. Connecting existing digital forms to an electronic submission pathway could eliminate these disconnects and allow transactions that begin electronically to remain electronic through completion.

Another example of Fragmented Digital:

- Form 3115, Application for Change in Accounting Method, may be attached to an electronically filed tax return, but the taxpayer must mail a duplicate

[23] See Information Reporting Subgroup's Issue One: Electronic Filing and Processing of Form 8802: Application for U.S. Residency Certification and Digitalization of Form 6166: Certification of U.S. Tax Residency.

paper copy to the IRS.[24]

Straight-Through Processing (STP). At the highest stage of digital maturity, taxpayers can initiate and complete a transaction electronically without an unnecessary break into paper or manual processing. Straight-through processing does not mean eliminating IRS employee involvement where a transaction requires judgement, review, or taxpayer-specific analysis. Rather it means avoiding unnecessary changes in medium, duplicate data entry, or disconnected systems as the transaction moves from initiation through resolution. Established processes demonstrate that straight-through electronic processing is not an aspirational concept; this model is already an integral part of tax administration for millions of transactions. Extending the same principles to transactions that remain at earlier stages of digital maturity creates an opportunity for better taxpayer service and a more efficient IRS.

Trump Accounts provide a recent example of a connected digital transaction. Taxpayers can make the election electronically through an Individual Online Account, monitor the status of the election online, and receive digital communications directing them to subsequent steps. Once the account is established, taxpayers can use the Trump Accounts app to view and manage the account, monitor balances and investment performance, and make contributions. This connected digital experience illustrates the potential for IRS and Treasury systems to support a transaction from initiation through ongoing account administration without requiring taxpayers to revert to paper.

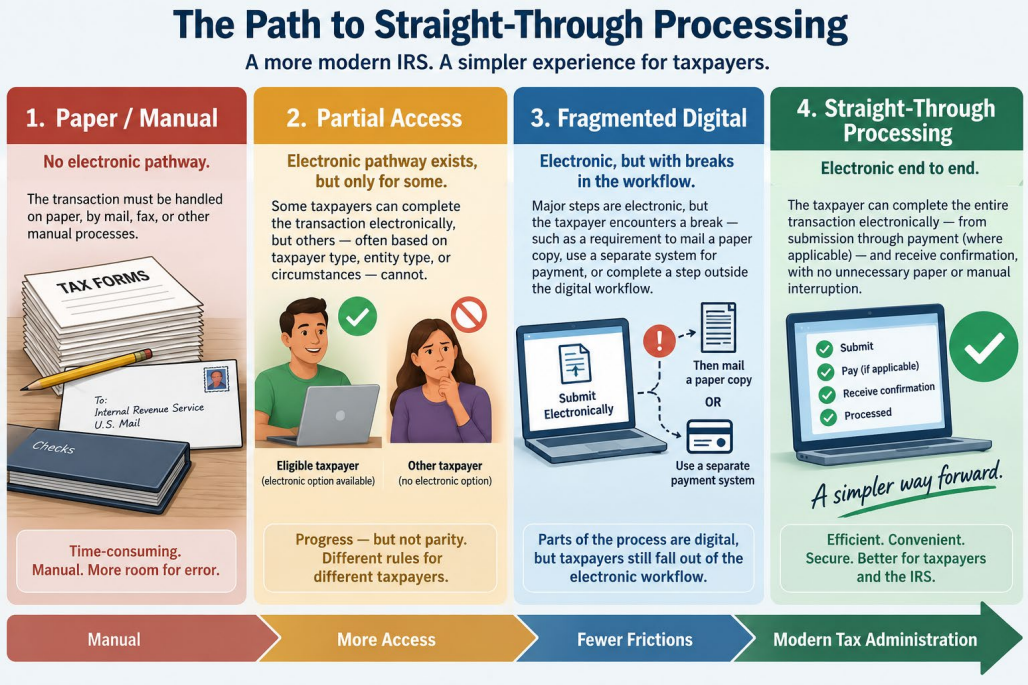
Other examples of STP:

- Employers may electronically file Form 941and make payments electronically, including filing and paying balances due in a single

[24] The IRSAC has previously recommended doing away with the duplicate paper submission of Form 3115. IRSAC January 2026 Report, *Accounting Method Change Requests*, pp. 33-36, https://www.irs.gov/pub/irs-pdf/p5316.pdf. .

transaction.

- The common Form 1040 filing process allows taxpayers to electronically file their return, make their payment or receive their refund electronically, and monitor relevant account information online.



Recommendations

The IRSAC recommends:

1. **Expand secure electronic submission pathways for transactions that do not fit existing e-file workflows.** The IRS should expand the use of secure electronic submission tools, such as the DUT or a DMAF, to provide taxpayers with an alternative to mail, fax or email submissions of forms and documents that cannot be incorporated into an existing e-file workflow. The IRS should prioritize routine transactions that are relatively standardized and for which electronic submission can be implemented without requiring

a complete redesign of the underlying tax-processing system.[25]

2. **Design data intake systems around downstream processing requirements**. The IRS should design electronic intake systems to collect structured, machine-readable information and integrate that information with downstream processing systems. Where supporting information must be submitted as unstructured documents, the IRS should evaluate appropriate technologies, including automated document extraction and artificial intelligence (AI) to reduce manual processing while maintaining safeguards for accuracy, information security, and taxpayer rights.
3. **Establish an end-to-end digital transaction framework.** The IRS should evaluate taxpayer transactions from initiation through processing, payment, confirmation, and follow-up, and identify unnecessary transitions between electronic and paper or manual processes. The agency should use a common framework—such as Paper/Manual, Partial Access, Fragmented Digital, and Straight-Through Processing—to identify gaps and prioritize opportunities to eliminate avoidable handoffs.
4. **Expand digital access consistently across taxpayer populations.** When the IRS creates a digital pathway for a transaction, it should establish a roadmap for extending that capability to similarly situated taxpayers who currently lack access because of entity type, account relationship, filing status, or other administrative distinctions. The IRS should also evaluate whether appropriately authorized tax professionals and other representatives can complete the same transactions electronically within the scope of their authorization, without requiring taxpayers to revert to paper or manual processes when obtaining professional assistance.
5. **Measure modernization by transaction completion, not merely digital intake.** The IRS should develop measures that evaluate the extent to which taxpayers and their authorized representatives can complete a transaction

[25] Recommendations regarding DUT and DMAF included in the Jan. 2026 IRSAC report (pages 129 to 130) should also be considered; https://www.irs.gov/tax-professionals/internal-revenue-service-advisory-council-irsac.

electronically from initiation to final resolution. These measures should include submission and acceptance rates, processing time, manual intervention, duplicate submissions, required taxpayer follow-ups, the availability of electronic status updates, and confirmation. These measures would distinguish digital solutions that primarily replace paper intake from those that also improve downstream manual processing efficiency and reduce taxpayer burden.

6. **Create a systematic inventory of processes to be digitized.** The IRS should create and maintain an inventory of taxpayer transactions that contain required transitions between digital and paper, fax, manual data entry, or separate submission systems, and periodically review the inventory for opportunities to eliminate those transitions. The IRS should use the inventory to identify recurring processing requirements across business units, develop shared solutions where practicable, and prioritize modernization planning and resource allocation among common infrastructure constraints rather than individual forms in isolation.

ISSUE THREE: Ghost Preparers

Executive Summary

Ghost preparers are individuals who were paid by a taxpayer to prepare their return but fail to comply with preparer-identification requirements, including by failing to sign the return and/or to provide a valid preparer taxpayer identification number (PTIN). Ghost preparers create significant issues for the tax system because their failure to identify themselves makes it more difficult for the IRS to identify the person responsible for a return and to connect apparently unrelated returns prepared by the same person. These preparers are not subject to the same oversight as signing preparers and are not included in data on the number of returns prepared by a paid return preparer. As noted by the IRS Research, Applied Analytics & Statistics (RAAS) group in a 2023 report, "Ghost preparers represent a risk to the integrity of the U.S. tax system."[26]

The significant harm to taxpayers who fall victim to ghost preparers and to the tax system warrants additional actions beyond the longstanding and important actions the IRS currently takes. Our recommendations include additional educational efforts and more frequent use of social media posts to help the public understand the importance of avoiding ghost preparers, improvements in the use and effectiveness of Letters 4733 and 6623, a pilot program using a standardized question in selected correspondence examinations to identify potential ghost preparers, continued development of IRS analytical tools to identify likely ghost preparer networks, a more coordinated service-wide approach to return preparer compliance, and metrics to evaluate the effectiveness of the IRS's existing and enhanced efforts to combat ghost preparers.

[26] King, et al, "Application of Network Analysis To Identify Likely Ghost Preparer Networks," included in IRS Pub 1500, The IRS Research Bulletin – Proceedings of the 2023 IRS/TPC Research Conference, 2024, p. 217; https://www.irs.gov/pub/irs-prior/p1500--2024.pdf.

Background

Definition of Ghost Preparer

The IRS defines a ghost preparer as someone who is paid to prepare a tax return but "does not comply with the PTIN requirements in IRC [Section] 6109 and Treasury Regulation [Section] 1.6109-2. On returns they prepare, a ghost preparer will:

- Fail to include any identifying number,
- In place of their PTIN, include a number that is not their PTIN, such as:
  - Series of random numbers,
  - SSN,
  - EIN,
  - Site Identification Number,
  - PTIN issued to another preparer,
  - Made-up PTIN, or
  - PTIN issued under the IRS's discontinued PTIN issuance system (a.k.a. legacy PTIN)."[27]

If the ghost preparer provides no PTIN, it is likely they also did not sign the return.[28]

The Ghost Preparer Problem

Every tax season, millions of taxpayers rely on paid preparers to prepare their tax returns. According to a 2026 U.S. Government Accountability Office (GAO) study citing IRS data, more than "85 million (57 percent) individual taxpayers used a paid preparer to help prepare a return in fiscal year 2024."[29] All paid preparers are required to have and use a valid Preparer Tax Identification

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[27] IRM 25.20.2.1.4 (11-17-2022); https://www.irs.gov/irm/part25/irm_25-020-002.

[28] IRS, *Dirty Dozen Tax Scams for 2026: IRS Reminds Taxpayers to Watch Out for Dangerous Threats*, IR-2026-30, March 5, 2026; https://www.irs.gov/newsroom/dirty-dozen-tax-scams-for-2026-irs-reminds-taxpayers-to-watch-out-for-dangerous-threats.

[29] U.S. Government Accountability Office, *Paid Tax Return Preparers: Opportunities Remain to Improve IRS Oversight (*GAO-26-108723), Feb. 24, 2026; https://www.gao.gov/assets/gao-26-108723.pdf.

Number (PTIN) indicating that the return was prepared by someone other than the taxpayer.[30]

Tax return preparers who complete returns on behalf of clients without providing a valid PTIN or signature are referred to as "ghost preparers." The "IRS does not include ghost preparers among the 85 million returns identified as being completed by paid preparers for taxpayers in fiscal year 2024."[31]

Beyond noncompliance with PTIN requirements, ghost preparers can commit fraud relatively easily. Paid preparers who do not sign a return or even have a PTIN can, with impunity, prepare tax returns that falsely claim deductions and credits that taxpayers don't qualify for or do not report all of a taxpayer's income. [32] These ghost preparers take advantage of clients with minimal understanding of the tax law and filing process. Some taxpayers such as those eligible for or potentially eligible to claim the Earned Income Tax Credit (EITC), are targets for ghost preparers because the preparer can misreport client information on the tax return to maximize the EITC (and the preparer's fee).[33] The taxpayer, rather than the preparer, is left to deal with the resulting audit, refund delay, tax, penalties, interest, or need to amend the return.

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[30] Section 6109 and regulations. Also see IRS, PTIN requirements for tax return preparers; https://www.irs.gov/tax-professionals/ptin-requirements-for-tax-return-preparers. "Tax return preparer" is defined at Section 7701(a)(36) as "any person who prepares for compensation, or who employs one or more persons to prepare for compensation, any return of tax imposed by this title or any claim for refund of tax imposed by this title. For purposes of the preceding sentence, the preparation of a substantial portion of a return or claim for refund shall be treated as if it were the preparation of such return or claim for refund." Limited exceptions are provided at Section 7701(a)(36)(B).

[31] GAO*, supra*. The IRSAC acknowledges that it is difficult or impossible for the IRS to readily determine if a return without a preparer signature or valid PTIN was prepared by someone who received compensation from the taxpayer.

[32] U.S. Government Accountability Office, *Paid Tax Return Preparers: Opportunities Remain to Improve IRS Oversight (*GAO-26-108723), Feb. 24, 2026; https://www.gao.gov/assets/gao-26-108723.pdf.

[33] Ghost preparers might improperly increase an EITC by including an ineligible or non-existent child or increasing or decreasing income to maximize the credit. Also see (1) Center For Taxpayer Rights, *2025 Filing Season Mystery Shopping Visits*, March 16, 2026, p. 11; https://taxpayer-rights.org/wp-content/uploads/2026/03/Mystery-Shopping-Report-03-16-26.pdf; (2) U.S. Dept. of Justice, "Justice Department Warns Dishonest Return Preparers Face Criminal Prosecution and Civil Injunction, April 10, 2017; https://www.justice.gov/archives/opa/pr/justice-department-warns-dishonest-return-preparers-face-criminal-prosecution-and-civil; and (3) GAO, 2026, pp. 2-3, *supra*.

The ghost preparer issue is well described in a 2023 research paper of the IRS RAAS group:[34]

> Ghost preparers represent a risk to the integrity of the U.S. tax system. By not identifying themselves on the returns they prepare, they are not subject to oversight, and they are in violation of Treasury rules and regulations. In addition, ghost preparers may engage in abusive tax practices which harm taxpayers and undermine the efficacy of the IRS. Compounding this concern, an individual ghost preparer may be responsible for tens if not hundreds or thousands of returns, giving any fraudulent or abusive behavior an outsized impact. According to the Treasury Inspector General for Tax Administration (TIGTA), ghost preparers disrupt and destabilize established IRS practices, legitimate preparers, and the taxpayer ecosystem (TIGTA (2018) and IRS (2009)).

Current IRS Actions to Find and Deal with Ghost Preparers

For more than a decade, the IRS has identified ghost preparers as a significant problem and included warnings to taxpayers about these preparers on its annual "Dirty Dozen" list. Ghost preparers were item #8 on the 2026 Dirty Dozen list which describes the problem as follows:[35]

> **"8. Ghost preparers.** A "ghost" preparer prepares a return but refuses to sign it and/or refuses to include a **Preparer Tax Identification Number (PTIN)**. When a preparer refuses to sign or provide a PTIN, that is a major red flag; the taxpayer is legally responsible for what is filed. The IRS urges taxpayers to avoid preparers who will not sign the return and to choose reputable help. Taxpayers should never sign a blank or incomplete return. Instead, the IRS reminds taxpayers to use a trusted tax professional for help."

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[34] King, *supra*.

[35] See, e.g., IRS, *Dirty Dozen Tax Scams for 2026: IRS Reminds Taxpayers to Watch Out for Dangerous Threats*, IR-2026-30, March 5, 2026; https://www.irs.gov/newsroom/dirty-dozen-tax-scams-for-2026-irs-reminds-taxpayers-to-watch-out-for-dangerous-threats.

Ghost preparers were listed on the Dirty Dozen lists for 2020 through 2025 (but not for 2022). Lists dating back to 2004 included unscrupulous tax return preparers and return preparer fraud.[36]

The IRS issues occasional tax tips and social media posts about ghost preparers or how to choose a tax professional.[37]



[36] See summary of IRS Dirty Dozen lists at https://www.sjsu.edu/people/annette.nellen/website/DirtyDozenTable.pdf.

[37] See, for example, IRS, "Be informed, not fooled by ghost preparers and tax credit scams," IRS Tax Tip 2026-27 (April 1, 2026); https://www.irs.gov/newsroom/be-informed-not-fooled-by-ghost-preparers-and-tax-credit-scams. IRS, "Choosing a tax professional;" https://www.irs.gov/tax-professionals/choosing-a-tax-professional. Also, Pub 5895, Who Do You Trust to Prepare Your Return? at https://www.irs.gov/pub/irs-pdf/p5895esp.pdf, The LinkedIn post shown in this report is from April 2026; https://www.linkedin.com/posts/taxsecurity-irs-share-7445198379338518529-l6eS/.

IRM 25.20.2 addresses ghost preparer treatment by the IRS. The IRM assigns responsibility for identifying, investigating, and treating ghost preparers to the Return Preparer Office Compliance Department and its Compliance Verification Group (now part of the Tax Professional Management Office (TPMO)) and establishes procedures for evaluating leads, researching suspected ghost preparers, determining appropriate treatment, referring cases to other IRS functions where appropriate, and revisiting cases to determine whether the preparer has come into compliance. The Compliance Verification Group uses the Ghost Inventory Tracking System ("GITS") to document ghost preparer activity, and the IRM requires the creation of a GITS case record regardless of a case's outcome.[38]

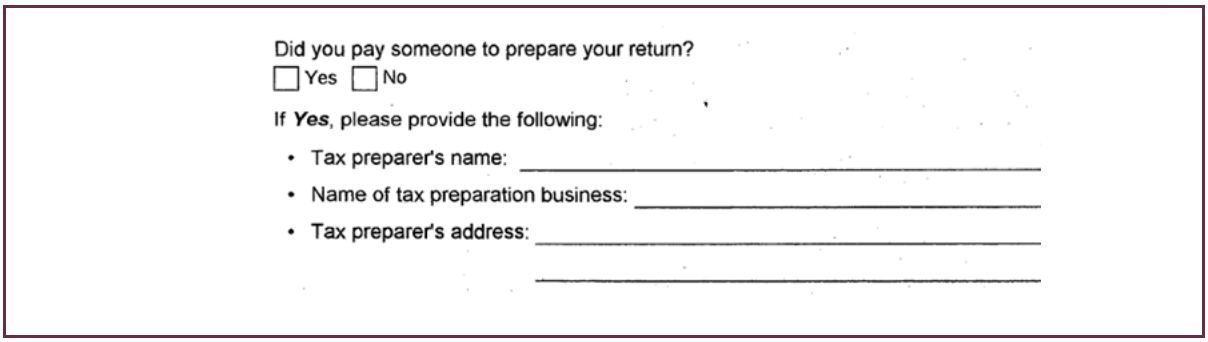
The IRM separately addresses potential ghost preparers identified during correspondence examinations. If a taxpayer refers to a return preparer even though no preparer is identified on the return, the examiner is instructed to discuss the matter with the team leader or group manager before continuing to develop the case.[39] Before referring the case as involving a ghost preparer, the examiner should try to obtain as much information as possible about the preparer, including the preparer's name, office address, and telephone number.[40] The IRM does not, however, direct correspondence examiners routinely to ask taxpayers whose returns appear self-prepared whether they paid someone to prepare or substantially assist in preparing the return. By contrast, some states ask taxpayers whose returns do not identify a preparer whether they paid someone to prepare the return and, if so, request the preparer's name, business name, and address. For example, the New York State Department of Taxation and Finance includes the following questions in certain correspondence examinations:

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[38] IRM, pt. 25.20.2.1.2, *et seq.* (Nov. 17, 2022).

[39] See, e.g., IRM, pt. 4.19.10.2.2(3) (Jan. 2, 2026)

[40] *Id.*


Did you pay someone to prepare your return?
☐ Yes ☐ No

If ***Yes***, please provide the following:

- Tax preparer's name: _____
- Name of tax preparation business: _____
- Tax preparer's address: _____

_____

A National Taxpayer Advocate blog post of October 30, 2024, addresses issues of ghost preparers. This post, titled "A Grave Error: Don't Allow "Ghost Preparers" to Turn Your Taxes Into a Horror Story," defines ghost preparers and the risks taxpayers face in using them. It notes that ghost preparers are not acting in the taxpayer's best interest and might invent income or claim fake deductions to increase refunds. It concludes with a simple statement that likely resonates with most taxpayers:

> "The message here is simple: Don't pay someone to prepare your taxes if they aren't willing to sign their name to your return. When you choose a preparer, always make sure it is someone you trust. Otherwise, your tax return could come back to haunt you."[41]

In mid-2026, the IRS improved its online process for reporting return-preparer misconduct. The "Report a tax return preparer" webpage expressly uses the term "ghost preparers," explains that a ghost preparer fails to sign a return and/or furnish a PTIN, and provides a separate reporting path for taxpayers who receive Letter 4733 or Letter 6623. The IRS states that it sends those letters when it believes a taxpayer's return was prepared by a ghost preparer and asks the taxpayer to report the preparer using the link on the website. *See* IRS, *Report a tax return preparer,* https://www.irs.gov/help/report-fraud/report-a-tax-return-preparer (last updated Sept. 10, 2026). The IRSAC learned that the "Report a tax

[41] NTA Blog, published Oct. 30, 2024, updated April 23, 2025; https://www.taxpayeradvocate.irs.gov/news/nta-blog/a-grave-error-dont-allow-ghost-preparers-to-turn-your-taxes-into-a-horror-story/2024/10/.

return preparer" webpage and the reporting process included there is in the process of being updated.

Letter 6623 (Rev. 1-2026) is mailed to a taxpayer if the IRS suspects that their return was prepared by a paid preparer but is not signed by a preparer or is missing the preparer's PTIN. Letter 6623 is usually part of an IRS project or campaign directed to certain taxpayers based on information that may identify returns possibly prepared by ghost preparers. This letter begins with a statement in bold: "A paid tax return preparer may have prepared your [2024] tax return." This one-page letter informs the recipient that a paid preparer is required to sign the return and have a valid PTIN. No response is required. Instead, the letter encourages the taxpayer to use a QR code on the letter to obtain Form 14157, Return Preparer Complaint, to file with the IRS. The letter concludes with a link to irs.gov/ChooseATaxPro and a phone number if the individual has any questions. Letter 6623 does not identify the IRS business unit responsible for sending it.

Letter 4733 (Rev. 6-2014) is a more formal letter that notifies the taxpayer that the return contained incomplete Paid Preparer Use Only information and provides information concerning the preparer-identification requirements and reporting process. It then reminds the taxpayer that anyone paid to prepare a return must sign it and include their PTIN. The recipient can disregard the letter if their return was not prepared by a paid preparer. If the taxpayer did engage a paid preparer, the letter encourages them to report the violation to the IRS using Form 14157. It also includes brief information on choosing a return preparer, further advising to visit www.irs.gov and search for "choosing a preparer." The IRSAC learned that Letter 4733 is used by PTIN analysts as part of preparer compliance casework. Letters 4733 and 6623 serve different purposes within the IRS.

Section 6695(b) and (c) provide that a tax return preparer who does not sign a return or furnish an identifying number is subject to a $50 penalty for each failure, not to exceed $25,000 in any calendar year. These amounts are adjusted for inflation annually; for returns filed in 2027, the penalties are $65 per return with an

annual maximum of $33,000 for each penalty provision.[42] One difficulty in asserting the Section 6695(c) failure to furnish an identifying number penalty is that if a preparer uses an incorrect or expired PTIN, the document might not be viewed as a "return" for Section 6695 penalty purposes. Congress is actively considering solutions to this issue.[43]

IRS Research on Ghost Preparer Networks (2023)

The 2023 IRS/TPC Research Conference included the presentation and paper: "Application of Network Analysis To Identify Likely Ghost Preparer Networks."[44] The paper describes IRS research using network analysis to identify clusters of electronically filed returns that appear self-prepared but share characteristics that suggested preparation by a common ghost preparer. One approach involved identifying clusters of e-filed returns with commonalities that indicated a single preparer. A description of the benefits of network analysis follows:

> "Ghost preparation is characterized by complex networks of relationships between individuals involved; a network model can capture these relationships. By analyzing the structure of the network, we can identify patterns which suggest ghost preparation. In addition, data in a network format lends itself to seeing second and third order connections

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[42] See Rev. Proc. 2025-32.

[43] H.R. 9499 (119th Congress), Protecting Taxpayers from Ghost Preparers Act, unanimously passed in the House Ways and Means Committee on July 1, 2026, would amend Section 6696(e)(1) on the definition of "return" to include "any other document purporting to be a return, request, or report described in subparagraphs (A) through (C)"; https://www.congress.gov/bill/119th-congress/house-bill/9499/. Also, in July 2026, the Senate Finance Committee reported out legislation that would impose a $250 civil penalty for each failure to furnish a valid PTIN, subject to a $75,000 maximum. The TAS Act would also address ghost preparers by creating a new felony penalty with a fine up to $50,000 or three years in prison, or both, for willfully failing to furnish a PTIN, willfully furnishing an invalid PTIN, or willfully furnishing a PTIN assigned to someone else. Senate Finance Committee, July 30, 2026, press release on committee passage of the Taxpayer Assistance and Service (TAS) Act; https://www.finance.senate.gov/chairmans-news/crapo-wyden-applaud-committee-passage-of-taxpayer-assistance-and-service-act.

[44] King, et al, "Application of Network Analysis To Identify Likely Ghost Preparer Networks," included in IRS Pub 1500, The IRS Research Bulletin – Proceedings of the 2023 IRS/TPC Research Conference, 2024, page 217; https://www.irs.gov/pub/irs-prior/p1500--2024.pdf.

between returns which facilitates connecting potential ghost preparers to the clusters of returns identified."[45]

The Innovation Lab released a beta of the Ghost Preparer Tool (GPT) in 2022 to help in identifying and addressing returns prepared by ghost preparers. The research also describes additional analytical approaches, including predictive machine learning techniques. Importantly, the researchers identified the need for additional outcome data to measure the effectiveness of the analytical methods and proposed further study of the ghost preparer population and its compliance impact.

2026 GAO Report on Return Preparers

In February 2026, the U.S. Government Accountability Office (GAO) reiterated their recommendation for the IRS to finalize a "service-wide tax return preparer strategy (STRPS) that would ensure consistent treatment of all preparers across different compliance programs." The GAO has determined that "a more coordinated approach could help taxpayers and their representatives prepare more accurate returns and avoid costly compliance efforts [and] help IRS determine the resources needed in relation to other programs that focus on paid preparer compliance." According to the GAO, "other IRS oversight groups, including the Electronic Tax Administration Advisory Committee (ETAAC), the Taxpayer Advocate Service (TAS), and the Treasury Inspector General for Tax Administration (TIGTA), have also recommended IRS implement a service-wide strategy related to paid preparers." The GAO reported that the IRS had agreed with the recommendation but, as of December 2025, had not implemented a STRPS. GAO continues to believe that a service-wide strategy could help the IRS coordinate paid-preparer compliance activities and determine the resources required for them.[46]

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[45] King, *supra*, p. 219.

[46] GAO, *Paid Return Preparers: Opportunities Remain to Improve IRS Oversight (*GAO-26-108723), Feb. 24, 2026; https://www.gao.gov/assets/gao-26-108723.pdf.

Recommendations

1. As part of current work to update the IRS's "Tax return preparer misconduct" webpage, consider these suggestions to make the ghost preparer reporting process more prominent and easier for taxpayers to navigate. The webpage should more prominently explain what constitutes a ghost preparer, encourage taxpayers to report a ghost preparer even if they did not receive Letter 4733 or Letter 6623, state whether reporting requires the taxpayer to identify themselves, explain how to avoid using a ghost preparer or other unreliable preparer, and how to select a reputable tax professional, including through links to relevant IRS resources such as Publication 5895 and the IRS's 'Choosing a Tax Professional' webpage.
2. Continue to regularly use social media, tax tips, and the Dirty Dozen list to help make the public aware of ghost preparers, and how and why to avoid them, as well as how to report them to the IRS. Social media alerts to avoid ghost preparers and how to choose a tax professional should be posted throughout the year.
3. Add a chapter on Obtaining Reliable Tax Assistance to the *Understanding Taxes* materials that includes lessons for teachers and students (https://apps.irs.gov/app/understandingTaxes/student/index.jsp). This chapter should define reliable tax information and IRS sources for obtaining it, tips for avoiding incorrect tax advice, the definition of ghost preparers and why and how to avoid them, as well as tips for selecting a tax return preparer if needed. This chapter should also remind taxpayers that they are responsible for the correctness of their return.
4. Update IRS materials that employers are required to provide to employees about the refundable EITC to include (a) warnings to avoid ghost preparers and others who might misreport their information to improperly increase the EITC, and (b) information on how to choose a preparer or find a VITA site. (See P.L. 99-514, Sec. 111(e), Treas. Reg. § 31.6051-1(h), and IRS Notices 797 and 1015 and related IRS websites.)

5. Include information on ghost preparers in VITA training. This should include a definition, the problems taxpayers can face by using a ghost, and how the client can report the ghost, if desired.
6. Update and modify Letters 4733 and 6623 as follows:
    a. In addition to the QR code, provide the related readily verifiable URL for reporting ghost preparer misconduct.
    b. Post the letter(s) on the IRS website where other correspondence is posted so recipients can compare the letter they received with an authentic IRS version.
7. Pilot a standardized question in selected correspondence examinations asking taxpayers whose returns appear self-prepared whether they paid anyone to prepare or substantially assist in preparing the return. The pilot should include geographic areas and categories of returns that IRS data, complaints, referrals, or other objective indicators suggest may have a higher incidence of ghost preparation. For affirmative responses, request the preparer's name and contact information and capture and route that information in a standardized manner that permits cross-return analysis and appropriate follow-up.
8. Continue development and implementation of projects identified in the 2023 RAAS report, *Application of Network Analysis To Identify Likely Ghost Preparer Networks*. Use the data collected to pursue appropriate avenues to track down and penalize ghost preparers and evaluate and improve the IRS's ghost preparer identification methods.
9. As part of existing work to gather and track data on the types of complaints submitted at the IRS website on reporting preparers, results of sending Letters 4733 and 6623, and the outcome of those complaints and letters, including the number of preparers identified, referred, or subject to compliance action, consider sharing this information, as appropriate, to further help taxpayers identify ghost preparers and help the public understand the significance of this issue.

10. Include ghost preparers in the Service-wide Tax Return Preparer Strategy (STRPS) and establish measurable goals for identifying, investigating, and addressing ghost-preparer activity.

ISSUE FOUR: Tax-Related Identity Theft Resolution: Transparency, Timing, and Resource Dedication

Executive Summary

Tax-related identity theft continues to impose severe, disproportionate harm on lower-income and vulnerable taxpayers, with average resolution times now exceeding 15 months — far longer than the 2 – 6-week timeframe for ordinary refund processing. This report presents three coordinated recommendations: (1) a public-facing case status tracker modeled on the IRS's existing tax-exempt determination tools, to improve transparency; (2) process and data-timing improvements to reduce resolution time, building on models the IRS has already piloted successfully; and (3) a tiered resource-dedication model that reduces reliance on Contact Service Representatives (CSRs) during filing season without requiring new appropriated funding. Each recommendation is designed with explicit awareness of the IRS's current staffing and budget constraints.

Tax-related identity theft affects hundreds of thousands of taxpayers annually. The IRS maintains inventories of hundreds of thousands of unresolved cases and flags millions of returns for potential fraud each filing season. Because of the scale of the issue, resolution times remain extraordinarily long. At this writing, the IRS is processing individual identity theft affidavits (Form 14039) submitted in September 2024 and business identity theft affidavits (Form 14039-B) submitted in December 2024.[47] Compared with the normal refund processing time of 2–6 weeks, individual taxpayers whose returns enter the identity theft resolution process must wait nearly two years, sometimes longer, for their cases to be resolved.

[47] IRS, Processing status for tax forms. https://www.irs.gov/help/processing-status-for-tax-forms.

The National Taxpayer Advocate (NTA) has noted that these delays disproportionately affect lower-income taxpayers, many of whom rely on timely refunds to meet basic living expenses. While data concerning the number of fraudulent returns claiming refundable credits is not publicly available, the NTA noted in 2024 that 69% of affected taxpayers had income ≤250% of the federal poverty level, and that 57% of identity theft cases handled by the Taxpayer Advocate involved economic hardship.[48]

These cases also present significant challenges for the IRS. Fraudsters continue to evolve, leveraging artificial intelligence, synthetic identities, and data breaches. In contrast, the IRS resolution process requires case-by-case verification of taxpayer identity and validation of income and withholding. These cases must be handled by specially trained personnel, and staffing constraints, competing priorities, and system limitations can contribute to extended processing times.

Background

Tax-related identity theft is not a new or emerging problem — it has been a documented, worsening challenge for more than a decade, despite significant IRS investment in detection technology. The table below traces its evolution from initial recognition through the present backlog.

Period	Development
2004–2009	Tax-related identity theft emerges as a distinct problem as fraudsters begin filing returns using stolen SSNs to claim refunds.[49]
2012	IRS identifies almost 642,000 identity theft incidents impacting tax administration in 2012 alone — Government Accountability Office

[48] National Taxpayer Advocate, 2024 Annual Report to Congress — Most Serious Problem: Identity Theft. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/12/ARC24_MSP_03_Identity-Theft.pdf.

[49] U.S. GAO, GAO-13-132T, Identity Theft: Total Extent of Refund Fraud Using Stolen Identities Is Unknown (Nov. 29, 2012). https://www.gao.gov/products/GAO-13-132T.

Period	Development
	(GAO) finds IRS does not know the full extent of refund fraud using stolen identities. The Taxpayer Advocate Service (TAS) identity theft case receipts rose 93% in FY2011 over FY2010, then another 57% in the first two quarters of FY2012.[50]
2013	The Treasury Inspector General for Tax Administration (TIGTA) finds it takes the IRS an average of 312 days to resolve identity theft cases; tax accounts incorrectly resolved in 25% of a sampled case set; 73% of surveyed IRS assistors found the IRS's own procedures confusing. IRS reports 1.2 million taxpayers were affected in Calendar Year 2012 and 1.6 million more in 2013.[51]
2014	IRS estimates it paid $5.2 billion in fraudulent identity theft refunds in filing season 2013, while preventing $24.2 billion. GAO recommends earlier W-2 matching as a mitigation.[52]
2015	The PATH Act accelerates the Form W-2 filing deadline to January 31, enabling earlier matching against filed returns. TIGTA reports average resolution time improves to 278 days.[53]
2015–2016	IRS centralizes identity theft functions into the Identity Theft Victim Assistance (IDTVA) directorate; average case closure time improves to 166 days, and the error rate drops to 7%.[54]
2017	The Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (ISAC), a public-private partnership between the IRS, states, and the tax industry, launches.[55]
2019	GAO finds that federal agencies, including the IRS, continue to rely on knowledge-based verification (KBA) methods that have been compromised by large-scale data breaches (e.g., the 2017 Equifax breach), and recommends stronger identity-proofing processes.[56]

[50] U.S. GAO, GAO-13-132T, Identity Theft: Total Extent of Refund Fraud Using Stolen Identities Is Unknown (Nov. 29, 2012). https://www.gao.gov/products/GAO-13-132T.

[51] TIGTA, Press Release: TIGTA Report: The IRS Needs to Improve Customer Service for Identity Theft Victims. https://www.tigta.gov/articles/press-releases/tigta-report-irs-needs-improve-customer-service-identity-theft-victims.

[52] U.S. GAO, GAO-14-633, Identity Theft: Additional Actions Could Help IRS Combat the Large, Evolving Threat of Refund Fraud. https://www.gao.gov/products/gao-14-633.

[53] TIGTA, Press Release: Centralization of Identity Theft Victim Assistance Reduced Case Closure Time Frames and Tax Account Errors. https://www.tigta.gov/articles/press-releases/centralization-identity-theft-victim-assistance-reduced-case-closure-time.

[54] Ibid.

[55] TIGTA, Report No. 2026-40-019, The IRS Continues to Improve the Detection and Prevention of Individual Identity Theft (May 2026). https://www.tigta.gov/sites/default/files/reports/2026-05/2026400019fr.pdf.

[56] U.S. GAO, GAO-19-288, Data Protection: Federal Agencies Need to Strengthen Online Identity Verification Processes (May 2019). https://www.gao.gov/products/gao-19-288.

Period	Development
2023	IRS flags nearly 1.1 million potentially fraudulent returns by early March, tied to about $6.3 billion in claimed refunds. NTA reports the IRS is taking about 19 months to resolve IDTVA cases, with roughly 484,000 cases in inventory; 69% of affected taxpayers had income at or below 250% of the Federal Poverty Level.[57]
2024	Resolution time grows to more than 22 months,[58] affecting nearly half a million taxpayers; low-income taxpayers comprise an estimated 64% of resolved IDTVA cases, with 62% reporting economic hardship.[59]
2025–2026	The IRS workforce falls approximately 26–27% amid broader staffing reductions[60]; the identity theft case backlog stands at roughly 387,000 unresolved cases[61]. TIGTA reports the IRS protected $7 billion in fraudulent refunds across Calendar Years 2024–2025 but continues to lack timely access to Form 1099-R and W-2G data (due March 31), limiting pre-refund fraud detection for an estimated $46 billion and $3.6 billion in refunds, respectively. TIGTA recommends legislation to accelerate this deadline, estimating $944 million in additional protected revenue from FY2025–2034.[62]

[57] National Taxpayer Advocate, 2023 Annual Report to Congress — Most Serious Problem: Identity Theft. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_06_Identity-Theft.pdf.

[58] National Taxpayer Advocate Blog, "Identity Theft Victims Are Waiting Nearly Two Years to Receive Their Tax Refunds" (June 2024). https://www.taxpayeradvocate.irs.gov/news/nta-blog/identity-theft-victims-are-waiting-nearly-two-years-to-receive-their-tax-refunds/2024/06/

[59] National Taxpayer Advocate, 2024 Annual Report to Congress — Most Serious Problem: Identity Theft. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/12/ARC24_MSP_03_Identity-Theft.pdf.

[60] IRS Newsroom, National Taxpayer Advocate Delivers Annual Report to Congress (2026). https://www.irs.gov/newsroom/national-taxpayer-advocate-delivers-annual-report-to-congress-finds-taxpayer-service-was-strong-in-2025-but-foresees-challenges-for-taxpayers-who-encounter-problems-in-2026.

[61] IRS Newsroom, National Taxpayer Advocate Issues Mid-Year Report to Congress (June 2025). https://www.taxpayeradvocate.irs.gov/reports/2026-objectives-report-to-congress/newsroom-26/.

[62] TIGTA, Report No. 2026-40-019, The IRS Continues to Improve the Detection and Prevention of Individual Identity Theft (May 2026). https://www.tigta.gov/sites/default/files/reports/2026-05/2026400019fr.pdf.

Recommendation One: Transparency — A Public-Facing Case Status Tracker

The IRSAC recommends that IRS have a case tracker for identity theft cases. Currently there is no public tracker that exists for identity theft cases. Unlike the tax-exempt determination process, Identity Theft Victim Assistance (IDTVA) status is available only by phone or by waiting for correspondence. We recommend a self-service status tool, modeled directly on the IRS's existing "Where's My Application for Tax-Exempt Status" tool and Tax-Exempt Organization Search (TEOS), [63] [64] translating existing internal case-status codes into plain taxpayer-facing language. This tracker would be accessible to the taxpayer and, where appropriate authorization has been established, an authorized representative assisting them with the resolution of their case.

Proposed Stage	Taxpayer-Facing Status	Maps to Existing IRS Process
Duplicate Return Flagged	A second return was filed using your SSN. Your case is being logged.	Corresponds to the internal marker set when a duplicate or suspicious return triggers the identity theft process.
2. Form 14039 Received	We've received your Identity Theft Affidavit. Reference #: [XXXX].	Mirrors the acknowledgment-notice (CP 01) model already used when internal marker posts to an account.
3. Assigned for Review	Your case has been assigned to an examiner with identity theft training.	Mirrors "assigned to an Exempt Organization specialist" language in the existing Where's My Application / TEOS tool.
4. Under Review	Your case is being researched. Estimated timeframe: [X] days, based on similar cases.	Highest-value stage to expose: NTA reports average resolution currently runs 22+ months depending on case type.
5. Processed	Your return has been reprocessed and the fraudulent return removed from your record.	Matches stated IDTVA resolution actions: verifying names/SSNs, removing the fraudulent return, confirming no additional victims.

[63] IRS, Where's My Application for Tax-Exempt Status. https://www.irs.gov/charities-non-profits/charitable-organizations/wheres-my-application-for-tax-exempt-status.

[64] IRS, Tax Exempt Organization Search (TEOS). https://www.irs.gov/charities-non-profits/tax-exempt-organization-search.

Proposed Stage	Taxpayer-Facing Status	Maps to Existing IRS Process
Resolved, Refund Released	Resolution complete. If a refund was due, it has been released.	Corresponds to TC 971 AC 501/506 closure and reversal (TC 972) once the case is closed.

Why This Model

- The IRS may be able to leverage existing digital service capabilities and design patterns, subject to technical, security, and integration analysis. (TEOS / Where's My Application) the IRS already operates successfully for a different case type.
- Reduces IDTVA and general call volume, addressing the labor-constraint problem directly rather than requiring new staff.
- Supports the equity finding above: lower-income and elderly filers disproportionately bear the cost of phone-only status checks (missed work hours, hold times, limited mobility).

Recommendation Two: Timing — Reducing Resolution Time

The current average resolution time of 15+ months [65] compares unfavorably even to the IRS's own historical performance — 278 days in 2015 and 166 days following centralization in 2016. [66] Two timing-focused interventions are recommended:

Segment the Backlog from New Intake

The IRS previously piloted working a subset of aged cases separately from new intake. In that pilot, new cases in the subset resolved in an average of approximately 100 days, while aged backlog cases averaged 515 days —

[65] NTA Blog, "Identity Theft Victims Are Waiting Nearly Two Years to Receive Their Tax Refunds" (June 2024). https://taxpayeradvocate.irs.gov/news/nta-blog/identity-theft-victims-are-waiting-nearly-two-years-to-receive-their-tax-refunds/2024/06.

[66] TIGTA, Press Release: Centralization of Identity Theft Victim Assistance Reduced Case Closure Time Frames and Tax Account Errors. https://www.tigta.gov/articles/press-releases/centralization-identity-theft-victim-assistance-reduced-case-closure-time.

demonstrating that new cases move at a fundamentally different speed when not queued behind the backlog. The IRSAC recommends formalizing and scaling this two-track model: one team dedicated to new intake against a fixed service-level target, and a separate surge team dedicated solely to clearing aged inventory.

Automated Status Correspondence

- The IRSAC recommends status letters issued automatically every 90–120 days for cases assigned to an examiner, generated from the case file without manual drafting.
- Letter content aligned with the tracker stage language in Section III; use consistent status definitions and be synchronized to the extent technically feasible.
- Reduces inbound status-only calls to the general number and addresses NTA's finding that taxpayers take an average of 52 days (and sometimes several months) to respond to authentication notices — proactive updates reduce the uncertainty likely contributing to that delay.

Recommendation Three: Dedication of Workers and Resources

A recurring structural problem is that during filing season, CSR capacity is diverted from identity theft casework toward general phone lines. At the same time, cases of very different complexity — from a single correspondence-only verification letter to a multi-year, multi-filing case — are often routed through the same process and staff. The IRSAC recommends three explicit complexity tiers, matched to the appropriate resource.

Tier	Case Profile	Resource Model
Tier 1 — Low Complexity	Correspondence-only verification (e.g., a single notice requesting identity confirmation, no additional filings involved).	Self-service document upload tool. This could reduce manual handling for qualifying cases, with employee review retained for exceptions and cases requiring additional verification.

Tier	Case Profile	Resource Model
Tier 2 — Moderate Complexity	Single confirmed fraudulent return; standard case research and account correction required.	Tax examiner as lead; CSR as backup/support (not lead) team model, not hand-off model.
Tier 3 — High Complexity	Multiple fraudulent filings, potential collusion, or multi-year impact.	Tax examiner as lead with CSR support; may require Appeals or Compliance coordination.

Self-Service Identity Verification Upload Tool (Tier 1)

The IRSAC recommends a self-service identity verification upload tool located on the existing IRS identity theft information page, alongside the proposed status tracker. The taxpayer would be issued a case-specific reference number usable only with that tool. Once operational, this tier requires no ongoing CSR or examiner time — the system, not staff, performs the initial verification match, directly relieving the tension between filing-season phone demand and identity theft casework.

Documentary Verification, Not Knowledge-Based Verification

This tool should rely on documentary proof — specific reference numbers tied to real physical records — rather than knowledge-based verification (KBA), which asks questions drawn from credit-bureau files. GAO found that federal agencies' reliance on KBA is compromised by the scale of data exposed in large breaches.[67] To balance security with accessibility, we recommend the taxpayer be asked to provide any 2 of the following 4–5 categories, not a single fixed checklist — avoiding exclusion of taxpayers who lack access to any one specific document type, an important equity consideration given the population most affected by identity theft delays already skews toward lower-income and elderly individuals.

Category	Example Items
Vital records with reference numbers	Marriage certificate/license number, issuing county, and date; divorce decree case number and issuing court; certified birth certificate file/registrar number; adoption decree case number.

[67] U.S. GAO, GAO-19-288, Data Protection: Federal Agencies Need to Strengthen Online Identity Verification Processes (May 2019). https://www.gao.gov/products/gao-19-288.

Category	Example Items
Government-issued document numbers	Passport number, issuance date, and expiration date; naturalization certificate number; military DD-214 discharge document number.
Financial instrument reference numbers	Mortgage loan number or original closing date; vehicle title number/VIN with lienholder name; life insurance policy number; specific 1099-R payer account/contract number.
Prior-return specifics (non-standard)	A specific line-item detail from a non-standard schedule (e.g., Schedule C business name and EIN, or a dependent's relationship code) from a return two or more years prior.

Team-Based Case Ownership (Tiers 2–3)

For moderate- and high-complexity cases, we recommend a tax examiner serve as case lead, with CSR staff in a defined backup/support role rather than a lead or hand-off role. This preserves continuity for the taxpayer, reduces case reassignment (a documented driver of delay), and keeps CSR involvement proportional to actual case complexity rather than uniform across all cases.

ISSUE FIVE: Elective Withholding by Partnerships for Partners

Executive Summary

The federal income tax system generally requires taxpayers to pay tax as income is earned. Wage earners ordinarily satisfy that obligation through withholding, but individual partners generally must satisfy their tax obligations attributable to partnership income through estimated tax payments. A partnership reports its income on Form 1065, *U.S. Return of Partnership Income*, and reports each partner's distributive share on Schedule K-1 (Form 1065), *Partner's Share of Income, Deductions, Credits, etc.*, but generally does not withhold federal income tax from distributions to U.S. individual partners. This structure separates partnership information reporting from payment of the resulting tax and can impose substantial burdens on partners, particularly in closely held businesses with irregular income or distributions. An elective withholding-at-the-source mechanism could allow a partnership, with a partner's authorization, to withhold tax from guaranteed payments, cash distributions, or other amounts otherwise payable to the partner and remit the tax for credit to that partner. The policy objective is straightforward: facilitate payment and collection of tax as income is earned when both the partnership and the partner elect to participate. Such a mechanism could facilitate timely payment of federal income tax and help partners satisfy their overall federal tax liabilities, including liabilities attributable to self-employment tax. It could also reduce estimated-tax errors and underpayment penalties, place tax in the government's possession earlier, and strengthen the connection between partnership information reporting and partner-level tax payments. The IRSAC recommends that the IRS establish a cross-functional working group, including external stakeholders, to evaluate taxpayer interest, compliance and collection benefits, and administrability and, if warranted, develop a limited elective

withholding pilot.

Background

Current Pay-As-You-Go Framework for Partners

Millions of owners of pass-through entities operate in a pay-as-you-go system without a payroll withholding mechanism. Partnerships filed more than 4.5 million federal returns for tax year 2023, representing more than 30.2 million partners.[68]

A partnership files Form 1065 and generally furnishes Schedule K-1 (Form 1065) to each partner and files a copy with the IRS. A partnership generally does not pay federal income tax on its income. Instead, the partners report their distributive shares and are personally responsible for the resulting tax. Because partners are not employees of the partnership, partnerships generally do not withhold federal income tax from partner distributions.[69] Instead, partners must determine whether they are required to make estimated tax payments and, if so, calculate and remit those payments separately. Generally, an individual may be required to make estimated tax payments if the individual expects to owe at least $1,000 after taking into account applicable credits and withholding and does not otherwise satisfy applicable estimated-tax safe harbors.[70] The partner therefore may need to forecast annual income, deductions, credits, and tax liability, account for applicable safe-harbor rules, monitor payment dates, and separately transmit payments to the IRS.

This structure can be particularly burdensome for closely held partnerships with irregular income, uneven cash distributions, multiple owners, and limited internal tax-administration resources. More fundamentally, it separates the

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[68] IRS, *SOI tax stats – Partnership statistics*, https://www.irs.gov/statistics/soi-tax-stats-partnership-statistics (last updated June 27, 2026).

[69] *Accord* IRS, *Estimated Tax FAQs*, https://www.irs.gov/faqs/estimated-tax/businesses/businesses-1 (last updated Mar. 18, 2026).

[70] *See* I.R.C. § 6654(a), (d)(1)(B), (e)(1), (f), (g)(1).

reporting of partnership income from payment of the tax attributable to that income. The partnership determines and reports each partner's distributive share and often controls the timing and amount of cash distributions from which the partner may fund the related tax, but the partner separately bears responsibility for transmitting estimated payments. An elective withholding mechanism would allow the partnership, with the partner's consent, to remit the elected portion of guaranteed payments, cash distributions, or other amounts otherwise payable to the partner directly to the IRS for credit against the partner's tax liability, rather than first paying that amount to the partner for the partner to remit separately.

Compliance and Collection

The separation between reporting and payment also has compliance implications. IRS tax-gap research describes this relationship in terms of "visibility," explaining that compliance is higher when amounts are subject to information reporting and higher still when they also are subject to withholding. For tax years 2014 through 2016, the IRS estimated a net misreporting percentage of 1% for income subject to substantial information reporting and withholding, 6% for income subject to substantial information reporting without withholding, and 55% for income subject to little or no information reporting. Partnership, S corporation, estate, and trust income, which was categorized as subject to some information reporting, had an estimated net misreporting percentage of 12%.[71]

These data do not establish that elective partnership withholding would produce wage-like compliance or that withholding alone accounts for differences in reporting compliance. They nevertheless support studying whether closer alignment of partnership information reporting and tax remittance could improve voluntary compliance. Closer alignment could also reduce estimated-tax errors, underpayment penalties, and downstream collection activity.

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[71] *See* IRS, Research, Applied Analytics & Statistics, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2014-2016*, Pub. 1415, at 2, 20 tbl. 5 (rev. Oct. 2022), https://www.irs.gov/pub/irs-pdf/p1415.pdf.

Recent data from the Treasury Inspector General for Tax Administration (TIGTA) provide additional context for considering mechanisms that facilitate timely payment of tax attributable to partnership income. TIGTA reported that the number of partnership examinations started by the IRS declined 76%, from6,709 in fiscal year 2023 to1,589 in fiscal year 2025.[72] The decline reflects, among other things, the IRS's transition to a new pass-through examination function and workforce reductions and therefore does not establish a trend in partnership noncompliance. It nevertheless highlights the limits on examination resources and the potential value of mechanisms that facilitate timely payment without depending on subsequent enforcement.

There also may be a collection benefit where a participating partner subsequently fails to file. High-income non-filers remain an IRS compliance concern. In 2024, the IRS announced an initiative involving more than 125,000 instances in which high-income taxpayers had failed to file federal income tax returns since 2017.[73] Elective withholding would not satisfy a partner's filing obligation or determine the partner's ultimate tax liability. Although an elective regime would not collect tax from a partner who declined to participate, it could allow the government to collect at least some tax during the year if a participating partner later failed to file. Because both Schedule K-1 (Form 1065) and the withholding payment would identify the partner by taxpayer identification number, the IRS could more readily associate the reported partnership income and credited payment with the missing individual return. This potential benefit may be particularly relevant in the small-partnership setting, where ownership structures and payment allocation may be comparatively straightforward.

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[72] TIGTA, *Trends in Compliance Activities Through Fiscal Year 2025*, Report No. 2026-3S0-045, at 12–13 (Aug. 26, 2026), https://www.tigta.gov/sites/default/files/reports/2026-08/20263S0045fr.pdf.

[73] IRS, FS-2024-06, *What to expect after receiving a non-filer compliance alert notice and what to do to resolve*, https://www.irs.gov/newsroom/what-to-expect-after-receiving-a-non-filer-compliance-alert-notice-and-what-to-do-to-resolve (Feb. 2024).

Existing Authority and Administrative Precedents

Section 3402(p)(3)(B) authorizes the Secretary by regulation to provide for withholding from any other type of payment for which the Secretary finds withholding appropriate, provided that the person making and the person receiving the payment agree to withholding. Treasury regulations provide that the Secretary may identify additional types of payments for voluntary withholding through guidance published in the Internal Revenue Bulletin.[74]

The IRS has previously used this authority to extend voluntary withholding to nonwage distributions. For example, the IRS has permitted an Alaska Native Corporation and a shareholder to agree to voluntary withholding from dividends and other distributions.[75] In explaining that treatment, the IRS stated that voluntary withholding could permit shareholders to satisfy their tax payment obligations through withholding rather than estimated payments, minimize the risk of underpayment, and simplify administration for shareholders and the IRS.[76]

The Code also contains an existing partnership-level withholding and partner-crediting framework in Section 1446 for effectively connected taxable income allocable to foreign partners. Under that regime, Form 8813, *Partnership Withholding Tax Payment Voucher (Section 1446)*, is used to make withholding payments during the partnership's tax year. Form 8804, *Annual Return for Partnership Withholding Tax (Section 1446)*, reports the partnership's annual withholding liability, and Form 8805, *Foreign Partner's Information Statement of Section 1446 Withholding Tax*, reports the income and withholding credit allocable to a particular foreign partner. Section 1446 addresses a different taxpayer population, but its payment, reporting, and partner-crediting mechanics provide an existing administrative analogue for partnership-level remittance.

During the IRSAC's discussion of this issue with attorneys from the IRS Office of Chief Counsel, the IRSAC was advised that existing legal authority was

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[74] *See* Treas. Reg. § 31.3402(p)-1(c).

[75] *See* Notice 2013-77, 2013-50 I.R.B. 632.

[76] *Id.*

not viewed as an impediment to a voluntary withholding regime for partnership payments. The discussion therefore focused principally on whether there would be sufficient taxpayer interest and compliance benefit to justify what could be a significant administrative undertaking. The discussion also identified potential ways to narrow the scope of an initial implementation, including beginning with guaranteed payments, using payroll or other payment service providers, and employing a transmittal mechanism comparable to existing withholding systems. The IRSAC participants also discussed obtaining stakeholder input before determining whether further development was warranted.

The administrative concerns warrant careful consideration. Because partnerships and partners currently have no comparable federal elective withholding option for ordinary domestic partnership payments, existing usage data cannot answer whether taxpayers would use one. Input from partnerships, partners, practitioners, and payment providers would help the IRS assess likely interest and whether the potential compliance, collection, and burden-reduction benefits justify the administrative cost.

Recommendations

The IRSAC recommends that the IRS take the following actions:

1. Establish a cross-functional working group to study elective withholding at the source from amounts otherwise payable by domestic partnerships to participating partners. The working group should include representatives from the SB/SE Division, LB&I's Pass-Through Entities Practice Area ("LB&I:PTE"), the Office of Chief Counsel, Taxpayer Services (including Submission Processing and Accounts Management), Information Technology, and Research, Applied Analytics and Statistics (RAAS) (including Statistics of Income). It should solicit input from partnerships, individual partners, tax practitioners, professional service partnerships and firms, payroll providers, payment processors, and tax professional organizations. The study should evaluate taxpayer interest, likely participation, compliance and collection benefits,

administrative costs, and effects on estimated-tax burden and underpayment penalties. To limit the administrative burden, the working group should rely on available data and targeted stakeholder outreach to the extent practicable. The study should provide the IRS with an evidentiary basis for determining whether further development is warranted.

2. Develop a limited elective withholding pilot if the study indicates sufficient taxpayer interest and a meaningful compliance, collection, or taxpayer-service benefit. The IRS should consider initially limiting the pilot to domestic partnerships with U.S. individual partners and relatively straightforward ownership structures. Potential designs could include withholding from guaranteed payments, cash distributions, or both, and could permit a partner to elect a specified percentage or dollar amount. Alternatively, as an even narrower proof of concept, the IRS could initially limit the pilot to guaranteed payments made by such partnerships to U.S. individual partners. Regardless of its scope, the pilot should apply only to amounts otherwise payable to a participating partner, leave existing distribution obligations and partnership-agreement rights unchanged, and provide clear rules for elections and revocations, partner-level payment crediting and reporting, and reconciliation.

3. Measure whether elective withholding improves payment compliance and tax administration. The IRS should evaluate payment timeliness, estimated-tax underpayments and penalties, taxpayer and partnership administrative burden, payment-posting and reconciliation errors, and the extent to which partner-level withholding assists the IRS in associating information on Schedule K-1 (Form 1065) with partner-level payments.

ISSUE SIX: Simplification of Form W-4 and Changes to Protect Employee Privacy

Executive Summary

Form W-4, *Employee's Withholding Certificate*, provides information used by an employer to determine federal income tax withholding from wages. Although the current form is relatively straightforward for employees with a single job, it is substantially more complicated for employees who hold multiple jobs, are married to a working spouse, or who want to use wage withholding to replace the need for estimated tax payments. Those employees must coordinate withholding across employers, even though each employer generally knows only the wages it pays. To assist employees in accounting for multiple jobs or a working spouse, the IRS provides several methods, including the Tax Withholding Estimator, the Multiple Jobs Worksheet, and, for households with only two jobs, the Step 2(c) checkbox (i.e., the box that an employee checks on the Forms W-4 for both jobs so that withholding at each job is increased to account for the household's two wage sources). These methods can require employees to coordinate information and elections among several Forms W-4 and may require consideration of household information that an employee does not wish to disclose to an employer (*e.g.*, wages from another job, a spouse's wages, other household income, or information concerning dependents and credits).

The IRSAC recommends simplifying withholding for dual-income and multiple-job households while separating household-level calculations from the information furnished to employers to protect employee privacy and avoid unnecessary disclosure on an IRS form. The IRS also should improve the Tax Withholding Estimator and reduce calculations required of employees, develop an elective percentage-rate withholding method for regular wages, provide a simple method (such as a Form W-4 checkbox) for employees to elect withholding at the highest marginal income tax rate on supplemental wages, test Form W-4 and the

withholding procedures together, and provide clearer guidance on reviewing withholding annually and when relevant circumstances change.

Background

Current Form W-4 and Multiple-Job Withholding

Section 3402(a)(1) generally requires employers to deduct and withhold federal income tax from wages in accordance with tables or computational procedures prescribed by the Secretary. Publication 15-T, *Federal Income Tax Withholding Methods*, prescribes the methods employers use to apply Form W-4 entries in calculating withholding.

Completion of Form W-4 is organized into five steps:[77]

- Step 1 requests personal information and filing status.
- Step 2 addresses multiple jobs or a working spouse.
- Step 3 addresses credits for qualifying children and other dependents as well as other credits.
- Step 4 addresses other income, deductions, and any additional amount the employee wants withheld.
- Step 5 requires the employee's signature.

Employees for whom Steps 2 through 4 do not apply generally complete only Steps 1 and 5.

For an employee with multiple jobs or a working spouse, Step 2 provides three methods for accounting for wages from multiple jobs. The employee may (1) use the Tax Withholding Estimator, (2) complete the Multiple Jobs Worksheet and enter the resulting additional withholding in Step 4(c), or (3), if there are only two jobs, check the Step 2(c) box on the Forms W-4 furnished for both jobs. Selecting Step 2(c) causes withholding at each job to be calculated using one-half of the otherwise applicable standard deduction and tax brackets. The form states that the checkbox generally produces a more accurate result when the wages from the two

[77] *See generally* IRS, Form W-4, *Employee's Withholding Certificate* 1 (2026).

jobs are relatively similar and that the worksheet generally is more accurate when the wages differ significantly. Steps 3 through 4(b) generally should be completed on only one Form W-4.

The Multiple Jobs Worksheet illustrates the coordination required. The employee uses wages from the household's jobs to determine annual additional withholding, divides that amount by the number of pay periods for the highest-paying job, and enters the result in Step 4(c). Households with three jobs require additional computations. Thus, although each employer generally calculates withholding by reference to the wages it pays, the employee may need to coordinate wages, pay periods, credits, deductions, and withholding elections across several jobs to approximate the household's ultimate income tax liability.

The Form W-4 instructions also expressly recognize privacy concerns.[78] An employee who does not want an employer to know that the employee has another job or a working spouse may use the Multiple Jobs Worksheet instead of Step 2(c). Similarly, an employee who does not wish to disclose other income in Step 4(a) may use Step 4(c) to request additional withholding instead. The instructions therefore recognize that household information may be relevant to determining appropriate withholding without necessarily being disclosed to the employer. Yet, Form W-4 includes a line for other income and a checkbox if an employee and their spouse only have two jobs total.

Form W-4 and Publication 15-T operate together in determining wage withholding. The new deductions for qualified tips and qualified overtime compensation illustrate that relationship. Congress directed Treasury to modify the withholding procedures prescribed under Section 3402(a) for taxable years beginning after 2025 to account for those deductions.[79] The 2026 Form W-4 permits employees to reflect expected deductions for qualified tips and qualified overtime compensation through Step 4(b), and Publication 15-T directs employers

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[78] *Id.*

[79] Pub. L. No. 119-21, §§ 70201(i), 70202(f) (July 4, 2025) (directing the Secretary to modify the procedures prescribed under I.R.C. § 3402(a) for taxable years beginning after December 31, 2025, to account for the deductions for qualified tips and qualified overtime compensation).

to use an employee's Form W-4 entries in applying the federal income tax withholding procedures.[80] Accordingly, withholding accuracy depends on both the information the employee enters on Form W-4 and the withholding procedures prescribed in Publication 15-T.

Prior Form W-4 Design and IRS Testing

The treatment of multiple jobs is not unique to the current form. The 1993 and 2017 Forms W-4 used withholding allowances but also included separate worksheets addressing two-earner or multiple-job households. Under that approach, the employee completed the applicable worksheets, retained them for the employee's records, and transferred the resulting withholding allowances or additional withholding amount to the certificate furnished to the employer.[81] That structure provides a relevant design precedent because the employee could perform the underlying calculations privately while furnishing the employer the information needed to calculate withholding.

In November 2018, IRS testing of a draft 2019 Form W-4 identified multiple-job calculations as a source of difficulty. The testing involved 17 participants using a scenario involving wages of the taxpayer and spouse, interest income, dependents, and deductions. Five of the 17 participants completed the draft form correctly. The multiple-jobs line and the deductions line were the most frequently missed items, with six participants incorrectly completing each. The testing report also suggested moving multiple-job income information to a separate worksheet outside the first page of the form.[82]

Related IRS testing in 2021 examined a draft Form W-4P, including Step 2, which required taxpayers to account for income from a job or multiple pensions or

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[80] *See* IRS, Form W-4, Employee's Withholding Certificate 2 (2026); IRS, Pub. 15-T, *Federal Income Tax Withholding Methods* 1–2 (2026).

[81] IRS, Form W-4, *Employee's Withholding Allowance Certificate* 1-2 (1993); IRS, Form W-4, *Employee's Withholding Allowance Certificate* 1–2 (2017).

[82] IRS Wage & Investment Operations Support, Strategies & Solutions, Draft 2019 Form W-4 Testing Results (Dec. 2018), slides 4, 10–11, 18. This material was furnished by the IRS in response to the IRSAC's request for information.

annuities. Six of the 19 participants completed the entire draft Form W-4P correctly for both assigned scenarios.[83] These were small usability studies of draft forms and do not establish current error rates for the 2026 Form W-4. They nevertheless provide evidence that taxpayers can encounter completion difficulties when the withholding calculation requires them to coordinate multiple income sources.

Tax Withholding Estimator and Simplified Inputs

The Tax Withholding Estimator provides an existing mechanism for performing a household-level calculation outside the employer-facing form. The estimator requests information concerning jobs and pensions, income, adjustments, deductions, and credits and can generate a pre-filled Form W-4 or Form W-4P. The IRS states that the estimator does not ask for personal information such as the taxpayer's name or Social Security number and that information entered into the estimator will not be saved or shared with the IRS. The IRS further explains that the estimator may use Step 3 of Form W-4 to account for deductions and adjustments that otherwise would be reflected in Step 4(b), thereby limiting the information furnished to the employer.[84] The tool therefore permits household-level information to be considered without necessarily being disclosed to an employer. The taxpayer nevertheless must recognize the need to use the estimator, provide the relevant information, and implement the resulting Form W-4 entries for the appropriate job or jobs.

The form also requires employees to perform calculations that could be performed by an electronic tool. For example, Step 3 of the 2026 Form W-4 requires the employee to multiply qualifying children and other dependents by specified credit amounts before entering the resulting dollar amount. The underlying facts – the number and type of dependents – are likely to be more readily understood by an employee than the associated tax computation. The

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[83] IRS Wage & Investment Strategies and Solutions, Draft 2021 Form W-4P Testing Results (Sept. 22, 2021), slides 5, 11–13. This material was furnished by the IRS in response to the IRSAC's request for information.

[84] IRS, *Tax Withholding Estimator FAQs*, https://www.irs.gov/individuals/tax-withholding-estimator-faqs (last updated Mar. 26, 2026).

same principle applies more broadly where the employee is asked to convert household information into a withholding adjustment.[85]

Elective Percentage-Rate Withholding

Form W-4 currently permits an employee to request an additional fixed dollar amount for each pay period in Step 4(c). Treasury regulations similarly permit an employee to request increased withholding, including through an additional amount or the use of higher withholding-rate tables.[86] The current Form W-4 does not, however, provide an option for an employee simply to elect a specified percentage of regular wages as the withholding amount. A fixed per-pay-period amount also does not automatically increase when the employee's wages increase nor meet the needs of an hourly employee with fluctuating income. A percentage of wages, by contrast, would increase or decrease with the wages paid by that employer without requiring the employee to recompute a fixed dollar amount and submit a new Form W-4.

The federal withholding rules applicable to retirement payments provide a useful comparison. Form W-4P, *Withholding Certificate for Periodic Pension or Annuity Payments*, applies to periodic pension and annuity payments and uses a framework similar to Form W-4, including filing status, multiple pensions or jobs, credits, other income, deductions, and additional fixed-dollar withholding. Form W-4R, *Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions*, uses a different approach. For a nonperiodic payment, the default withholding rate generally is 10%, but the recipient generally may elect a whole-number rate from 0% through 100%.[87]

The statutory rules governing retirement payments differ from those

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[85] The IRSAC also made recommendations on simplifying Form W-4 and reminding employees of the need to update their W-4 due to certain life events, in a letter submitted to the IRS Forms group on Sept. 6, 2024, and included in the 2024 IRSAC Annual Report. *See* Internal Revenue Service Advisory Council, Public Report, Pub. 5316, at 278 (Nov. 2024); https://www.irs.gov/pub/irs-prior/p5316--112024.pdf.

[86] Treas. Reg. § 31.3402(i)-1.

[87] *See* I.R.C. § 3405(b)(1); IRS, Form W-4R, *Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions* 1–2 (2026).

governing wages. Accordingly, Form W-4R does not itself establish that the same percentage-rate approach may be used for wages. It does, however, provide an existing model in which a prescribed withholding rate applies and a taxpayer who wants a different rate may affirmatively elect one. A comparable wage-withholding option could allow an employee to select a percentage-based method under which a prescribed rate applies from the first dollar of wages. An employee seeking a different percentage could use a worksheet or the Tax Withholding Estimator to determine the alternative rate. Because Section 3402 and the current regulations govern wage withholding, Treasury and the IRS should determine whether existing authority permits the method and, if necessary, identify any regulatory or statutory changes needed to implement it.[88]

Supplemental-Wage Withholding

Supplemental wages include bonuses, commissions, and certain other payments made in addition to regular wages.[89] When separately identified supplemental wages paid to an employee during a calendar year do not exceed $1 million, an employer that withheld federal income tax from the employee's regular wages during the current or immediately preceding calendar year generally may use either the aggregate method or an optional flat rate of 22%. If the employer uses the optional flat-rate method, no other percentage is permitted.[90] The portion of an employee's supplemental wages exceeding $1 million is subject to withholding at the highest marginal income tax rate, currently 37%, without

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[88] *See* I.R.C. § 3402(a)(1), (i)(1); Treas. Reg. § 31.3402(i)-1(a)(1), (2). These provisions authorize prescribed withholding procedures and employee-requested increases in withholding but do not expressly address an employee election to withhold a specified percentage of regular wages. *Cf.* I.R.C. § 3402(p)(3) (authorizing voluntary withholding agreements for certain remuneration that does not otherwise constitute wages and other payments).

[89] Treas. Reg. § 31.3402(g)-1(a)(1)(i); IRS, Pub. 15, *Employer's Tax Guide* § 7 (2026).

[90] Treas. Reg. § 31.3402(g)-1(a)(6); IRS, Pub. 15, *Employer's Tax Guide* § 7 (2026).

regard to the employee's Form W-4.[91]

The optional 22% rate may result in underwithholding when the employee's marginal income tax rate exceeds 22%, particularly when supplemental wages constitute a significant portion of the employee's compensation, such as bonuses in the financial-services industry or compensation attributable to restricted stock units in the technology industry. Although Form W-4 permits an employee to request an additional fixed amount of withholding for each pay period, it does not provide a direct method for the employee to elect a higher withholding rate for supplemental wages. Accordingly, under the current rules, an employee cannot use Form W-4 to direct an employer using the optional flat-rate method to withhold at a rate higher than 22%.

Recommendations

The IRSAC recommends that the IRS take the following actions:

1. Create a separate employee-only worksheet or electronic process for employees with multiple household wage sources that performs the household-level calculation and produces the entries required for each Form W-4. The process should address two jobs with similar or materially different wages, three or more jobs, and mid-year employment changes. Employees should not be required to disclose information about the existence of other income to their employers on an IRS form.
2. Redesign the withholding process so that information concerning another job, a spouse's wages, other income, deductions, and credits is used, to the extent practicable, in an employee-only worksheet or electronic tool. The employer-facing Form W-4 should contain only the information necessary to implement the resulting withholding instruction.
3. Modify the Tax Withholding Estimator to generate job-specific Form W-4

[91] I.R.C. § 3402(g)(2); Treas. Reg. § 31.3402(g)-1(a)(2); IRS, Pub. 15, *Employer's Tax Guide* § 7 (2026).

entries or completed Forms W-4, specify how credits and other adjustments should be allocated among jobs, and show the approximate withholding effect of those entries. The IRS also should evaluate use of relevant prior-year return, wage, or withholding information through an authenticated Online Account to reduce data entry, subject to taxpayer consent and appropriate privacy safeguards.

4. Revise Form W-4 worksheets and electronic tools to request factual inputs but perform the related tax calculations where practicable. For example, Step 3 could request the number and type of qualifying dependents and calculate the applicable credit amount rather than requiring the employee to perform that calculation.

5. Develop an elective percentage-rate withholding method for regular wages. Once an employee elects that method, a prescribed percentage should apply from the first dollar of wages. The IRS should consider setting the prescribed percentage by reference to one of the middle or higher statutory marginal income tax rates to reduce the risk of underwithholding. An employee seeking a different percentage could determine that rate through a worksheet or the Tax Withholding Estimator. Treasury and the IRS should determine whether existing authority permits the method and, if necessary, identify any regulatory or statutory changes needed to implement it.[92]

6. Add a checkbox permitting a married employee to request withholding using the tables applicable to a single or married-filing-separately employee, with no adjustments for dependents, deductions, or credits, without requiring the employee to change the filing status selection in Step 1(c).

7. Provide a simple method, such as a Form W-4 checkbox, for an employee to elect withholding at the highest marginal income tax rate on all supplemental wages, including supplemental wages not exceeding $1 million. Treasury and the IRS should determine whether existing authority permits such an election and, if necessary, identify any regulatory, form,

[92] *See supra* note 88 and accompanying text.

guidance, or payroll-system changes needed to implement it.

8. Test Form W-4 and Publication 15-T together using realistic dual-income and multiple-job scenarios to determine whether under-withholding or over-withholding results from the form, the employee's completion of the form, the withholding methodology, or the interaction among those components. Testing should include two-job households with similar and dissimilar wages, households with three or more jobs, and mid-year changes in employment.

9. Add clear prompts to Form W-4 and related IRS communications encouraging employees to review their withholding annually and identifying circumstances that commonly warrant a new withholding calculation, including commencing or terminating a second job, a spouse commencing or terminating employment, significant changes in wages, marriage or divorce, and changes in dependents. Employer and payroll guidance should direct employees to the appropriate IRS resources without requiring employers to provide individualized tax advice or suggesting that employers are the primary source of advice on completing Form W-4 or calculating estimated tax payments.

ISSUE SEVEN: Processing of Penalty and Interest Abatement Requests

Executive Summary

Taxpayers may request abatement of penalties, additions to tax, and interest that should not have been imposed or should be reduced. These requests provide an important administrative means of correcting taxpayer accounts and resolving routine matters without unnecessary escalation. Tax professionals, including IRSAC members, have experienced abatement requests that remain unresolved or become difficult to track within ordinary administrative channels. A taxpayer or representative may submit a request and receive no substantive response, or may be advised that the request has been transferred to another IRS function without any subsequent determination. What should be a discrete administrative process can instead become a cycle of delay, repeated follow-up, resubmission of materials, and additional taxpayer and IRS expense. The IRSAC recommends improvements to the processing of abatement requests, including realistic processing information and interim correspondence, broader electronic submission and case tracking, greater first-contact and systemic resolution where appropriate, effective use of automation, continuous case ownership, and stronger Servicewide accountability for penalty administration.

Background

Processing of Abatement Requests

The IRS provides administrative procedures through which taxpayers may seek relief from certain penalties and interest. Written requests for abatement commonly are submitted on Form 843, *Claim for Refund and Request for Abatement*, but, depending on the nature of the request, the IRS also accepts other

written submissions.[93] For certain failure-to-file, failure-to-pay, and failure-to-deposit additions to tax, the Internal Revenue Manual (IRM) also permits employees to consider an unsigned or oral request for relief, subject to specified criteria and employee authority limits.[94]

The IRS's general claims procedures expressly include requests for abatement.[95] For purposes of paper intake and imaging, IRS procedures also classify certain Forms 843 and written communications concerning civil penalties as taxpayer correspondence.[96] Under the IRS's general correspondence timeliness rules, a final response generally must be initiated within 30 calendar days of the earliest IRS-received date; when a final response cannot be initiated within that period, an interim response must be initiated by the 30th day.[97] Taxpayer-initiated cases and correspondence subject to those procedures generally become "overage" on the 45th calendar day after the IRS-received date, subject to specified exceptions.[98] Campus managers are required to establish follow-up procedures, and overage inventory generally may not exceed 15% of total inventory.[99]

As part of its consideration of this issue, the IRSAC requested information concerning the volume of written abatement requests, internal transfers, processing times, final written determinations, contacts within the Practitioner Priority Service (PPS), involvement by the Taxpayer Advocate Service (TAS), and barriers to efficient processing, including routing, transfers, staffing, and case ownership. During its discussion with the IRSAC, the IRS explained that Forms 843 are scanned and controlled as cases, confirmed that internal tracking occurs, and identified resources as a constraint. The IRS did not provide the requested data concerning the volume, age, transfer history, or disposition of written

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[93] Internal Revenue Manual ("IRM"), pt. 21.5.3.2 (Feb. 2, 2024).
[94] IRM, pt. 20.1.1.3.1(2) (Mar. 29, 2023).
[95] IRM, pt. 21.5.3.1(1) (Oct. 1, 2025).
[96] *Accord* IRM, pt. 3.13.6, Ex. 3.13.6-3 (Nov. 7, 2025).
[97] *See* IRM, pt. 3.30.123.5.2(2), (6) (Jan. 1, 2026).
[98] IRM, pt. 3.30.123.5.2(14) (Jan. 1, 2026).
[99] IRM, pt. 3.30.123.5.2(15) (Jan. 1, 2026).

abatement requests, or the frequency with which unresolved requests result in PPS or TAS contacts. Nor did the IRS identify specific processing barriers beyond resource constraints. Accordingly, the IRSAC was unable to determine from IRS data the frequency or scope of the processing problems reported by its members.

Processing Times, Interim Correspondence, and Case Visibility

When a final response cannot be initiated within 30 days, an interim response is required.[100] The IRM requires an interim letter to state when the taxpayer can expect final resolution and provides that the promised resolution date may vary depending on the program and need not be stated in standardized 30-day increments.[101] Letter 2645C, *Interim Letter*, is used for interim correspondence, and Letter 2644C, *Second Interim Response*, is an example of a subsequent interim letter when final resolution cannot be provided by the date previously promised.[102] A subsequent interim letter must identify the specific reason for the additional delay.[103]

Letter 2645C was a particular subject of the IRSAC's discussion with the IRS. IRSAC members reported that Letter 2645C often does not clearly identify the taxpayer submission to which it relates. The discussion also highlighted concerns that the additional processing period stated in the letter may not accurately reflect the period in which the IRS expects to act. A taxpayer who receives an interim letter stating that the IRS requires another specified period reasonably may understand that period as an estimate of when the matter will be resolved. If that period does not reflect actual processing conditions, the letter provides little meaningful information about when the IRS expects to act.

The IRS’s internal ability to track a request does not necessarily provide corresponding visibility to the taxpayer. Although the IRS advised the IRSAC that

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[100] IRM, pt. 3.30.123.5.2(6) (Jan. 1, 2026).
[101] IRM, pt. 21.3.3.4.2.2(2) (Oct. 1, 2025).
[102] IRM, pt. 21.3.3.4.2.2(1), (4), (5) (June 2, 2023).
[103] IRM, pt. 21.3.3.4.2.2(5) (June 2, 2023).

internal tracking of abatement requests occurs, it did not identify a taxpayer-facing mechanism through which a taxpayer or representative can determine that a particular request has been received, where it is being worked, or its current status. IRSAC members report repeated contacts simply to determine whether a request remains pending or has been transferred.

The IRS does not currently provide taxpayers with Form 843-specific information concerning expected processing times. The IRS publishes current processing information for numerous returns, forms, and categories of taxpayer correspondence, but Form 843 is not among them.[104] During the IRSAC's discussion of this issue, SMEs agreed with members of the IRSAC that providing taxpayers with information concerning current processing times for penalty-abatement requests would be helpful and appropriate. Following that discussion, the IRS advised that it can quantify processing status dates for Individual Master File (IMF) and Business Master File (BMF) cases coded "F843," an internal inventory code used for certain Forms 843 requesting interest abatement, but could not confirm that all Forms 843 are assigned that code or that those data capture Forms 843 worked by other IRS functions.

Transfers present a related concern. The IRM requires taxpayer inquiries to retain the earliest IRS-received date for control and aging purposes notwithstanding subsequent routing.[105] When correspondence is transferred to another office outside the transferring directorate, the IRM generally requires Letter 86C, *Referring Taxpayer Inquiry/Forms to Another Office*, and provides that the receiving office is responsible for the final action or reply.[106] Although manually generated interim correspondence generally must include a contact person, non-manually generated correspondence, including Letter 2645C, may provide only a telephone number.[107] Some IRSAC members report that telephone numbers

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[104] IRS, Processing Status for Tax Forms, https://www.irs.gov/help/processing-status-for-tax-forms (last updated Aug. 14, 2026).

[105] IRM, pt. 3.30.123.5.2(10) (Jan. 1, 2026).

[106] IRM, pt. 21.3.3.4.2.1(1), (3) (Nov. 22, 2022).

[107] IRM, pt. 21.3.3.4.2.2(3), (4) (June 2, 2023).

provided on Letters 2645C and 2644C route the taxpayer or representative to a general telephone line where the employee answering the call may have no case-specific information. Similarly, members have encountered transferred requests for which subsequent inquiries do not readily identify the function responsible for completing the matter.

Electronic Submission and Processing Modernization

In April 2026, the IRSAC raised concerns about the administrative consequences of an anticipated influx of Forms 843 following *Kwong v. United States*[108] and the related practitioner interpretation of *Abdo v. Commissioner*.[109] At that time, Form 843 was not available for electronic submission, and the IRSAC specifically identified the burden associated with receiving, routing, and resolving potentially substantial volumes of paper claims.

The IRS subsequently implemented a limited electronic Form 843 submission process. Effective July 1, 2026, certain individual taxpayers with an IRS Online Account may electronically submit Forms 843 involving fully paid penalties and interest that cite *Kwong* through a secure IRS application.[110] Business taxpayers, other individual taxpayers, and taxpayers filing Forms 843 for other purposes generally remain subject to the applicable paper-filing procedures.[111]

The IRSAC commends the IRS for responding to the operational concern raised during the year. The limited program demonstrates that electronic submission is feasible for specified taxpayers and claims. The IRS advised that expanding the program would require additional routing functionality because Forms 843 are worked by multiple functions and the current electronic application

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[108] 179 Fed. Cl. 382 (2025).

[109] 162 T.C. 148 (2024).

[110] IRS, *Filing Form 843 for Claims Citing Kwong v. United States*, https://www.irs.gov/forms-pubs/filing-form-843-for-claims-citing-kwong-v-united-states (last updated July 1, 2026).

[111] *Id.*

cannot direct submissions to the appropriate downstream system based on the nature of the claim.

The IRSAC and the IRS also discussed whether electronic, machine-readable forms and artificial intelligence could assist with the intake and processing of abatement requests. The IRS did not identify existing use of those tools at this time to classify, route, or otherwise process ordinary penalty and interest abatement requests.

First-Contact and Systemic Penalty Relief

Not all penalty-abatement requests require processing through a written Form 843 submission. PPS procedures provide that, when an authorized practitioner requests penalty abatement and provides the required account information during the call, the IRS is to provide an immediate response indicating whether the requested abatement is approved or denied.[112] If the request exceeds applicable oral-statement authority limits and a signed written statement is required, the practitioner may fax the statement to the PPS employee rather than initiate a separate mailed submission.[113]

The Reasonable Cause Assistant (RCA) is an existing decision-support tool for certain failure-to-file, failure-to-pay, and failure-to-deposit penalty-relief determinations, and the IRM requires its use where available.[114] In its 2024 Public Report, the IRSAC noted that the IRS was working to improve RCA, observed that RCA appeared not to consider all circumstances identified in the IRM as potentially establishing reasonable cause, and recommended that the IRS confirm that RCA incorporates all reasonable cause grounds identified in the IRM.[115]

The IRS's new Automatic Exemption from Penalty (AEP) program provides

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[112] IRM, pt. 21.3.10.4.3(2) (Apr. 23, 2025).

[113] *Id.*

[114] *See generally* IRM, pt. 20.1.1.3.6(1), (2) (Oct. 19, 2020).

[115] Internal Revenue Service Advisory Council, Public Report, Pub. 5316, at 173–74, 178–79 (Nov. 2024); https://www.irs.gov/pub/irs-prior/p5316--112024.pdf.

another tool for resolving certain penalty-relief matters without requiring a taxpayer to initiate a separate abatement request. Beginning in 2026, the IRS is transitioning from First Time Abate to AEP for eligible returns, under which qualifying failure-to-file, failure-to-pay, and failure-to-deposit additions to tax are not assessed during original return processing.[116] Eligible cases therefore do not enter the post-assessment abatement process in the first instance.

Servicewide Responsibility for Civil Penalty Administration

Penalty administration is inherently cross-functional. The IRM assigns overall responsibility for civil penalty programs to the Office of Servicewide Penalties (OSP), while each IRS organization is responsible for establishing its own internal process for administering Servicewide penalty policies.[117] The IRSAC previously recommended greater centralized accountability for this function. In its 2024 Public Report, the IRSAC recommended creation of a Director of Civil Penalties reporting directly to the Chief Tax Compliance Officer.[118] That division of responsibility is particularly relevant here because Form 843 may involve penalties, interest, and other claims handled by different IRS functions. Some IRSAC members have encountered matters in which an abatement request was transferred or referred but subsequent inquiries did not readily identify the function responsible for completing the matter.

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[116] IR-2026-83, *IRS simplifies penalty relief, introduces automatic process for eligible taxpayers* (July 8, 2026); https://www.irs.gov/newsroom/irs-simplifies-penalty-relief-introduces-automatic-process-for-eligible-taxpayers.

[117] IRM, pt. 20.1.1.1.3(2), (3) (Mar. 29, 2023).

[118] Internal Revenue Service Advisory Council, Public Report, Pub. 5316, at 178 (Nov. 2024); https://www.irs.gov/pub/irs-prior/p5316--112024.pdf.

Recommendations

The IRSAC recommends that the IRS take the following actions:

1. Publish current processing time information for written abatement requests. The IRS should begin with IMF and BMF cases coded "F843," clearly identify the types of Form 843 requests reflected in those processing times, and develop a Servicewide method for measuring Forms 843 worked under other category codes or by other functions.

2. Provide taxpayers and authorized representatives with case-specific information concerning written abatement requests, preferably through the applicable IRS online account and Tax Pro Account, including whether a particular request has been received, remains pending, requires additional information, has been transferred, or has been resolved. The same case-status information should be available to CSRs and PPS personnel responding to inquiries.

3. Revise Letter 2645C and other interim correspondence used for abatement requests to provide meaningful information about the pending request and expected response period. The correspondence should identify the submission to which it relates and provide a timeframe that reasonably reflects actual processing conditions. If that timeframe cannot be met, subsequent correspondence should explain the additional delay and provide an updated estimate. If case-specific systemic correspondence is not immediately feasible, the IRS should at least tailor interim letters by document type or category code and make the programming changes needed to support that result.

4. Expand electronic submission of Form 843 and use technology to improve the intake and routing of written abatement requests. The IRS should build on the electronic capability implemented for *Kwong*-related claims and permit broader electronic submission, including supporting documentation, where practicable. Expansion should include a Servicewide electronic-routing design capable of directing each submission to the appropriate downstream system or inventory. The IRS also should evaluate automation, including appropriately

controlled artificial intelligence, to classify submissions, extract relevant information, identify incomplete or duplicate requests, route cases, and flag aging inventory. Substantive determinations requiring judgment should remain subject to employee review.

5. Increase first-contact and systemic resolution of penalty-abatement requests. OSP, in coordination with affected operating divisions, should modernize RCA or a successor decision-support tool for that purpose. CSRs and PPS personnel should be trained to resolve matters within their existing authority and to obtain supplemental information electronically or by fax where permitted. RCA or a successor tool should incorporate the reasonable cause considerations reflected in IRS guidance and assist, rather than substitute for, employee consideration of the taxpayer's facts and circumstances. The IRS also should continue to identify categories of penalty relief that can be provided systemically without requiring taxpayers to submit separate abatement requests.

6. Maintain identifiable ownership of each written abatement request from receipt through final disposition. Regardless of the inventory-management system involved, internal transfers should preserve the IRS-received date and an identifiable responsible function, and each controlled request should result in a written disposition granting, partially granting, or denying relief, together with applicable review or appeal information.

7. Implement the IRSAC's prior recommendation (2024 IRSAC report) to create a Director of Civil Penalties and assign that official responsibility for coordinating penalty-abatement administration across IRS functions. The Director should monitor processing and aging, promote consistent case-handling standards, coordinate training and first-contact resolution, identify systemic problems, and coordinate modernization efforts. Substantive authority over individual penalty, interest, and other claims should remain with the appropriate functions.

8. Collect and analyze data sufficient to identify recurring delays and measure the

effectiveness of improvements to penalty and interest abatement processing. Relevant measures should include request volumes, processing times, aging inventories, transfers, repeat interim correspondence, repeat taxpayer contacts, PPS referrals, TAS involvement, and dispositions.

ISSUE EIGHT: Use of Artificial Intelligence by Tax Return Preparers: Professional Responsibility, Confidentiality, and the Use of Taxpayer Information

Executive Summary

Tax return preparers increasingly use artificial intelligence (AI) tools to perform functions ranging from document review and tax research to return preparation and client communications. These uses may improve efficiency, but they also create questions concerning accuracy, professional responsibility, and the protection of taxpayer information. In June 2026, the IRS Office of Professional Responsibility (OPR) issued Issue No. 2026-19, *Introductory Guidelines for Responsible AI Use in Federal Tax Practice*, providing guidance on the application of existing Circular 230 requirements to AI-assisted tax practice.[119] The guidance is a useful first step. The IRSAC believes additional clarification and broader dissemination are warranted. The IRSAC recommends that the IRS solicit comments on the guidance, clarify the distinction between existing legal requirements and recommended best practices, address AI use in the Circular 230 rulemaking process, provide AI guidance to all PTIN holders, update Publication 5708 to address AI-related information-security risks, and strengthen training concerning AI use in Volunteer Income Tax Assistance (VITA) and TCE programs.

Background

AI tools are increasingly being used by tax return preparers and related service providers to extract, organize, summarize, and analyze information from

[119] IRS Office of Professional Responsibility, *Introductory Guidelines for Responsible AI Use in Federal Tax Practice*, OPR Issue No. 2026-19; https://content.govdelivery.com/accounts/USIRS/bulletins/41d6e70 (June 24, 2026). The IRSAC discussed the need for IRS guidance concerning AI use by tax return preparers with the head of OPR during 2026 and encouraged OPR to address the issue. OPR Issue No. 2026-19 was released shortly thereafter.

tax returns, tax forms, accounting records, and other financial documents. In practice, those tools may be used in client intake, document review, workpaper preparation, draft return preparation, internal research, and client communications. AI tools are also used to find answers to tax questions ranging from simple to complex. Some generative AI (GAI) tools are specifically designed for tax research, tax preparation or analysis (usually for a fee paid to the provider), while many AI tools, such as Google Gemini and a version of ChatGPT, can be used for free. As these tools become more common in tax practice, they raise questions about the use, handling, and protection of taxpayer information when preparers use AI-enabled systems in preparing returns or providing related services. Issues include reliability of the tools, the possibility of improper use or disclosure of taxpayer information,[120] and lack of due diligence by preparers who rely on AI produced tax information without proper verification and review of that information.

These questions are especially significant because the existing rules governing preparer conduct and taxpayer information were not developed with modern AI-assisted tools and workflows in mind. AI is now being used in ways that may affect how preparers receive, process, analyze, transmit, and store taxpayer information, yet there appears to be little or no direct guidance addressing these uses. As a result, it is unclear how the IRS expects return preparers to evaluate the use of AI under the legal and ethical rules that govern tax practice, including Circular 230, Sections 6713 and 7216, Section 6103, Section 7525, the Safeguards Rule (which requires covered tax professionals to maintain safeguards to protect taxpayer information), and related authorities.

OPR Issue 2026-19 (June 24, 2026)

On June 24, 2026, OPR released OPR Issue No. 2026-19, *Introductory*

[120] An additional concern that practitioners and their clients may not be aware of is that if information input into an AI tool (such as via prompts or document upload) is protected by attorney-client privilege including under a *Kovel* arrangement (or Section 7525 privilege), the release of the information to the operator of the AI tool and potentially to other users might lead to loss of the privilege. See for example, *U.S. v. Heppner*, No. 25-cr-00503 (SD NY, Feb. 17, 2026).

Guidelines for Responsible AI Use in Federal Tax Practice, via email to subscribers of its news and updates (https://www.irs.gov/tax-professionals/subscribe-to-news-and-updates-from-opr).[121] This OPR document is intended for tax professionals subject to Circular 230 – primarily attorneys, CPAs, Enrolled Agents and individuals in the voluntary Annual Filing Season Program. These tax professionals represent less than 50% of all PTIN holders.[122] Because this document was only sent to subscribers rather than to all PTIN holders subject to Circular 230, it has not been read by all the relevant parties, including all PTIN holders.[123] The limited distribution is particularly significant because the guidance addresses issues that may arise in ordinary return preparation, not merely in representation before the IRS.

OPR Issue No. 2026-19 provides a brief overview of AI and GAI in general and for tax applications. It describes benefits of AI including cost savings and "rapid data analysis." It also notes potential problems of "hallucinations" ("fabricated" results), bias, lack of transparency, and threats to privacy and data protection. OPR highlights the relevance of AI use under several sections of Circular 230. A summary of three of these areas follows:

- §10.22, Due Diligence
  - "Thoroughly review all AI-created documents and language incorporated into writings before delivery to a client or submission to the IRS."
  - "Practitioners cannot rely solely on AI; human scrutiny and editing are essential to ensure correctness and compliance with IRS expectations."
- §10.27(a), Fees
  - OPR advises practitioners not to overcharge clients if time is saved

[121] *Id.*

[122] Per statistics of the Tax Professional Management Office (TPMO), at August 1, 2026, there were 879,698 PTIN holders of which 375,817 (42.7%) were either enrolled or in the 2026 Annual Filing Season Program; https://www.irs.gov/tax-professionals/tax-professional-management-office-federal-tax-return-preparer-statistics.

[123] The IRSAC received information from OPR in August 2026 that about 144,000 people subscribe to the OPR Issue email alerts.

by using AI tools.

- “Cost savings should be passed on openly, with billing practices that reflect the efficiencies gained from the use of GAI. Practitioners should not only disclose, in general or specific terms as needed, the AI activities performed, but also fairly credit to the client’s account any cost reductions.”

- §10.35, Competence
  - Practitioners “must understand how AI develops content, recognize the potential for bias or errors, and be able to evaluate whether AI outputs are suitable for use in IRS matters. Lack of technological competence could lead to improper advice or flawed filings.”

OPR Issue No. 2026-19 also discusses AI concerns under the civil (Section 6713) and criminal (Section 7216) penalties regarding improper disclosure or use of taxpayer information. These penalties apply to tax return preparers and, in applicable circumstances, people working with preparers who handle taxpayer information in connection with return preparation.

OPR Issue No. 2026-19 also includes a list of 10 best practices for tax professionals to consider for responsible AI use for tax purposes. These tips are stated as follows:

- Identify, understand, and stay updated on any relevant federal or state-specific laws, regulations, and guidance that pertain to your professional activities.
- Establish secure AI data handling protocols and access controls.
- Document AI usage and verification processes.
- Foster transparency and accountability in all AI practices.
- Prepare clear procedures for handling breaches or errors.
- Provide necessary staff training.
- Vet third parties’ AI offerings when or before purchasing.
- Never upload sensitive data to unsecured sites.
- Treat the written text that AI generates as drafts.

- Review the resulting documents thoroughly for factual and legal accuracy (e.g., always check citations) and any problematic bias.

Taxpayer Information, Confidentiality, and Privilege

The use of AI in tax practice also raises distinct questions concerning protection of taxpayer information. A preparer may input taxpayer return information, financial records, correspondence, or other client information into an AI tool to obtain research, summarize documents, prepare workpapers, or perform other tax-related tasks. Depending on the AI system and the circumstances, that use may involve transmitting taxpayer information to a third-party provider or permitting the information to be retained, reused, or otherwise processed by the provider and other users. The applicable rules may therefore implicate Section 6103, Sections 6713 and 7216, the tax professional's privilege under Section 7525, and the Safeguards Rule. These issues warrant particular attention because the taxpayer and preparer may not fully understand how an AI provider receives, stores, uses, or retains information submitted to the system. The IRS should provide guidance addressing when taxpayer information may appropriately be submitted to an AI tool, what disclosures or consents may be required, and what steps preparers should take to protect confidential and potentially privileged information. Guidance on AI use by VITA and other IRS volunteers should also be addressed to help them avoid errors or improper disclosure of taxpayer information.

AI and the Safeguards Rule

Under the Gramm-Leach-Bliley Act, all paid tax return preparers are required to have written procedures addressing protection of client information.[124]

[124] *See* 15 U.S.C. § 6801(b).

This requirement is referred to as the Safeguards Rule.[125] To help tax professionals comply with their legal requirements under the Safeguards Rule, the IRS provides a template for drafting a Written Information Security Plan (WISP), which can be modified to align with a professional's tax practice.[126] This template was drafted prior to wider use of AI tools in tax practice so does not include procedures on protecting client information from disclosure or misuse via use of an AI tool. The increasing use of AI therefore creates a gap in the IRS's model security guidance concerning vendor selection, data handling, access controls, retention, and other risks specific to AI-enabled systems.

VITA and TCE Volunteers and Generative AI Use and Concerns

AI is widely used today and its use continues to expand quickly. AI features have been added to longstanding tax tools and there are new standalone GAI tools. Over half of college students use AI for coursework.[127] News and social media reports often make claims that AI tools can prepare a tax return and perform tax calculations and answer difficult questions. These claims may be true depending on the software and the difficulty of the question. However, these kinds of claims may lead VITA and others who volunteer in IRS sponsored programs to use AI tools (e.g., ChatGPT, PerplexityAi, Gemini, Claude) to research tax questions or help prepare return information, even if volunteers are instructed not to use them. Use of unauthorized AI tools (also referred to as *shadow AI*) by VITA and TCE volunteers could result in inaccurate tax calculations, unsupported tax advice, and/or improper disclosure of personally identifiable information.

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[125] The Gramm-Leach-Bliley Act and its Safeguards Rule is governed by the Federal Trade Commission; https://www.ftc.gov/legal-library/browse/rules/safeguards-rule. The IRS also provides information on how tax professionals are required to comply with the Safeguards Rule. For example, see IRS Tax Tip 2026-49 (June 16, 2026); https://www.irs.gov/newsroom/written-information-security-plans-are-essential-for-tax-pros.

[126] Pub. 5708 (Rev. 8-2024), Creating a Written Information Security Plan for your Tax & Accounting Practice; https://www.irs.gov/pub/irs-pdf/p5708.pdf.

[127] Stephanie Marken, "AI Is Routine for College Students, Despite Campus Limits," Gallup, April 1, 2026; https://news.gallup.com/poll/704090/routine-college-students-despite-campus-limits.aspx.

Recommendations

The IRSAC recommends:

1. Modify and reissue OPR Issue No. 2026-19 to focus more on the principles of Circular 230 rather than being more specific than Circular 230 requires. For example, Issue No. 2026-19 states that practitioners should not bill clients for time savings of AI use. This statement should be reconciled with the general requirement under Section 10.27 of Circular 230 that practitioners not charge an unconscionable fee. Practitioners consider the costs of AI tools and the costs of reviewing all AI output in setting fees, similar to what practitioners have done for decades such as in reflecting the use of various tax preparation software programs. The IRS should request comments on Issue No. 2026-19 and reissue it based on analysis of comments received including via an open forum. The revised guidance also should distinguish clearly between existing legal requirements and recommended best practices and address issues such as client-provided AI-generated information. The guidance also should remind practitioners to consult AI tips and cautions provided by their malpractice insurance provider and the professional organizations they belong to. The IRSAC also recommends that the IRS work with both IRSAC and ETAAC on updating the IRS AI guidance and generating ideas for obtaining public comments.
2. Consider issuing additional formal guidance addressing specific AI and GAI practices that present recurring compliance, confidentiality, or preparer penalty risks under Sections 6694, 6713, 7216 and 7525.
3. Address AI-related professional responsibility issues in the final Circular 230 regulations. An updated Circular 230 could provide greater clarity concerning the extent to which AI-related technological competence, review of AI-generated work, and firm-level AI procedures should constitute express regulatory requirements. For example, Issue No. 2026-19 implies that Section 10.35 on competence includes technological competence. The

current version of Circular 230 does not specifically address this yet the proposed changes do (see REG-116610-20 (Dec. 26, 2024)).

4. Provide cautions about using AI and GAI for tax work to all PTIN holders, including those who are not subject to Circular 230. Also include a link to the guidance on the PTIN renewal page and in any communications reminding PTIN holders to renew their PTINs.
5. Update Publication 5708 (8-2024), *Creating a Written Information Security Plan for Your Tax & Accounting Practice*, to address procedures for protecting client information from improper use of AI tools. The update should address, as appropriate, AI vendor due diligence, access controls, data retention, use of taxpayer information, and incident response.
6. Add a module in VITA and TCE training on the limitations and risks of using AI and GAI in preparing client returns or answering questions. Consider also having volunteers agree not to use AI tools unless authorized by their VITA or TCE coordinator and consistent with applicable VITA/TCE procedures.

ISSUE NINE: Worker Classification and Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding

Executive Summary

Worker classification is a longstanding issue in our tax law affecting the tax consequences of both the worker and employer/payor. One avenue available to workers and employers who are uncertain as to whether a worker is an employee or independent contractor, is to file Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*, with the IRS. The SS-8 is a five-page questionnaire to help the IRS determine the worker's classification. If the SS-8 is filed by a worker, the IRS requests that the employer also complete an SS-8, and vice versa for an SS-8 filed by an employer. Generally, most Forms SS-8 are filed by workers rather than employers.

A worker who believes that they are an employee for federal employment tax purposes but was treated as an independent contractor may file Form SS-8. If the worker files Form SS-8 on or before filing the worker's personal income tax return, while the determination is pending, the worker may use reason code G on Form 8919, *Uncollected Social Security and Medicare Tax on Wages*, to report the employee share of uncollected Social Security and Medicare taxes rather than the self-employment tax.

A determination reached by the IRS after reviewing Forms SS-8 from the worker and employer are not necessarily binding on the employer. An SS-8 review is not an examination and does not automatically lead to an examination should the IRS find that the worker is misclassified. Also, an employer may qualify for relief under Section 530 of the Revenue Act of 1978 and thus may be relieved of federal employment tax liability for workers who would otherwise be classified as employees. The average time for the IRS to review and respond to an SS-8 is about one year.

Improvements to the SS-8 filing process and broader awareness of this process and Form 8919 are needed. Recommendations of the IRSAC explained in this report include providing Form SS-8 processing times, expanding Form 8919 filing reasons, allowing VITA and TCE volunteers to direct appropriate clients to worker-classification resources, and developing an electronic self-help tool.

Background

SS-8 Processing

IRM 7.50.1 provides the Form SS-8 Processing Handbook with details of all aspects of the processing of Forms SS-8 and responses to the filers. Analysis of submitted Forms SS-8 by the IRS may result in a determination letter which is binding on the IRS, or an information letter if the IRS finds that a determination is "not in the best interests of tax administration." An information letter "is advisory only and has no binding effect" on the IRS.[128]

The National Taxpayer Advocate's 2013 Annual Report to Congress included as Most Serious Problem #19, *IRS WORKER CLASSIFICATION PROGRAM: Current Procedures Cause Delays and Hardship for Businesses and Workers by Failing to Provide Determinations Timely and Not Affording Independent Review of Adverse Decisions*. The report noted that for fiscal year 2013, the IRS received 3,892 Forms SS-8 from workers and 128 from employers leading to a total inventory of 11,545 cases with over 81% in process for 180 days or more.[129] IRS public guidance advises taxpayers that processing may take at least six months. Separately, information provided to the IRSAC in 2026 from the Taxpayer Advocate Service indicated that the average elapsed processing time for Form SS-8 is about 12 months. Separately, the IRSAC learned from subject

[128] IRM 7.50.1.1.1(1) (12-27-2023). Also see *Staffmore*, LLC, T.C. Memo. 2013-187, where the Tax Court held that because an SS-8 determination by the IRS does not arise from an IRS audit and examination, the Tax Court has no jurisdiction to rule on the IRS determination of a worker's employment status. Similarly, see *B G Painting, Inc*., T.C. Memo. 2016-62.

[129] IRS National Taxpayer Advocate, *2013 Annual Report to Congress*, p. 197; https://www.taxpayeradvocate.irs.gov/reports/2013-annual-report-to-congress/full-report/.

matter experts in the SB/SE Division that, due to reduced staffing, the internal processing steps for SS-8 determinations take about 100 days of processing. If a case involves a worker with $7,000 or less of earnings, it may take only three weeks to process.[130] With full staffing, the division estimated that processing would take about 70 days as suggested in IRM Exhibit 7.50.1-13 (viewed Sept. 2026):

Exhibit 7.50.1-13

SS-8 Time Frames

Staff	Action	Time frame
Clerk	Stamp in physical mail, intake faxes, and check DUT	2 business days
Clerk	Return/reject incomplete or unprocessable Forms SS-8	5 business days
Clerk	Process incoming correspondence	5 business days
Technician	Return research requests to SS-8 clerk	2 business days
Technician	Return processable review to SS-8 clerk	2 business days
Technician	First read incoming correspondence on assigned cases	3 business days
Technician	==========	======
Technician	Process full determination case or take next necessary step on a full determination case	45 days
Manager or Designee	Review, provide feedback, and save prior week's full determination Forms 14430-A	5 business days (after weekly inventory reconciliation)
Technician	Send Letter 441 to requestor after managerial Form 14430-A review completion	5 business days
Manager or Designee	Upload Forms 14430-A to IRS.gov via SecureFX application	Minimum of twice a month

The IRSAC also learned that the number of closed Form SS-8 cases declined from 2017 to 2025 for various reasons including reduced SS-8 staffing.

[130] The IRS maintains a website on the processing status for tax forms at https://www.irs.gov/help/processing-status-for-tax-forms. It does not include the processing time for Form SS-8.

History: TIGTA and NTA Reports on SS-8 Processing, Section 530 Issues and Final Outcomes

Reports of 2013 and 2018 provide some historical context on issues previously identified with the SS-8 program. In 2013, the Treasury Inspector General for Tax Administration (TIGTA) released a report titled, *Employers Do Not Always Follow Internal Revenue Service Worker Determination Rulings*.[131] It noted that estimates of the IRS were that millions of workers were misclassified as independent contractors. TIGTA observed:

> "TIGTA analyzed 5,325 closed Calendar Year 2009 worker determination rulings in which the individual was ruled an employee. Results showed that not all employers are complying with the determination rulings. However, some of these employers may qualify for relief from employment taxes if their business qualifies under Section 530 of the Revenue Act of 1978. Section 530 provides for relief from employment taxes related to the proper classification of workers if certain requirements are met. The IRS should determine the reasons for employer noncompliance and develop a strategy to increase compliance with the worker determinations."

Section 530 relief is limited to the employer's liability for federal employment taxes of the employer and is relevant only if the worker would otherwise be classified as an employee for employment tax purposes. Section 530 relief does not determine the worker's status for other federal tax purposes, including the qualified-plan rules and the determination of which full-time employees of an applicable large employer must be offered health coverage under Section 4980H. Nor does it eliminate the worker's responsibility for the employee share of Social Security and Medicare taxes. If the worker is an independent contractor for federal tax purposes, Section 530 relief is not needed and the worker generally is

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[131] TIGTA, *Employers Do Not Always Follow Internal Revenue Service Worker Determination Rulings,* June 14, 2013, pp. 4 – 5; https://www.oversight.gov/sites/default/files/documents/reports/2022-03/201330058fr.pdf.

responsible for self-employment tax.

In 2018, TIGTA issued a report titled, *Improvements to the SS-8 Program Are Needed to Help Workers and Improve Employment Tax Compliance*. The suggested improvements mostly dealt with Forms SS-8 filed by gig workers. TIGTA found 15 such cases "mishandled due to the lack of guidance." These cases were also held with no action for an average of 524 days. The IRS "mistakenly determined no decision could be made on the cases because the gig economy businesses were given Section 530 relief." Yet, TIGTA noted that this finding should not preclude a worker from a determination as to whether they are an employee or independent contractor. TIGTA recommended and the IRS agreed that guidance and training was needed for SS-8 requests filed by gig workers, and that the IRS should work with Treasury "to pursue a legislative change to Section 530."[132]

The 2013 NTA report noted earlier also highlighted various issues with SS-8 including delayed processing times, the often lengthy fact gathering and investigation time needed in the SS-8 process, and the Section 530 prohibitions on the IRS issuance of guidance on the employment status of workers. The NTA made the following recommendations to the IRS:

> "1. Adopt the National Taxpayer Advocate's previous recommendation to develop an electronic self-help tool for employers or workers to determine employment status.
>
> 2. Allow applicants the right to an independent administrative appeals review of adverse determinations by the SS-8 unit.
>
> 3. Increase staffing to address the existing backlog and prevent future accumulation of worker classification requests.
>
> 4. Provide applicants an opportunity to cure perceived deficiencies in their initial filings rather than rejecting the applications outright through an initial screening process."

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[132] TIGTA, *SS-8 Program Are Needed to Help Workers and Improve Employment Tax Compliance*, Sept. 19, 2018, pages 1 – 7; https://www.oversight.gov/sites/default/files/documents/reports/2018-09/201830077fr.pdf.

Filing of Form 8919, Uncollected Social Security and Medicare Tax on Wages

An individual may only file Form 8919 if any of four reasons specified on the form are met. These reasons are:

> "A. I filed Form SS-8 and received a determination letter stating that I am an employee of this firm.
>
> C. I received other correspondence from the IRS stating that I am an employee.
>
> G. I filed Form SS-8 with the IRS and haven't received a reply.
>
> H. I received a Form W-2 and a Form 1099-MISC and/or 1099-NEC from this firm for 2025. The amount on Form 1099-MISC and/or 1099-NEC should have been included as wages on Form W-2. (Don't file Form SS-8 if you select reason code H.)"

An individual who reviews the information on the IRS website on worker classification [133] and determines they are an employee, but is treated as an independent contractor by their employer, faces limited options for filing a correct return. The employer may be unaware of proper worker classification rules or have relief under Section 530 to treat the worker as an independent contractor even though the worker is an employee. Receipt of a Form 1099-NEC indicates the filer should include Schedules C and SE on their Form 1040. If they are an employee, however, they have filed an improper return if they file these forms and deduct expenses. If they do not want to file Form SS-8 because of the warning at the top of it that the information they provide may be disclosed to their employer and the worker fears retribution, they have no options for filing a correct return. Without filing Form SS-8, this individual may not file Form 8919 and pay only the 7.65% of

[133] For example, Worker Classification 101: employee or independent contract at https://www.irs.gov/newsroom/worker-classification-101-employee-or-independent-contractor, or Independent contractor (self-employed) or employee? at https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee.

employment taxes owed because they meet none of the four reasons allowed for filing the form. While the individual can report the amount shown on Form 1099-NEC as other income on Schedule 1 and attach Form 8275, *Disclosure Statement*, Form 8275 is not a simple form to understand. This approach also does not provide a mechanism for the individual to report and pay the employee share of Social Security and Medicare taxes and may result in a notice from the IRS proposing self-employment tax.

The IRS provided the IRSAC with the following data regarding the number of Forms 8919 filed by taxpayers with AGI under $70,000.

2023: 61,469

2024: 67,525

2025: 34,586 (part year data)

The IRS also noted that Form 8919 is not within scope for the VITA and TCE programs. Many workers who are misclassified have income within the range to qualify for assistance from VITA and likely have no readily available and reliable resources to learn about worker classification and properly report the resulting employment or self-employment tax. Although Form 8919 need not be brought within the scope of the VITA and TCE programs, volunteers could be trained to recognize potential worker classification issues and direct affected taxpayers to appropriate IRS resources.

Recommendations

The IRSAC recommends:

1. Add the processing time estimate for Form SS-8 to the website: Processing status for tax forms (https://www.irs.gov/help/processing-status-for-tax-forms). This information is pertinent to help a worker or employer know whether filing a Form SS-8 will possibly be useful for them.
2. Expand the reasons for filing Form 8919 to include: “I have attached a signed statement explaining why I am an employee rather than an independent contractor, under the IRS’s worker classification standards.”

This will also help a worker whose employer has Section 530 relief even though the worker is an employee for federal employment tax purposes. The form should explain that filing under this reason code does not establish employee status and that the IRS may adjust the return if it disagrees with the worker's classification.

3. Train and allow VITA and TCE volunteers to direct clients with a Form 1099-NEC who appear to be an employee to IRS websites on worker classification and Forms SS-8 and 8919.
4. Consider developing the electronic self-help tool that the National Taxpayer Advocate recommended in the 2013 report to Congress to help workers and employers determine employment status.

ISSUE TEN: Small Business Tax Literacy: Focus on Individuals with Business Income

Executive Summary

Low tax literacy among small business owners presents a range of challenges for both the IRS and taxpayers as set forth in the IRSAC January 2026 Annual Report. For this November 2026 report, the IRSAC focuses on the issue of low tax literacy among new business owners and individuals with business income and considers, in particular, the challenges faced by the smallest of small business owners (*e.g.*, sole proprietors; workers earning supplemental income not subject to withholding, such as from gig work platforms; and student-athletes earning Name, Image, Likeness (NIL) income). The IRS SB/SE Division, among others, agreed to receive feedback about this issue, and the IRSAC met with IRS personnel from a range of offices including Stakeholder Liaison, Stakeholder Partnerships, Education, and Communication (SPEC), Tax Outreach, Partnership and Education (TOPE), and SB/SE. Low tax literacy among this growing population of taxpayers warrants special consideration and a targeted tax education approach that includes:

1. Establishing a Small Business Tax Literacy Community Advisory Network.
2. Treating tax literacy as a foundational component of taxpayer service and voluntary compliance across IRS functions and offices.
3. Developing tax education materials for the smallest business taxpayers.
4. Improving visibility of IRS tax literacy resources.

Background

Prior Work of The IRSAC on Small Business Tax Literacy

In its 2025 Annual Report (released January 2026), the IRSAC concluded that “there is no question that small business owners need essential financial and

tax literacy to effectively run their businesses."[134] The IRSAC developed and drafted the small business tax literacy issue for the 2025 Annual Report using information provided by IRS subject matter experts and after a comprehensive review of existing IRS resources available for taxpayer education.

Ultimately, the IRSAC concurred with the IRS National Taxpayer Advocate's 2024 finding that tax and financial literacy pose a serious challenge for small business taxpayers[135] and endorsed the following recommendations, urging the IRS to:

1. Develop a strategic tax literacy plan and create tax education materials that states could integrate into financial literacy or civics curricula for middle and high school students, as well as age-appropriate materials for elementary and higher education students.
2. Partner with other federal agencies to disseminate tax education resources alongside other financial literacy information provided to business owners at critical points in the business lifecycle (*e.g.*, when applying for grants or loans).
3. Create and publish user-friendly graphics on IRS.gov that explain the fundamentals of the U.S. tax system, clarify distinctions between income and employment taxes, and highlight the IRS's role in administering the tax system.

In addition to the foregoing, the 2025 IRSAC Annual Report set forth a comprehensive and targeted series of recommendations addressing small business tax literacy challenges. In April 2026, the IRSAC submitted its SB/SE Issue 5 on Expanding and Developing Resources to Increase Tax Literacy for Small Business Owners, included in the 2025 IRSAC Annual Report to the U.S.

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[134] IRSAC, *January 2026 Annual Report*, Publication 5316 (Rev. 1-2026) Catalog Number 71824A Department of the Treasury Internal Revenue Service (Jan. 14, 2026), p. 145; https://www.irs.gov/tax-professionals/internal-revenue-service-advisory-council-irsac.

[135] IRS Natoinal Taxpayer Advocate, *2024 Annual Report to Congress* 104-05 (2024) (Most Serious Problem #8: Tax and Financial Literacy: Limited Tax and Financial Knowledge Is Causing Serious Consequences for Taxpayers); https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress/full-report.

Department of Treasury (Treasury) and the Financial Literacy and Education Commission (FLEC) in connection with the request for information regarding priorities for the updated National Strategy on Financial Literacy (National Strategy).[136] The IRSAC letter to the FLEC was followed by a separate letter from the American Bar Association (ABA) Tax Section urging the FLEC to designate tax literacy as a national priority in the National Strategy.[137] As the ABA Tax Section letter noted, "tax literacy is foundational to financial literacy…[a]s lenders, landlords, and financial aid administrators routinely require tax returns when assessing applications for mortgages and other loans, rental housing, and FAFSA-based college funding, the ability to file and understand a tax return is a gateway competence rather than an optional skill."[138]

Data on Small Businesses

According to data from the U.S. Small Business Administration Office of Advocacy, there are approximately 36,207,130 small businesses (*i.e.*, independent firms with fewer than 500 employees) in the U.S., and 82.3 percent, or 29,811,495 firms, have no employees (termed "nonemployer firms").[139] In fact, "the number of nonemployer firms has nearly doubled, from 15.4 million in 1997 to 29.8 million in 2022, [and] most non-employers are sole proprietorships (86.7)."[140]

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[136] U.S. Department of Treasury, Request for Information: 2026-02188 (91 FR 5036) (Feb. 3, 2026); https://www.federalregister.gov/documents/2026/02/03/2026-02188/request-for-information-related-to-the-financial-literacy-and-education-commission-flec-update-to. This April 3, 2026, letter from the IRSAC is included in Appendix A to this November 2026 IRSAC report.

[137] Final FLEC comment letters available at: https://www.regulations.gov/document/TREAS-DO-2026-0001-0001/comment (last visited Aug. 21, 2026).

[138] ABA Tax Section letter to Dept. of the Treasury, FLEC, April 3, 2026; https://www.americanbar.org/content/dam/aba/administrative/taxation/policy/2026/2026-04-03-comments-flec-update.pdf.

[139] U.S. Small Business Administration Office of Advocacy, *Frequently Asked Questions*, (Feb. 2026); https://advocacy.sba.gov/wp-content/uploads/2026/02/FINAL_FAQsAboutSmallBusiness_2026_012826.pdf (last visited Aug. 21, 2026).

[140] *Id.*

A 2023 report by the U.S. Government Accountability Office concluded that "IRS attributes approximately $80 billion in unpaid taxes to sole proprietors underreporting income each year…[t]his comprises 16 percent of the estimated annual $496 billion tax gap. In tax year 2019, roughly 27.8 million sole proprietors filed tax returns, which accounted for about 18 percent of all individual taxpayers."[141] The report also reiterated that GAO has been calling for the IRS to develop and implement "a strategy to address the overall tax gap as well as the significant portion that is due to sole proprietor noncompliance."[142] In recent years, the need to act has grown along with the growth of workers earning income outside of traditional employment.

Recent data from MBO Partners, which has tracked the growth of independent work for the last fifteen years, estimated that in 2025, "in the US the total number of [i]ndependents rose marginally from 72.7 million in 2024 to 72.9 million…[and] 36% of traditional employees now report having an independent side gig—a figure that reflects growing interest in diversifying income and hedging against job uncertainty."[143] In fact, slightly more than half (37.4 million) of the 72.9 independents tracked in the MBO Partners 2025 report were "occasional independents… who earn money periodically and irregularly, and at least monthly by working independently."[144]

For tax filing purposes, most of these workers earning supplemental income may owe self-employment tax on their net earnings and may be required to make quarterly-estimated payments of income and self-employment taxes. At the same time, many experienced tax professionals as well as IRSAC members working with low-income, VITA or Low Income Taxpayer Clinic (LITC) clients regularly report

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[141] U.S. Government Accountability Office, *Sole Proprietor Compliance: Treasury and IRS Have Opportunities to Reduce the Tax Gap* (GAO-24-105-281) (Oct. 19, 2023); https://www.gao.gov/products/gao-24-105281.

[142] *Id*. at 13.

[143] MBO Partners, *15 Years One Movement: The Return on Independence, 2025 State of Independence Report*; https://info.mbopartners.com/rs/mbo/images/MBO_2025_State_of_Independence_Research_Report.pdf.

[144] *Id*. at 6.

that these taxpayers may not even realize they are business owners or have familiarity with any tax compliance obligations for earned income not subject to withholding. Student-athletes earning NIL income are a high-profile example of these taxpayers. In 2025, as many as 28,000 university student-athletes earned NIL income.[145] Many of these student-athletes may have little prior experience with tax and financial literacy or with the tax and recordkeeping obligations associated with earning business income, particularly because tax education is rarely part of a high school or university curriculum.[146]

IRS Resources for Small Businesses

While the IRS has a significant amount of resources on its websites including publications and interactive tax tools, many of the growing population of individuals with business income not subject to withholding are not aware of these resources or may have difficulty identifying the resource that addresses their immediate tax obligation because they do not know the terminology used by the IRS (e.g., these taxpayers may not be aware that they are "sole proprietors" for Schedule C or "self-employed" for Schedule SE purposes). The IRS teaching materials for junior high and high schools—*Understanding Taxes*,[147] has helpful materials including a tutorial with Schedules C and SE but is unlikely to be used or found by someone outside of the school setting. These materials can be a good

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[145] Audrey Lee, "College Sports Commission Approves $80M in NIL Deals For Over 28K Student-Athletes," *Athletic Business* (Sept. 5, 2025); https://www.athleticbusiness.com/operations/governing-bodies/article/15754655/college-sports-commission-approves-80m-in-nil-for-over-28k-studentathletes (last visited Aug. 21, 2026).

[146] *Id.*

[147] IRS, Understanding Taxes, includes lesson plans for teachers and students. At August 2026, the final lesson—Module 14, covers self-employment tax. The lesson explains contractor versus employee, business income and expenses, examples of completed Forms 1099-NEC, Schedule C and Schedule SE. The chapter includes examples and a simulation for students to perform tax calculations. See https://apps.irs.gov/app/understandingTaxes/student/index.jsp. *Understanding Taxes* is maintained by Stakeholder Partnerships, Education and Communication (SPEC) unit within the IRS. Generally, outreach to small businesses is through a different IRS unit (Stakeholder Liaison).

starting point for tutorial type materials to help new small businesses understand their recordkeeping, payment and filing requirements.

When individuals cannot easily find information they need at the IRS website, or get multiple webpages to explore or don't know where to start, they may instead resort to social media and third-party websites to obtain information which may not be accurate or complete. In recent years, both IRS and the National Taxpayer Advocate have worked to make taxpayers aware of "bad tax advice" that can be found as part of social media scams.

Although the IRS has established channels for engaging chambers of commerce and similar organizations, launched a new "Train-the-Trainer Workshop Series," and occasionally partners with U.S. Small Business Administration stakeholders to offer online workshops, these efforts remain fragmented, episodic, and difficult for small businesses to find and access when they need them most. It is unlikely that most sole proprietors and other small businesses participate in such groups due to the cost and lack of time or awareness. Also, many small businesses, such as those in the gig economy, do not have a tax adviser, do not receive tax filing advice from the platforms they work with and might not be able to afford a tax professional. The need for a consistent, coordinated tax education strategy focused on the smallest small business owners and independent workers is more urgent than ever—and long overdue.

Recommendations

Building on the IRSAC's 2025 recommendations in their January 2026 report to expand and develop resources to increase tax literacy for small business owners, the IRSAC recommends the IRS should prioritize implementation measures designed for taxpayers with business income at the smallest scale—including sole proprietors, independent contractors, gig platform workers, and new entrepreneurs who may not identify as small business owners or have access to traditional business-support networks. The IRSAC recommends the IRS should

take the following actions to address low tax literacy and help individuals with business income understand and comply with their federal tax obligations:

1. **Establish a Small Business Tax Literacy Community Advisory Network.** The IRS should convene a standing network of representatives from community-based organizations, low-income taxpayer clinics, VITA programs, libraries, small business development centers, tax professionals, platform-worker and gig-economy organizations, financial institutions, and other trusted local and professional intermediaries. The network should help the IRS identify the tax literacy needs of taxpayers with business income, test the clarity and usability of educational materials with those taxpayers, identify effective distribution channels, and disseminate accurate, timely IRS information to taxpayers who may not otherwise engage with traditional small business organizations.
2. **Treat tax literacy as a foundational component of taxpayer service and voluntary compliance.** The IRS should recognize that accessible, practical tax education can prevent avoidable compliance problems before they arise; enable taxpayers to understand and claim tax incentives and benefits for which they qualify, including retirement-related incentives; improve recordkeeping, estimated-tax, and filing compliance; and reduce taxpayer stress, penalties, and downstream enforcement burdens. Tax literacy efforts should be integrated into relevant IRS taxpayer-service, SB/SE compliance and payment initiatives, digital-services as well as outreach and coordinated within the IRS to avoid duplication of resources or missing tax education materials.
3. **Develop tax education materials for the smallest business taxpayers.** Although tax literacy benefits all taxpayers, the IRS should develop targeted materials and outreach for individuals with business income who may not identify as “small business owners”—including sole proprietors, independent contractors, gig workers, and freelancers. The current IRS materials available do not speak to this group. However, these taxpayers frequently lack access to payroll withholding, employer-provided benefits,

in-house accounting support, or trade-association networks. Materials should address practical, timely issues such as obtaining and using an EIN where appropriate, recordkeeping, distinguishing business from personal expenses, estimated tax payments, self-employment tax, Forms 1099-NEC and 1099-K, deductions and credits, retirement savings options, and where to obtain trustworthy assistance. The IRS should make those materials available at predictable compliance trigger points, including when taxpayers receive relevant information returns or access IRS self-employment and business-income resources. For example, providing a link to resources and a list of necessary tax actions prominently on Form W-9 should be helpful.

4. **Improve visibility of IRS tax literacy resources.** The IRS should prominently link to and regularly update its *Understanding Taxes* materials and related small-business educational resources on relevant IRS.gov pages, including taxpayer education, reporting-fraud, scam-prevention, self-employment, gig-economy, and information-reporting pages. The following screenshot below illustrates the type of prominent placement that can make all such resources easier to find and create awareness that the IRS website has information to help people understand their taxes:



The IRS should use clear calls to action and plain-language descriptions so that taxpayers who encounter a tax issue, receive a Form 1099, or see potentially misleading tax information can readily find authoritative educational resources. The IRSAC has previously identified that small business resources can be difficult to locate and recommended improving their accessibility, currency, and usability.

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Information Reporting Subgroup Report

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INTRODUCTION

The Information Reporting (IR) subgroup had the honor and privilege to work with representatives from the IRS and Treasury on a variety of topics impacting information reporting. The IR subgroup is grateful for the cooperation we received from members of the various divisions in producing this report. We are indebted to our Subgroup Liaison and everyone who helped make this report possible. Without their efforts, assistance and knowledge, this report would not be complete.

The IR Subgroup is pleased to offer the following topics in this report:

- Electronic Filing and Processing of Form 8802 and Digitization of Form 6166
- Rationalization and Modernization of the Form W-2 Regime
- TIN Match Expansion
- Large Corporations Access to Electronic Transcripts
- Form 1099-DIV Improvements
- Tax Treatment of Prediction Markets Business Activities and Associated Gains and Losses

ISSUE ONE: Electronic Filing and Processing of Form 8802: *Application for US Residency Certification* and Digitalization of Form 6166: *Certification of US Tax Residency*

Executive Summary

U.S. taxpayers seeking benefits under many U.S. income tax treaties must provide foreign withholding agents with an IRS-issued Certificate of Residency (CoR), Form 6166, to establish U.S. tax residency. The current process requires taxpayers to submit Form 8802 no earlier than December 1 for certification for the following calendar year, while processing commonly takes 8–12 weeks and can extend to 20 weeks or longer. Delays may be further compounded by the IRS' reliance on manual processing, delays in posting tax returns and clerical errors in issued certificates. As a result, taxpayers frequently do not receive valid CoRs until well into the calendar year.

These delays can result in the permanent loss of treaty benefits where foreign jurisdictions require a valid CoR before an income payment and do not permit retroactive relief via reclaim. Even where subsequent relief is available, taxpayers may face short deadlines for furnishing certificates. The resulting excess foreign withholding reduces investment returns and where foreign tax credits are available, may ultimately shift the economic cost to the U.S. Treasury. The IRSAC therefore recommends modernizing and streamlining the Form 8802/Form 6166 process to provide taxpayers with more timely and accurate residency certifications, including improved mechanisms for correcting errors and determining application status.

The European Union's FASTER Directive, adopted in December 2024 and scheduled for full implementation by January 1, 2030, will establish streamlined

procedures for obtaining treaty relief relying on digital tax residence certificates. The IRSAC urges the IRS to permit taxpayers to request and receive electronic CoRs through Form 8802. Developing this capability will help ensure that U.S. investors can participate effectively in emerging digital withholding-tax relief regimes and avoid unnecessary foreign taxation resulting from administrative delays rather than substantive ineligibility for treaty benefits.

Background

Many U.S. treaty partners require taxpayers claiming treaty benefits to provide annually an IRS-issued certification of U.S. tax residence. Taxpayers request this certification by filing Form 8802: *Application for United States Residency Certification*, and the IRS provides the certification on Form 6166: *Certification of U.S. Tax Residency* (CoR), forms which are both still provided and processed manually on paper forms for a large portion of taxpayers.

For certifications covering the following calendar year, taxpayers generally may submit Form 8802 beginning December 1 of the preceding year. The IRS begins issuing the corresponding Forms 6166 in January. Processing times can range from approximately 8 to 20 weeks or more, potentially leaving taxpayers without a valid CoR during the first several months of the year. Delays can be particularly significant when a taxpayer has filed its federal income tax return but the return has not yet been posted to IRS systems when the Form 8802 application is reviewed. This issue can disproportionately affect certain large taxpayers, including regulated investment companies (RICs), whose federal income tax returns may contain hundreds of pages and in certain circumstances, have historically been required to be filed on paper. The IRSAC appreciates the IRS' limitations on addressing the 23,000 individual applications and 52,000 business entity applications received each year[148] and that per recent IRS responses to

[148] https://www.taxpayeradvocate.irs.gov/reports/2025-annual-report-to-congress/full-report/

previous IRSAC reports on this topic, limited clerical staff is the primary driver of the current physical process and restricts the IRS' ability to receive Form 8802 prior to December 1.

The IRSAC recommends modernizing both Form 8802 and the process through which the IRS issues Form 6166. The current process relies heavily on manual processing, which can contribute to delays as well as clerical errors or omissions in issued certificates. For example, an incorrectly stated taxpayer name may require the IRS to issue a corrected Form 6166 before the taxpayer can establish eligibility for treaty benefits. These problems are compounded by the lack of a streamlined mechanism through which taxpayers can track an application, communicate with the IRS regarding its status, or request expedited correction of an erroneous certificate. The use of the United States residency certification phone line, individual online applications, and individual online accounts for status updates has improved the taxpayer experience, but the processing of these forms is still manual at the IRS and the needs of the many business entities has not been addressed.

These administrative delays can have direct economic consequences. In jurisdictions where relief at source or retroactive refund procedures are unavailable or subject to restrictive deadlines, a taxpayer that cannot timely provide a valid CoR may permanently lose treaty benefits on income received before the certification becomes available. For taxable U.S. investors, the economic cost may ultimately be borne in part by the U.S. Treasury to the extent the unrecovered foreign tax generates a foreign tax credit against U.S. federal income tax liability. For tax-exempt investors, including U.S. retirement accounts investing through investment funds, foreign taxes that cannot be recovered generally represent a direct reduction in investment returns.

The timing problem can be particularly acute early in the calendar year. For example, in certain markets a taxpayer may receive an interest payment on January 15 but be required to provide a valid CoR to the local custodian by January 31 to obtain treaty relief. Similar issues arise when first-quarter dividends are paid

before the taxpayer receives its Form 6166. Thus, even where a jurisdiction permits post-payment treaty relief, the period available to establish eligibility may be significantly shorter than the IRS processing period.

The IRSAC also recommends that the IRS permit taxpayers to request and receive Form 6166 electronically. The need for a digital certification process is becoming increasingly important as foreign tax administrations modernize their withholding-tax systems. Most notably, the European Union adopted the Faster and Safer Relief of Excess Withholding Taxes (FASTER) Directive in December 2024, with implementation required by January 1, 2030. FASTER establishes accelerated procedures for obtaining relief from excess withholding taxes on certain publicly traded securities and contemplates the use of digital tax residence certificates.

Without an IRS process capable of issuing U.S. residency certifications in a form compatible with emerging digital systems, U.S. taxpayers may face increasing difficulty obtaining timely treaty relief or participating in streamlined foreign withholding-tax procedures. Modernizing Form 8802 and Form 6166 to support electronic applications, status tracking, corrections, and digital certifications would reduce administrative burdens, mitigate preventable losses of treaty benefits, reduce Federal tax leakage to non-U.S. jurisdictions, and better align the U.S. residency-certification process with evolving international standards.

The IRSAC has commented on the modernization of Form 8802 and 6166 in previous IRSAC reports:

- 2023 Large Business and International Subgroup: ISSUE FOUR: Accelerate Issuance of IRS Form 6166, Certificate of Residency
- 2022 Large Business and International Subgroup: ISSUE ONE: Accelerate Issuance of IRS Form 6166, Certification of U.S. Residency
- 2021 Large Business and International Subgroup: ISSUE FOUR: Ensuring the Timely Issuance of Certificate of Residency Forms

Recommendations

The IRSAC recommends the IRS:

1. Allow for the electronic filing and processing of Form 8802: *Application for US Residency Certification.*

2. Digitalize the Form 6166: *Certification of US Tax Residency*, allowing taxpayers for the option of electronically issued, authenticated and verifiable digital certificates.

3. Accelerate the submission date of Form 8802 prior to December 1 and begin processing applications on a rolling basis once received, so CoRs are ready to be issued as soon as possible after January

4. Improve communications between filers and the IRS regarding processing delays, tracking of certificate status and rejections, including an expedited process to address errors and issue timely corrections.

ISSUE TWO: Form 1099-DIV: Dividends and Distributions Improvements for US Federal Government Obligations for Regulated Investment Companies

Executive Summary

Federal law prohibits state taxation of obligations of the United States government. States with income taxes provide exemptions for interest and other income on federal obligations, and likewise, also exempt regulated investment company (RIC) dividends attributable to income on federal obligations. RICs are corporations which are permitted or required to designate certain dividends with specific tax character, such as capital gain dividends, qualified dividend income, and exempt-interest dividends, among others, to provide RIC shareholders with similar tax treatment as they would receive from investing directly in the assets held by the RIC.

Form 1099-DIV includes fields for reporting many of these RIC dividends with special tax character; however, it does not include a field for reporting dividends attributable to income on U. S. Federal obligations, resulting in the potential overpayment of state tax for many taxpayers.

Background

Federal law prohibits states from taxing the interest derived from numerous federal obligations[149]. Interest on many federal agency obligations, including the following, is generally treated as exempt from state and local taxes: Banks for Cooperatives [150], the Commodity Credit Corporation [151], the Federal Deposit

[149] 31 U.S. Code § 3124
[150] 12 U.S. Code § 2134
[151] 15 U.S. Code § 713a-5

Insurance Corporation[152], Federal Farm Credit Banks[153], the Federal Financing Bank[154], Federal Home Loan Banks[155], Federal Land Banks and the Federal Land Bank Association[156], the Production Credit Association[157], the U.S. Postal Service[158], the U.S. Treasury Department[159] (bonds, notes, bills, certificates and savings bonds), etc. labeled as *All Federal Obligations* in the matrix below

Nine states (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming) have no individual state income tax. Forty one states (Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Utah, Vermont, Virginia, West Virginia, Wisconsin) and the District of Columbia do not tax dividends related to income on U.S. government obligations.

Certain states have threshold requirements before pass-through treatment is available for qualifying for state tax exemptions based on (i) assets being federal obligations, or (ii) income be derived from federal obligations. The matrix below provides state specific details on *Threshold Requirements*. In addition, the state matrix also discloses the local reporting requirements for sufficient information to support shareholder taxable income. Finally, many states require that shareholders must be able to substantiate any claimed exemption for the pass-through of federal obligation interest. Those states that impose additional

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[152] 12 U.S. Code § 1825(a)
[153] 12 U.S. Code § 2023
[154] 12 U.S. Code § 2290
[155] 12 U.S. Code § 1433
[156] 12 U.S. Code § 2023, 2098
[157] 12 U.S Code § 2077
[158] 39 U.S. Code § 2005(d)(4)
[159] 31 U.S. Code § 3124(a)

requirements will be listed as *YES* below, and those states that do not impose additional requirements are listed as *NO.*

INFORMATION FOR STATES PERMITING PASS-THROUGH FEDERAL OBLIGATION INTEREST[160]					
State or District[161]	**All Federal Obligations**	**Threshold Requirement**	**Reporting Requirement - State**	**Reporting Requirement - Shareholder**	**Report Required For Exemption**
Alabama	YES	NO	NO	NO	NO
Arizona	YES	NO	NO	NO	NO
Arkansas	YES	NO	NO	NO	NO
California	YES	YES	NO	YES	YES
Colorado	YES	NO	NO	NO	NO
Connecticut	YES	YES	NO	YES	NO
Delaware	YES	NO	NO	YES	NO
District of Columbia	YES	NO	NO	NO	NO
Georgia	YES	NO	NO	NO	NO
Hawaii	YES	NO	NO	NO	NO
Idaho	YES	NO	NO	NO	NO
Illinois	YES	NO	NO	NO	NO
Indiana	YES	NO	NO	NO	NO
Iowa	YES	NO	NO	NO	NO
Kansas	YES	NO	NO	NO	NO
Kentucky	YES	NO	NO	NO	NO
Louisiana	YES	NO	NO	NO	NO

[160] Source: Investment Company Institute.
[161] https://www.ici.org/system/files/2025-12/state_tax_2025_survey1.pdf

INFORMATION FOR STATES PERMITING PASS-THROUGH FEDERAL OBLIGATION INTEREST[160]					
Maine	YES	NO	NO	YES	YES
Maryland	YES	NO	NO	YES	NO
Massachusetts	YES	NO	NO	YES	YES
Michigan	YES	NO	NO	NO	NO
Minnesota	YES	NO	NO	NO	NO
Mississippi	YES	NO	NO	YES	YES
Missouri	YES	NO	NO	YES	YES
Montana	YES	NO	YES	YES	YES
Nebraska	YES	NO	NO	NO	NO
New Jersey	YES	NO	YES	YES	YES
New Mexico	YES	NO	NO	YES	NO
New York	YES	YES	NO	NO	YES
North Carolina	YES	NO	NO	YES	NO
North Dakota	YES	NO	NO	NO	NO
Ohio	YES	NO	NO	NO	NO
Oklahoma	YES	NO	YES	YES	NO
Oregon	YES	NO	NO	YES	NO
Pennsylvania	YES	NO	NO	NO	NO
Rhode Island	YES	NO	NO	NO	NO
South Carolina	YES	NO	NO	NO	NO
Utah	YES	NO	NO	NO	NO

INFORMATION FOR STATES PERMITING PASS-THROUGH FEDERAL OBLIGATION INTEREST[160]					
Vermont	YES	NO	NO	NO	NO
Virginia	YES	NO	NO	YES	YES
West Virginia	YES	NO	NO	NO	NO
Wisconsin	YES	NO	NO	NO	NO

Asset managers sponsoring RICs generally make available on fund websites supplemental tax information identifying the portion of each RIC's distributions attributable to income from U.S. government obligations. However, many RIC shareholders may be unaware that this information is available, and tax preparers may not consistently identify or incorporate this supplemental information when preparing state income tax returns. In addition, many brokers and other financial intermediaries provide this information to shareholders through supplemental tax statements separate from Form 1099-DIV. As a result, the information may not be readily identified or used by shareholders in preparing their state income tax returns.

Other shareholders may not receive the information directly and therefore may not know about how to determine the portion of their RIC distributions attributable to U.S. government obligations that qualifies for exemption from state and local income taxation. Consequently, shareholders may pay state income tax on amounts that would otherwise qualify for exemption under applicable federal and state law.

The supplemental information currently provided on Fund websites and to brokers and financial intermediaries generally identifies a percentage of a RIC's ordinary dividends reported in Box 1a of Form 1099-DIV that is attributable to income from qualifying U.S. government obligations. Shareholders must apply this percentage to the amount reported in Box 1a to determine the dollar amount

potentially eligible for state tax exemption. Because the requirements for exemption vary by state, these disclosures generally advise shareholders to consult their tax advisors regarding the availability and calculation of the applicable state tax exclusion.

The potential impact of incomplete state tax reporting for U.S. Government funds is significant given the size and continued growth of the investor base. More than $700 billion[162] is invested in U.S. Government ETFs and mutual funds, representing a substantial pool of investors that rely on pooled investment vehicles for exposure to U.S. Treasury securities. At a 4% annual yield, these funds would generate approximately $28 billion of interest income annually for investors.

Interest derived directly from U.S. Treasury obligations is generally exempt from state and local income taxation. Similar income distributed through a ’40 Act fund may also qualify for state tax exemption; however, shareholders may not fully realize this benefit because the portion of a fund distribution attributable to U.S. government obligations generally is not separately identified on Form 1099-DIV and must instead be determined from supplemental information provided by the Fund. State-specific qualification and reporting requirements further complicate the process. As a result, shareholders who do not identify and properly report the

[162] Based on August 31, 2026 assets under management for the following funds: AGZ, AMUSX, BBGVX, BBIB, BBLB, BBSB, BIGBX, BILZ, BLGBX, BNDD, BUCK, CAUSX, CBIL, CIEI, CPTNX, CUST, DBLDX, DFFGX, DFIGX, DFYGX, DPIGX, DWWN, EALDX, EDV, EMWIX, FBLTX, FEUGX, FFXSX, FGOVX, FGUSX, FHNFX, FHQFX, FIGTX, FISAX, FLGV, FNBGX, FPAS, FSIWX, FSSWX, FSTGX, FTLTX, FTRGX, FTSD, FUAMX, FUMBX, FUTBX, GBIL, GGIFX, GOVI, GOVM, GOVT, GOVZ, GSTGX, GUSTX, HBIL, HLGAX, HOSGX, IBGA, IBGB, IBGC, IBGK, IBGL, IBGM, IBTK, IBTM, IBTO, IBTP, IBTQ, IBTR, IEF, IEI, IUTIX, LDRT, LFDR, LGOV, LLDR, LMBS, LTTI, MBSX, MDSIX, MFGSX, MLDR, MNRBX, MTBA, MXGMX, NEFLX, NOUGX, NSIUX, OBIL, PEDIX, PGOVX, PGVAX, PRTIX, PRULX, PYUSX, QGITX, RFIX, RMHYX, SAFEX, SCHO, SCHQ, SCHR, SFITX, SGOV, SGVA, SGVIX, SHV, SHY, SIGVX, SLDR, SLWTX, SPTB, SPTI, SPTL, SPTS, TBFIX, TBIL, TBLL, TFLO, THTA, TLH, TLT, TLTI, TLTP, TLTW, TLTX, TROT, TRSY, TUA, TWUSX, TYA, UFIV, UGSDX, USFR, USGDX, USGNX, USIN, USSH, USTVX, USVN, UTEN, UTHY, UTRE, UTWO, UTWY, VBIL, VEDTX, VFISX, VFITX, VGIT, VGLT, VGSH, VGUS, VGVT, VSGBX, VTG, VUSTX, WHOSX, WTLGX, WTSTX, WTSYX, WTTSX, XBIL, XFIV, XHLF, XONE, XSVN, XTEN, XTRE, XTWO, XTWY, ZROZ

qualifying portion of their distributions may overpay state income taxes. For perspective, applying a 5% state income tax rate to $28 billion of annual income represents approximately $1.4 billion of potential state tax savings, although the amount actually eligible for exemption would depend on the composition of fund holdings, applicable state law, shareholder residency, and other factors.

The number of households potentially affected is also substantial. While comprehensive data on household ownership of Treasury ETFs are limited, a reasonable estimate suggests that approximately 8–15 million U.S. households may currently own Treasury ETFs, compared with an estimated 30–50 million households holding Treasury securities directly or through brokerage accounts. Treasury ETF adoption continues to expand as investors increasingly use these products for cash management, liquidity, and duration exposure. Given the magnitude of assets and number of potentially affected investors, even a relatively small percentage of qualifying U.S. Government income that is not properly identified and claimed by shareholders could result in significant aggregate overpayments of state income taxes.

Although the issue primarily concerns state rather than federal income taxation, accurate and accessible reporting of income attributable to U.S. government obligations is important to proper tax compliance and compliance with 31 U.S. Code § 3124. Form 1099-DIV is the principal tax information reporting document through which RIC shareholders receive information concerning dividends and other distributions. Under the current reporting framework, however, shareholders generally must obtain and apply supplemental information outside Form 1099-DIV to determine the portion of their distributions attributable to qualifying U.S. government obligations.

Incorporating this information into Form 1099-DIV would consolidate relevant tax information within the reporting document shareholders and tax preparers already rely upon in preparing income tax returns. Providing a dedicated reporting field for the amount of distributions attributable to qualifying U.S. government obligations would reduce reliance on supplemental disclosures,

improve the accessibility and consistency of the information provided to shareholders and tax preparers, and facilitate the proper application of state income tax exemptions.

As an alternative to including an exact factor on the Form 1099-DIV, the optional box could be limited to a check box, in place of a value disclosure. The intent of the box would be to notify taxpayers and tax preparers that the distribution disclosed on Form 1099-DIV includes at least a portion of income from U.S. government obligations. The check box would encourage taxpayers and preparers to take steps to obtain the necessary supplemental information to properly report income on state income tax returns.

Recommendations

The IRSAC recommends that the IRS:

1. Update Form 1099-DIV: *Dividends and Distributions* to include an optional field for the reporting of regulated investment company (RIC) distributions attributable to income from U.S. federal obligations to improve state tax reporting and compliance with federal law by disclosing a percentage factor to adjust the amount included in box 1a, providing taxpayers with information about the US federal obligations component of the RIC's distributions.
2. Alternatively, update Form 1099-DIV: *Dividends and Distributions* to include an optional field for the reporting of regulated investment company (RIC) distributions attributable to income from U.S. federal obligations to improve state tax reporting and compliance with federal law using a check box to notify recipients of the Form that a portion of the income reported in box 1a is from U.S. government obligations.
3. Include in the instructions of Form 1099-DIV: *Dividends and Distributions* a disclosure for the newly added optional box encouraging taxpayers to check the Fund website for further state specific tax information and/or consult with their tax adviser.

ISSUE THREE: Tax Treatment of Prediction Markets Business Activities and Associated Gains & Losses

Executive Summary

Since January 2025, binary event options based on sports events and other non-financial events (aka “event contracts” or “prediction markets”) have rapidly proliferated on Commodity Futures Trading Commission (CFTC) licensed Designated Contract Market (DCM) exchanges. This shift has given rise to uncertainty with regards to the proper application of the Internal Revenue Code (IRC) and its associated Treasury Regulations and administrative guidance to various aspects of the prediction market industry’s business activities as well as the associated gains and losses derived from participation in these kinds of binary event option transactions. The IRSAC recommends that the IRS prioritize the issuance of formal guidance that clarifies the tax treatment of prediction market business activities and the associated gains and losses.

Background

The Commodity Exchange Act (CEA) was enacted to establish rules for determining whether a financial contract qualifies as a regulated futures contracts (RFCs). The CEA also created the CFTC, which is the federal governmental agency charged with regulating RFCs. Organizations must obtain a license from the CFTC before they can operate the exchange platforms that facilitate RFC transactions. An organization that holds this kind of CFTC license is known as a DCM. RFCs that are facilitated by DCMs are then serviced and multilaterally cleared by CFTC Licensed Designated Clearing Organizations (DCOs). Most individuals and organizations must become members of a specific DCM before being allowed to enter into RFCs via that DCM’s exchange platform. This participation by DCM members is usually facilitated by a Futures Commission

Merchant (FCM). FCMs can be individuals or organizations with all FCMs being required to hold a separate kind of CFTC license.

Historically, RFCs have operated as financial contracts that guarantee the right to purchase a specified quantity of a specific commodity on a future date at a specified price. For example, a member of a DCM could purchase an RFC guaranteeing the right to buy 5,000 bushels of corn at $4.50 per bushel on a specific date occurring two months in the future. Some traditional RFCs are tied to physical commodities (e.g., grain, livestock, energy, precious metals, etc.) while other traditional RFCs are instead tied to financial assets (e.g., stocks, US Treasury Bonds, etc.). As such, the one almost universal commonality across nearly all traditional RFCs is that these financial contracts have been tied to the price of some underlying asset(s) (with rare exceptions such as with interest rate swaps). New kinds of RFCs have been introduced in recent years including RFCs tied to digital assets and DCMs have recently proposed introducing further kinds of RFCs tied to other assets classes in the future (e.g., real estate, collectable memorabilia and trading cards, etc.). However, these new kinds of RFCs continue to align with traditional RFCs in that they are still tied to the price of one or more underlying assets.

To be clear, RFCs based on the occurrence or non-occurrence of real-world events (known as binary event options) have existed since 2004. Unlike other RFCs, binary event options are not tied to the price of any underlying asset. Rather, binary event options are styled as financial contracts that are instead tied to the occurrence or non-occurrence of a real-world event that is unrelated to any asset. However, prior to 2025, the CFTC prohibited binary event options from being based on certain types of real-world events, namely sports events. Beginning in January 2025, DCMs began introducing binary event options based on sports events and other non-financial events (e.g., elections, weather, pop culture and entertainment, etc.). For example, a binary event option might be tied to whether the Washington Nationals will win their next Major League Baseball game with the binary event option paying out to the party who purchased the contract tied to the

correct win or loss outcome. Binary event options based on sports events are now one of the most common types of binary event options traded across all DCMs.

Interaction between the CEA and the IRC

How another federal law treats an activity is only dispositive when determining how that activity is treated for purposes of the IRC if that other federal law has been incorporated by reference into the IRC. Absent such incorporation by reference into the IRC, the application of the IRC to an activity is determined exclusively based on the IRC and all associated case law, Treasury Regulations, and other administrative guidance. For example, while the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA) explicitly classifies fantasy sports transactions as non-wagering transactions, the IRS currently treats fantasy sports transactions as wagering transactions for purposes of the federal wagering excise tax (FWET) Form 730 and Form 11-C regimes.[163] [164] In GLAM AM-2020-009, the IRS explicitly acknowledges that UIGEA excludes fantasy sports transactions from UIGEA's definition of "bet or wager" before concluding that UIGEA does not preclude fantasy sports transactions from being classified as wagering transactions for purposes of IRC § 4401 and IRC § 4412.[165] Likewise, the IRS treats winnings from fantasy sports transactions as gambling winnings for purposes of Form 1040 pursuant to IRC § 165(d).[166] While the IRS has not issued formal guidance regarding the application of IRC § 6041, IRC § 3402, and IRC § 3406 to fantasy sports transactions, it is expected that the IRS also classifies fantasy sports winnings as gambling winnings for purposes of information reporting, meaning the

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[163] 31 U.S.C. § 5362(1)(E)(ix).

[164] IRS GLAM AM-2020-009, *Daily Fantasy Sports and the Excise Taxes on Wagering* (July 23, 2020), *https://www.irs.gov/pub/lanoa/am-2020-009.pdf*.

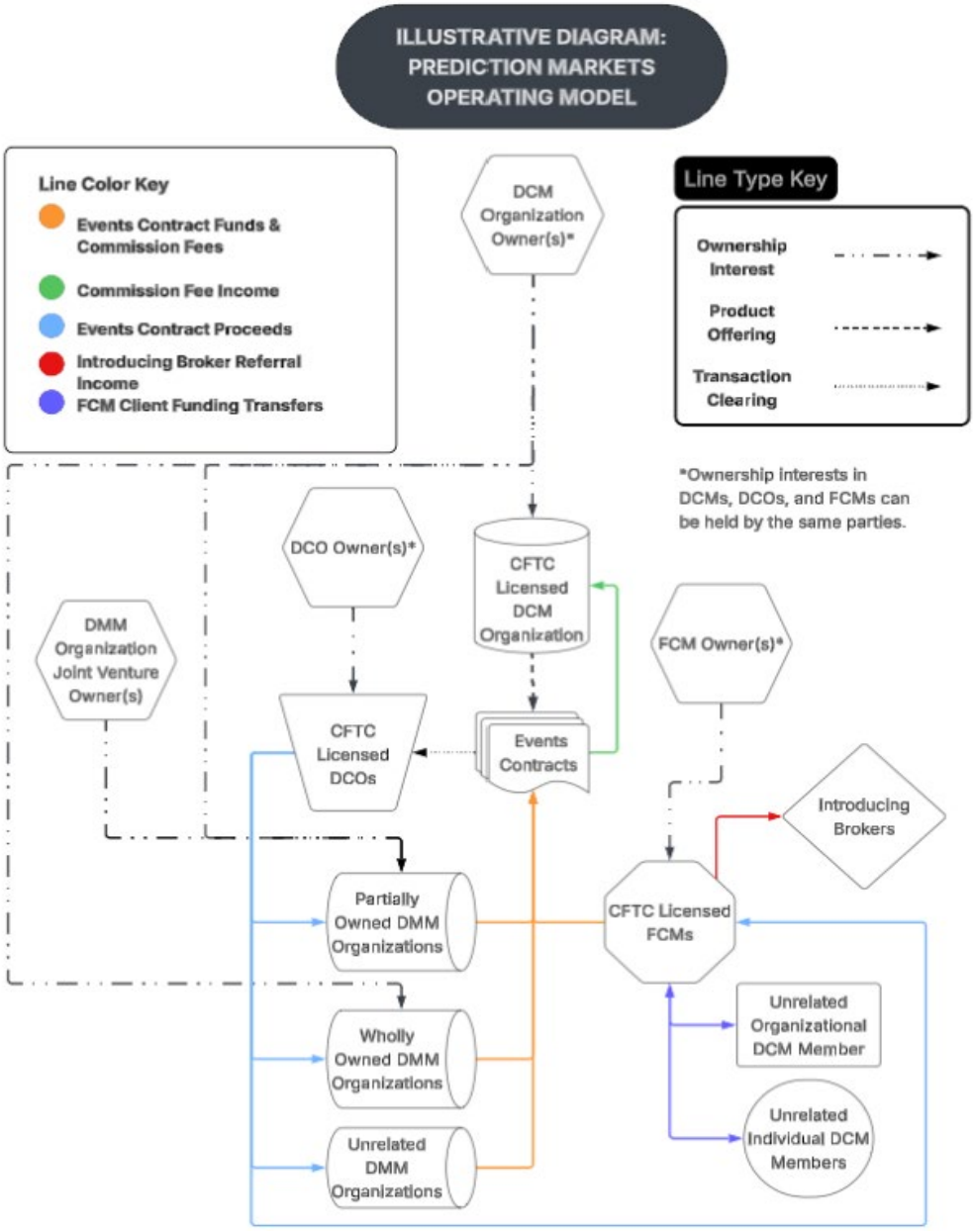
[165] *Id.*

[166] IRS G.C.M. 202042015, *Applicability of Section 165(d) to Daily Fantasy Sports Transactions* (October 16, 2020), *https://www.irs.gov/pub/irs-wd/202042015.pdf*.

IRS would expect such fantasy sports winnings and any associated tax withholdings to be governed by the Form W-2G and Form 945 regimes.

The CEA and the IRC are also independent federal laws. The IRC does not broadly incorporate the CEA by reference and nothing in the CEA prohibits the application of the IRC to activities of DCM organizations, DCOs, FCMs, DCM members, or any other participants in the prediction markets industry. Likewise, nothing in the CEA prohibits the application of the IRC to binary event option transactions or the gains and losses derived from such transactions. As such, the determination as to how binary event option transactions are classified for purposes of the IRC need not align with how those same transactions are classified under the CEA.

Overview of Prediction Market Industry Operations



The above illustrative diagram depicts the operating model via which some (if not all) CFTC licensed DCM organizations currently offer binary event options. As described above, a CFTC licensed DCM organization facilitates binary event options that are entered into by Designated Market Maker (DMM) organizations

that have been registered as intermediaries of the implicated licensed DCM organization and CFTC licensed FCM organizations (on behalf of organizational and individual members of that DCM). Below is a non-comprehensive list of the broad categories of parties who are currently participating in prediction market industry:

- **CFTC Licensed Designated Contract Market Organization:** An organization that has been licensed by the CFTC to facilitate RFCs (including binary event options).

- **Designated Contract Market Organization Owners:** Individuals and/or organizations that hold an ownership interest in a CFTC licensed DCM organization.

- **CFTC Licensed Futures Commission Merchant:** An individual or organization that has been licensed by the CFTC to solicit or accept orders to buy and sell RFCs (including binary event options) which are then facilitated by a CFTC licensed DCM organization.

- **CFTC Licensed Futures Commission Merchant Owners:** Individuals and/or organizations that hold an ownership interest in a CFTC licensed FCM.

- **CFTC Licensed Designated Clearing Organization:** An organization that has been licensed by the CFTC to act as a regulated financial market utility that is tasked with enabling each party to a RFC transaction to substitute, through novation or otherwise, the credit of the Designated Clearing Organization (DCO) for the credit of those parties and provides contract multilateral clearing services (including netting of obligations) that mutualize or transfer credit risk among participants.

- **Designated Clearing House Organization Owners:** Individuals and/or organizations that hold an ownership interest in a CFTC licensed DCO.

- **Unrelated Individual DCM Members:** Unrelated individuals who are authorized to enter into RFCs with other DCM members and DMM organizations (usually via CFTC licensed FCMs).

- **Unrelated Organizational DCM Members:** Unrelated organizations that are authorized to enter into RFCs with other DCM members and DMM organizations (usually via CFTC licensed FCMs).

- **Designated Market Maker Organization:** An organization that serves as registered intermediary authorized by one or more CFTC licensed DCM organizations to maintain "fair and orderly" liquidity for specific markets by directly entering into RFCs (including binary event options) with DCM members.

    - **NOTE:** While DMM organizations can be unrelated organizations, DMMs can also be wholly or partially owned by CFTC licensed DCM organization owners, CFTC licensed FCM owners, and/or CFTC licensed DCO owners.

- **Designated Market Maker Organization Joint Venture Owners:** Unrelated individuals and/or organizations that hold a partial ownership interest in a DMM organization that is also partially owned by one or more DCM organization owner(s).

- **Introducing Brokers:** Individuals or organizations that solicit or accept RFC orders which are then routed to CFTC licensed FCM organizations for execution and clearing.

Recommendations

The IRSAC recommends that the IRS:

1. Issue guidance regarding any federal wagering excise tax (Form 730 and Form 11-C) obligations arising from prediction market business activities, including but not limited to the following current specific areas of uncertainty:

- If the settlement of a binary event option is solely dependent on the outcome(s) of one or more "sports events" as defined in Treas. Reg. § 44.4421-1(c)(2) and/or "contests" as defined in Treas. Reg. § 44.4421-1(c)(3), does that binary event option constitute a potentially taxable "wager" under IRC § 4401 and IRC § 4412?
- If the settlement of a binary event option is partially dependent on the outcome(s) of one or more "sports events" as defined in Treas. Reg. § 44.4421-1(c)(2) and/or "contests" as defined in Treas. Reg. § 44.4421-1(c)(3) while also being partially dependent on the outcome(s) of one or more other events, does that binary event option constitute a potentially taxable "wager" under IRC § 4401 and IRC § 4412?
- For binary event options that constitute potentially taxable "wagers" under IRC § 4401 and IRC § 4412, are the CFTC licensed DCM organizations that facilitate these binary event options liable for FWET pursuant IRC § 4401 either as a person who is engaged in the business of accepting wagers or as a person who is conducting a wagering pool (akin to the IRS's current position documented in IRS GLAM AM-2020-009 regarding the fantasy sports contests facilitated by fantasy sports operators)?
- For binary event options that constitute potentially taxable "wagers" under IRC § 4401 and IRC § 4412, are any participants in binary event option transactions (i.e., DMM organizations, FCMs, organizational DCM members, individual DCM members) liable for FWET under IRC § 4401 as a person who is engaged in the business of accepting wagers?
- To the extent that any participants in binary event option transactions are liable for FWET under IRC § 4401, can the DCM organizations that facilitate these binary event options be held jointly and severally liable for these FWET liabilities as a party receiving wagers on behalf

of these taxable binary event option participants if such DCM organizations have not filed the required Form 11-C pursuant to IRC § 4412(a)(3)?

- To the extent that DCM organizations and/or any participants in binary event option transactions are liable for FWET under IRC § 4401, does the 2% FWET rate apply to binary event options that are authorized under federal law but not under the laws of the implicated state(s) in which those binary event options are deemed to have been executed?

2. Issue guidance regarding any information reporting obligations arising from prediction market business activities, including but not limited to the following current specific areas of uncertainty:

    - Are the DCM organizational facilitators of binary event options and/or the DCO payors of the associated proceeds subject to any information reporting obligations?

        - If so, under which statutory and/or regulatory provision(s) are these activities/payments subject to reporting?

        - If not, what specific aspect(s) of binary event options preclude these transactions and the resulting payments of proceeds from being subject to information reporting obligations?

    - If the payments of proceeds from settled binary event options are subject to information reporting obligations, are these payments also subject to any regular withholding and/or backup withholding obligations?

    - If binary event option transactions and/or the payments of proceeds from settled binary event options are subject to information reporting obligations, who is the party responsible for satisfying these

obligations (i.e., DCM organizations, DCOs, DMM organizations, FCMs)?

- If the payments of proceeds from settled binary event options are also subject to regular withholding and/or backup withholding obligations, who is the party responsible for satisfying these obligations (i.e., DCM organizations, DCOs, DMM organizations, FCMs)?
- Is the nature of the underlying uncertain event(s) (i.e., whether a binary event option is based on the outcome of sports events, elections, economics, weather, pop culture and entertainment, etc.) ever relevant when determining the information reporting obligations arising from prediction market business activities?

3. Issue guidance regarding the taxation of gains and losses derived by individual taxpayers from binary event option transactions, including but not limited to the following current specific areas of uncertainty:
    - Under which circumstances, if any, do an individual taxpayer's gains and losses derived from participation in binary event option transactions constitute gambling winnings and losses for purposes of IRC § 165(d) (akin to the IRS's current position documented in IRS G.C.M. 202042015 regarding income derived from fantasy sports activities)?
    - Under which circumstances, if any, do an individual's gains and losses derived from participation in binary event option transactions constitute capital gains and losses?
        - If capital gain and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions and this result is pursuant to IRC § 1256, must the amount required to be deposited and the amount which may be withdrawn with regards to a binary event option be dependent on a system of marking to market pursuant to

IRC § 1256(g)(1)(A) in order for that binary event option to qualify as a “regulated futures contract” under IRC § 1256(b)(1)(A)?

- If capital gain and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions and this result is pursuant to IRC § 1256, must a binary event option either grant a right to buy or sell some underlying asset(s) or the value of that binary event option be otherwise determined directly or indirectly by reference to some underlying asset(s), index of securities, or debt instrument in order for that binary event option to qualify as a “nonequity option” under IRC § 1256(b)(1)(C)?
- If capital gain and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions and this result is pursuant to IRC § 1256, under what circumstances do these gains and losses qualify for the favorable tax treatment enumerated in IRC § 1256(a)(3)?
- If capital gain and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions and this result is pursuant to IRC § 1256, under what circumstances do these gains and losses fail to qualify for the favorable tax treatment enumerated in IRC § 1256(a)(3) due to the binary event option transactions qualifying as “swaps” pursuant to IRC § 1256(b)(2)(B)?
- If capital gain and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions and this result is pursuant to IRC § 1256, under what circumstances do these gains and losses fail to qualify for the favorable tax treatment enumerated in IRC § 1256(a)(3) due to the binary event option transactions

qualifying as “hedging transactions” pursuant to IRC § 1256(e)-(f)?

- If capital gain and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions, is this result ever pursuant to IRC § 1234A?
- If capital gain and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions, is this result ever pursuant to any other section of the IRC, and if so, which section(s) are implicated and why?

- Under which circumstances, if any, do an individual’s gains and losses derived from participation in binary event option transactions constitute ordinary income and losses?
  - If ordinary income and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions, under what circumstances can an individual deduct losses from unsuccessful binary event option transactions pursuant to IRC § 165(c)(1)?
  - If ordinary income and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions, under what circumstances can an individual deduct losses from unsuccessful binary event option transactions pursuant to IRC § 165(c)(2)?
  - If ordinary income and loss treatment applies to the gains and losses derived from participation in some types of binary event option transactions, under what circumstances is an individual barred from deducting losses from unsuccessful binary event option transactions pursuant to IRC § 183?
  - If ordinary income and loss treatment applies to the gains and losses derived from participation in some types of binary event

option transactions, is an individual ever permitted to deduct or barred from deducting losses from unsuccessful binary event option transactions pursuant to any other section of the IRC, and if so, which section(s) are implicated and why?

- Is the nature of the underlying uncertain event(s) (i.e., whether a binary event option is based on the outcome of sports events, elections, economics, weather, pop culture and entertainment, etc.) ever relevant when determining the tax treatment of the gains and losses derived by individual taxpayers from participation in binary event option transactions?

ISSUE FOUR: Rationalization and Modernization of the Form W-2G Regime

Executive Summary

The modern gambling industry has evolved rapidly toward a more online-centric operating model since the U.S. Supreme Court's decision in *Murphy v. National Collegiate Athletic Association* (*Murphy*) in 2018 found the Professional and Amateur Sports Protection Act (PASPA) to be unconstitutional. Despite this rapid shift toward a more online-centric operating model, nearly all aspects of the current Form W-G regime remain tailored specifically to retail gambling operations. The IRSAC recommends that the IRS evaluate opportunities for rationalizing and modernizing the administration of the Form W-2G regime.

Background

The Form W-2G regime was tailored specifically to retail casino operations when conceived and few changes have been implemented in recent years to account for how the modern gambling industry has evolved rapidly toward a more online-centric operating model. Since the *Murphy* decision, 39 states, Washington D.C., and Puerto Rico have legalized sports wagering with some version of online sports wagering allowed in more than 30 of these jurisdictions. Eight of these jurisdictions have also legalized some form of online casino wagering. Furthermore, lawmakers in several additional jurisdictions are currently considering legislation that would legalize online sports wagering and/or online casino wagering.[167] Online gambling now accounts for more than 90% of all legal sports wagering volume in the United States, as well as driving an increasing

[167] Tom Nightingale, "Sports Betting, iGaming Lobbyists on Which States Could Legalize Next," SBC Americas, August 13, 2026, https://sbcamericas.com/2026/08/13/sba-idea-sports-betting-legalization/.

percentage of total legal casino wagering volume.[168] Consequently, online gambling activities now also drive a significant portion of the total Forms W-2G issued each year.

Meanwhile, nearly all aspects of the current Form W-G regime remain tailored specifically to retail gambling operations. In fact, many aspects of the current Form W-2G regime were promulgated prior to the *Murphy* decision, with some elements of this regime even predating the advent of the internet. The resulting administrative challenges are far-reaching across gambling operators' entire business ecosystems, directly or indirectly impacting client onboarding systems and procedures; withholding logic within complex gambling transactional settlement engines; state gaming regulatory reporting systems and procedures; customer information report creation, validation, electronic filing, delivery, and archival systems and procedures; and customer service systems and procedures. These challenges also frustrate the ability of gambling customers to comply with their federal and state individual income tax filing obligations while also creating significant administrative and enforcement related challenges for the IRS and state taxing authorities. Accordingly, there is now an urgent need for an analogous shift towards a more rationalized and modernized Form W-2G regime.

Key Operational Challenges – Generally Applicable Administrative Rules Which Remain Too Narrowly Tailored to Retail Casino Operations

Several administrative aspects of the current Form W-2G regime remain highly tailored to retail casino operations in ways that make these rules ill-suited to the online gambling ecosystem. Implicated rules include, but are not limited to, the following issues:

- Online gambling operators possess the ability to issue their Forms W-2G once annually in January rather than in real time at an in-person casino cash out window. The continued requirement to issue Forms W-2G on a

[168] Anna Lamb, "Sports Betting Worries Grow as Wagers Skyrocket," Harvard Gazette, January 6, 2026, https://news.harvard.edu/gazette/story/2026/01/sports-betting-worries-grow-as-wagers-skyrocket/.

transactional basis (or daily aggregated basis for casino slot, bingo, and keno transactions) results in dozens or even hundreds of information reports being issued simultaneously when the same information could be reported in aggregate on a single Form W-2G in a manner that is analogous to the already permitted daily aggregated basis for certain casino transactions.

- The continued requirement to issue Forms W-2G triggered by casino slot and bingo transactions on a gross winnings basis rather than on a discretionary net winnings basis as is allowed for all other Form W-2G categories creates unnecessary complexity that increases the administrative burden faced by Form W-2G issuers and recipients as well as the IRS. While implementing net winnings basis reporting can sometimes prove challenging, if not impossible, for retail casino operators, some online gambling operators possess the necessary data to implement net winnings basis reporting.

Key Operational Challenges – Generally Applicable Administrative Rules That Give Rise to Administrative Feasibility Concerns for Online Gambling Operators

Complying with several additional aspects of the current Form W-2G regime has proven administratively infeasible in addition to being potentially unnecessary within the context of the online gambling ecosystem. Implicated rules include, but are not limited to, the following issues:

- IRS guidance continues to indicate that online gambling operators are required to obtain signatures from each Form W-2G recipient each time a form is issued to ensure gambling income is reported to the appropriate party. However, online gambling statutes and regulations in every US jurisdiction with legal online gambling operations require online gambling operators to implement extensive know-your-customer (KYC) onboarding procedures which include verifying a customer's full name, age, residential address, and Social Security Number via approved third-party KYC vendors. Furthermore, the sharing of accounts and proxy betting are both strictly

prohibited by law and within the terms of service of US online gambling operators with operators also being subject to ongoing activity monitoring requirements aimed at ensuring each online gambling account is tied to and exclusively used by a single individual customer.

- IRS guidance continues to indicate that online gambling operators are required to obtain two forms of identification from each Form W-2G recipient despite the extensive KYC onboarding procedures and account usage limitations described above sufficiently ensuring that gambling winnings and losses associated with an online gambling account are tied exclusively to one individual taxpayer. When retail casino operators can collect copies of two forms of identification in real time at an in-person casino cash out window, there are minimal data security risks. Conversely, significantly greater data security risks arise when online gambling operators are required to collect copies of two forms of identification electronically.

Key Operational Challenges – Lack of Guidance with Regards to the Permissibility of General Information Reporting Procedures for the Form W-2G Regime

The current lack of specific Form W-2G guidance regarding the permissibility of information reporting procedures that have been implemented by the IRS within other information reporting regimes further exacerbates the administrative challenges faced by online gambling operators, their customers, and the IRS. Implicated rules include, but are not limited to, the following issues:

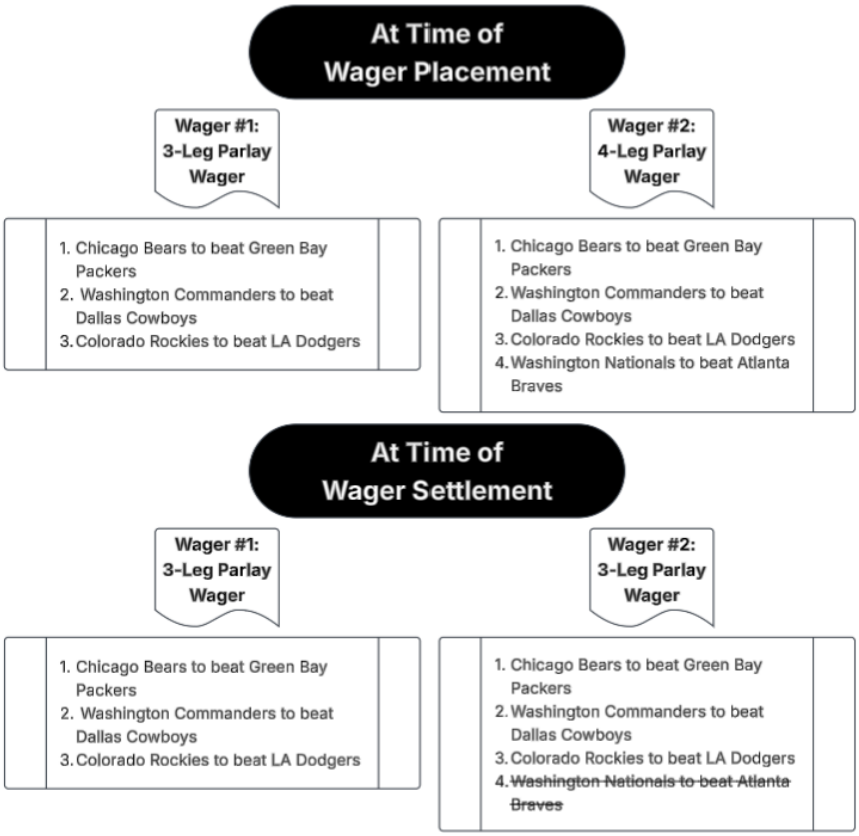
- There is a lack of specific guidance regarding the permissibility of recipient Social Security Number truncation on Forms W-2G in a manner that is allowed for other information reports. The lack of guidance regarding truncation is a more pressing matter for online gambling operators due to the significantly increased data security risks associated with electronically delivering and/or mailing Forms W-2G to recipients as opposed to physically delivering those forms to customers in real time at an in-person casino cash out window.

- While Forms 1099 issuers are allowed to issue consolidated information reports (e.g., Forms 1099-B), there is a lack of specific guidance regarding the permissibility of consolidated Forms W-2G.

Key Operational Challenges – Lack of Guidance with Regards to the Application of the Form W-2G Anti-Abuse Identical Wager Rules to Sports Wagering

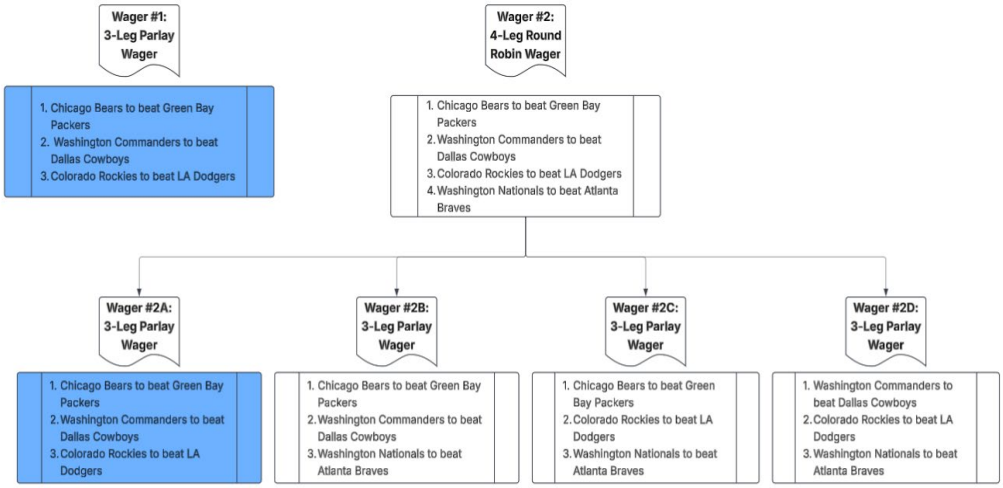
Existing IRS guidance regarding the application of the Form W-2G anti-abuse identical wager rules does not provide sufficient clarity within the context of sports wagering. In particular, the more complex wager types enabled by the shift to a more online-centric, technology-driven operating model have created complex fact patterns that did not exist when previous IRS identical wager guidance was conceived. The two illustrative examples below frame the administrative ambiguity that now exists as a result:

- **EXAMPLE #1:** Customer A places two separate ordinary parlay wagers. Wager #1 is tied to the outcome of three unknown sports event outcomes. Wager #2 is tied to four unknown sports event outcomes, with three of those four outcomes being identical to Wager #1's three sports event outcomes and the fourth sports event outcome being tied to a future Washington Nationals Major League Baseball (MLB) game. Both wagers will only qualify to be settled as winning wagers if the customer correctly selects the outcomes of all implicated sports events, respectively. The Washington Nationals MLB game in question is subsequently rained out before either wager is settled, resulting in that fourth leg of Wager #2 being canceled as is standard practice in the gambling industry. Within this fact pattern, it is unclear whether Wagers #1 and #2 become identical wagers despite the two wagers not being identical when placed and despite the cancelation of the Washington Nationals MLB game being caused by an unpredictable weather event that was entirely outside of Customer A's control.



- **EXAMPLE #2:** Customer B places two separate wagers. Wager #1 is an ordinary parlay wager tied to the outcome of three unknown sports event outcomes with the wager only qualifying to be settled as a winning wager if the customer correctly selects the outcomes of all three sports events. Wager #2 is a complex "round robin" parlay wager tied to the outcome of four unknown sports event outcomes (three of which are identical to Wager #1) with the wager qualifying as a winning wager if the customer correctly selects one or more of the possible combinations of three of these four unknown sports event outcomes. From the perspective of the Form W-2G regime, this "round robin" parlay wager represents four separate ordinary three-leg parlay wagers that are each separately capable of triggering Form W-2G reporting and withholding obligations. As such, one of these nested parlay wagers within this round robin parlay wager is tied to the same three unknown sports event outcomes as Wager #1. Within this fact pattern, it is unclear whether Wager #1 and the component parlay wager contained within Wager #2 that

is tied to the same three unknown sports event outcomes as Wager #1 constitute identical wagers.



Key Operational Challenges – Lack of Guidance with Respect to the Application of the Form W-2G Casino Wager Classification Rules to Online Casino Wagering

Existing IRS guidance regarding the application of the classification of casino wagers for purposes of the Form W-2G regime is limited and does not provide sufficient clarity within the context of online casino wagering. As a result, online gambling operators are required to determine how to classify online casino games across the casino slot, bingo, keno, and “other wagering transaction” Form W-2G categories based on this limited IRS guidance. Furthermore, it is difficult to apply much of this decades-old guidance within an online gambling context. These administrative challenges are then exacerbated by the fact that online casino operators often lack sufficient information to apply these casino game classification rules due to a lack of visibility into the confidential design specifications of the casino game content that is licensed from third parties.

Key Operational Challenges – Time-sensitive Administrative Procedures within the Current Form W-2G Regime

Finally, some aspects of the current Form W-2G regime could create additional onerous administrative challenges for both online and retail gambling operators if not administered in a manner that affords these companies, and the third-party technology providers who support them, with the requisite time and clarity needed to implement the required changes into their respective technological and operational ecosystems. Implicated administrative procedures include, but are not limited to, the following issues:

- If the confirmation of the annual inflation adjusted IRC Section 6041 reporting threshold is issued after the beginning of the implicated tax year or before the beginning of the implicated tax year but without sufficient time for gambling operators and supporting third-party technology providers to implement the necessary technological and operational changes, gambling operators will be unable to comply with their Form W-2G reporting obligations beginning at 12:00 AM on January 1st of the implicated tax year as required (due to the transactional nature of the Form W-2G regime).
- If updated Form W-2G and its instructions are finalized after the beginning of the implicated tax year or before the beginning of the implicated tax year but without sufficient time for gambling operators and supporting third-party technology providers to implement the necessary technological and operational changes, gambling operators will be unable to comply with their Form W-2G reporting obligations beginning at 12:00 AM on January 1st of the implicated tax year as required (again, due to the transactional nature of the Form W-2G regime).

Recommendations

The IRSAC recommends that the IRS:

1. Evaluate opportunities for rationalizing and modernizing the Form W-2G regime to ensure all relevant Treasury Regulations and administrative

guidance is sufficiently tailored to address the operational differences between the retail and online gambling ecosystems.

2. Issue guidance clarifying the permissibility of all current general information reporting procedures for the Form W-2G Regime.
3. Implement standard operating procedures that will ensure the issuance of guidance specifically clarifying the permissibility of any future general information reporting procedures for the Form W-2G regime.
4. Issue guidance clarifying the application of the Form W-2G anti-abuse identical wager rules to the most common types of sports wagers with specific focus on how these rules apply to complex sports wagering scenarios in which identifying and adjusting for highly granular transactional nuances occurring after the placement of the underlying wagers proves to be administratively impracticable.
5. Issue guidance clarifying how online gambling operators are expected to classify online casino games across the casino slot, bingo, keno, and “other wagering transaction” Form W-2G categories.
6. Implement standard operating procedures to ensure time-sensitive Form W-2G administrative guidance is issued with enough lead time. These procedures should afford gambling operators and the third-party technology providers that support them with the requisite time and clarity needed to implement the required changes into their respective technological and operational ecosystems.

ISSUE FIVE: Large Corporations Access to Electronic Transcripts

Executive Summary

Large corporate taxpayers require timely access to IRS account transcripts to verify return and payment activity, reconcile tax accounts, identify posting errors, respond to notices, and resolve discrepancies before they develop into enforcement matters. Electronic transcript delivery reduces administrative burden for both taxpayers and the IRS. However, the current transcript-access framework does not provide a consistently accessible solution for large corporate groups, especially where a centralized tax department supports numerous legal entities.

Large corporations currently may obtain transcripts through several channels including:

- an assigned Large Business representative delivered through the Secure Object Repository (SOR) or by mail;
- phoning a general-purpose or priority practitioner IRS phone number;
- the Business Tax Account (BTA);
- Transcript Delivery System (TDS) through Circular 230 practitioner e-Services.

Although several options exist, each has limitations stemming from manual IRS intervention, identity credentialing, eligibility, limitations on delegating access, or the inability to access transcripts for related entities. This means that while a person is given authority by an entity to retrieve transcripts, and the IRS acknowledges that authority, the IRS does not provide a consistent manner through which individuals can retrieve those transcripts.

The IRSAC recommends that the IRS establish a unified transcript-delivery strategy, potentially based on Power of Attorney (POA)[169] and Tax Information Authorization (TIA)[170] especially, but not only for multi-entity taxpayers, that accommodates centralized tax functions and affiliated entities. We also recommend that the IRS clarify the intended audience of each transcript channel. These improvements would increase digital self-service, reduce IRS representative contacts by telephone, and preserve appropriate security and entity-level authorization controls.

Users of electronic transcript delivery report to the IRSAC that a transcript can be retrieved through self-service in minutes, while interaction with IRS personnel by phone can take 1.5 hours including hold-time and disconnects due to dropped calls or call volume and such calls may limit the number of transcripts that can be requested per call. Requiring a taxpayer representative to interact with IRS personnel to obtain a transcript is the least scalable transcript delivery method, and the IRS strategy should make electronic self-service the desired delivery method.

Background

This topic and supporting issues have arisen in prior annual IRSAC reports. The IRSAC Public Report in 2024 presented a suggested prioritization of future BTA functions. Access to transcripts was proposed as an item of "Top Priority." That same report discussed the BTA authorization challenges discussed again below. The 2024 report also discussed the difficulty of large entities to gain access to the Large Business program. In the IRSAC Public Report in 2025, the IRSAC suggested that systems including the "transcript delivery systems" are part of a "patchwork of partially connected services." In surveying users of the current state of transcript request and delivery as experienced by various organizations, we

[169] *See* https://www.irs.gov/pub/irs-pdf/2848.pdf
[170] *See* https://www.irs.gov/pub/irs-pdf/f8821.pdf

found that the transcript request and delivery remains its own patchwork. Further, the systems that support and enable transcript delivery, including authentication, request, and entity name and credentials management are not coordinated. The result is that similarly situated taxpayers cannot use the same transcript systems. Further, access to transcript delivery might be lost due to inconsistent information for an organization at the IRS.

As mentioned in the summary, we describe here four ways a corporation may obtain a tax account transcript.

First, if an organization is accepted to participate in the Large Business program at the IRS, an organization representative that is an officer or that has a valid POA for the entity for the tax matter may phone an IRS Large Corporate representative if one has been assigned and request that transcripts be retrieved and provided to the Secure Object Repository (SOR).[171] If the taxpayer representative does not have an SOR, the IRS representative must instead mail transcripts to the taxpayer entity address of record. Although this option can provide transcripts, it depends on telephone engagement with IRS personnel. Continued reliance on mailed transcripts or representative-assisted delivery is not an efficient, scalable long-term approach and is inconsistent with the apparent IRS objective of transitioning routine requests, including transcript requests, to secure digital self-service.

Second, if the entity is not a participant in the Large Business program and does not have access to an IRS Large Business representative, that taxpayer representative must use general or specific purpose phone numbers. For example, to obtain a 1042 transcript, the taxpayer must contact the IRS Foreign Taxpayer Help Line where experience is that high call volumes make it difficult to contact an IRS person that can deliver the transcript. Further, if IRS contact is made, the entity is typically limited in the number of transcripts requested per call. Calls being

[171] Feedback to the IRSAC from various entities state that it is increasingly difficult to reach a Large Business IRS representative after recent reductions in force at the IRS. This makes it difficult even for participants in the Large Business program to obtain transcripts.

disconnected while on hold add to the inefficiencies to both the requesting entity and the IRS.

Third, Business Tax Accounts (BTA) is intended to be the future solution for many functions including transcript delivery, but it appears that BTA functionality is not fully established for large corporations. Access is established by a Designated Official who must be an employee receiving a Form W-2, Wage and Tax Statement, from the entity being enrolled.[172] This authorization structure limits access to the entity that issued the Form W-2 and does not permit access to related entities that are members of the same corporate entity structure. For example, where payroll and therefore W-2 issuance is performed from an entity in the corporate structure, the Designated Official can only register for BTA access for that payroll entity, even if the tax return for the organization is filed by and for a different entity of the organization, even if the entire entity structure is described in that tax return, and even if the payroll entity is a named affiliate of the tax-return-filing entity. This entity limitation does not reflect the structure and transcript needs of many corporations.

Currently, BTA requires annual recertification. Taxpayers that previously used transcript delivery successfully through BTA can lose access when entity-name or name-control information becomes inconsistent between IRS systems. Corrections made in one system may not be propagated to every system supporting transcript request authentication and transcript delivery. Affected taxpayers may then be referred to multiple uncoordinated IRS functions without a clear escalation path or a single organization responsible for restoring access.

A fourth option to obtain tax transcripts for a corporation is Circular 230 practitioner e-Services.[173] This channel allows certain employees to establish themselves as Authorized Users to TDS but is limited to eligible practitioners that have a POA, and that are attorneys, certified public accountants, or enrolled

[172] https://www.irs.gov/businesses/manage-access-in-business-tax-account

[173] https://www.irs.gov/e-file-providers/circular-230-practitioner-e-services-access

agents. For large corporate tax departments this channel could offer a means to delegate the ability to obtain transcripts. Unfortunately, the Authorized User in this channel can only authorize Delegated Users that file five or more tax returns, significantly limiting the ability to delegate authority.

See also the IRSAC Taxpayer Services subgroup recommendations elsewhere in this report regarding Centralized Authorization File (CAF) scope for TDS.

Recommendations

The IRSAC recommends:

1. Publish a unified transcript-delivery roadmap. Explain the intended roles of BTA, practitioner e-Services TDS, SOR, telephone assistance, and mailed transcripts, including which channels are interim solutions and which represent the intended future state.

2. A person with a valid Form 2848, *Power of Attorney* or Form 8821, *Tax Information Authorization*, permitting access to a taxpayer's transcripts currently may obtain those transcripts through IRS-assisted channels. The IRS should extend that same authority to electronic transcript delivery systems. Authorized individuals with a valid Form 2848 or Form 8821 should be permitted to electronically request and receive transcripts for covered tax matters regardless of whether they are attorneys, certified public accountants, enrolled agents, or employees within a centralized corporate tax function.

3. Develop a transcript access model that recognizes the structure of large corporate organizations and centralized tax departments. Permit authenticated persons to obtain transcripts for affiliated entities. Provide clear enrollment requirements, status visibility, and timely support when validation fails.

ISSUE SIX: TIN Match Expansion

Executive Summary

TIN Match is an IRS service through which authorized payors can verify whether a payee's name and TIN match IRS records before filing an information return. It is a valuable tool provided by the IRS to help ensure certain Forms 1099 for "reportable payments" as described in Section 3406(b)(1) include the same payee identifying information as found in IRS records. This reduces B Notices and potential penalties.[174] It also improves the accuracy of information available to the IRS for matching reported income with tax information returns.

The volume and variety of information returns has continued to grow, including through requirements enacted under the Patient Protection and Affordable Care Act and the One Big Beautiful Bill Act. Penalties for incorrect information reporting apply to information returns for payments that are reportable payments described by Section 3406(b)(1) and therefore the issuer is permitted to use TIN Match, and equally to returns where the issuer is not permitted to use TIN Match to help confirm the quality of the name/TIN on the return. The penalties have grown over time, with the general annual penalty cap under Section 6721 for forms due in 2026 exceeding $4 million per filer where average annual gross receipts exceed $5 million.[175] TIN Match should be available to issuers of these returns and other information returns currently excluded from TIN Match eligibility.

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[174] *See* Internal Revenue Manual (IRM) Section 4.23.8.14.1 for a description of backup withholding notices, "B" Notices, and issuer/recipient requirements; https://www.irs.gov/irm/part4/irm_04-023-008#idm140575803384432

[175] *See* Revenue Procedure 2024-40.

Background

Authority for the Commissioner to establish a TIN Match program is set forth in Treasury Regulation § 31.3406(j)-1, which was promulgated under Section 3406(i) and authorizes regulations necessary or appropriate to carry out backup withhold requirements under Section 3406.

TIN Match was established by Revenue Procedure 97-31 and expanded by Revenue Procedure 2003-9. Its use is limited to payors of "reportable payments" and their authorized agents. Reportable payments are the payments identified in Section 3406(b), which may be subject to backup withholding under Section 3406(a). The stated purpose in Revenue Procedure 97-31 is to reduce the number of notices of incorrect name/TIN combinations, known generally as B Notices.

While the purpose of the program is to reduce the number of B Notices, other information returns, such as Forms 1099-C, 1099-R, and the Form 1098 series, could benefit from improved quality if TIN Match could be applied to those forms as well.

The IRSAC suggests that overall information reporting quality can improve by allowing information return issuers to use TIN Match to verify name/TIN combinations for returns that report transactions other than those described in Section 3406(b)(1). The IRSAC surveyed several large banks and received the following feedback regarding the value of TIN Match to information return operations.

- One bank reported that forms that were not TIN matched were four times more likely to result in a name/TIN mismatch than forms that were TIN matched (0.4% compared with 0.1%).
- Another bank noted that the name/TIN error rate on forms for which it could use TIN Match (Form 1099-INT) averaged 0.16% over a five-year period, compared with 3.4% for forms for which it could not use TIN Match (Form 1099-C).

- Issuers of the permitted forms that institute an active TIN Match process as part of new customer onboarding and due diligence have significantly reduced B Notices and potential penalties. These same issuers face more penalties and must perform more TIN solicitations to establish reasonable cause for forms that do not permit use of the IRS TIN Match service.

IRS Chief Counsel believes that Section 6103 *Confidentiality And Disclosure Of Returns And Return Information* prevents the expansion by the IRS of TIN Match beyond that authorized by Section 3406(i).[176] Section 6103(c) permits the IRS to disclose returns and return information to the designee of a taxpayer. The IRSAC in the 2014 report suggested that the IRS permit use of TIN Match for any issuer of an information return where consent to perform TIN Match is received from the form recipient.[177] The IRSAC requests that the IRS consider this potential opportunity to expand TIN Match in a controlled manner that complies with Section 6103. The IRSAC requests that the IRS consider whether by allowing the issuer to obtain consent from the form recipient in advance of information return form issuance that use of TIN Match might be expanded.

Recommendations

The IRSAC recommends that the IRS:

1. Provide modified guidance indicating that where an information return issuer will produce an information return and that return is not for a "reportable payment" under Section 3406(b)(1), that the issuer may use TIN Match if that issuer obtains consent from the intended recipient of the information return. The consent could be obtained during relationship onboarding or at a later time. The consent opportunity should not reduce the ability of an issuer from

[176] *See* Expand TIN Matching and Improve Child Support Enforcement on pages 185-186 of General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals, https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf

[177] IRS Information Reporting Program Advisory Committee (IRPAC): The IRPAC was merged into the IRSAC in 2018.

performing TIN Match under the current regime for payees of “reportable payments” under Section 3406(b)(1). Evidence of such consent to perform TIN Match for transactions currently not permitted could be provided to the IRS on request, but should not be required to be provided to the IRS in advance of using TIN Match.

2. Provide modified guidance indicating that an information return issuer may use the TIN Match service for a person or entity if a transaction subject to information return reporting with respect to that person or entity has occurred or is reasonably likely to occur.
3. With issuing the above-referenced guidance, update the TIN Match e-services site to reflect the expanded use of the service to transactions that are subject to reporting but are not necessarily reportable payments as defined under Section 3406(b)(1).
4. Should the application of TIN Matching be expanded as recommended above, the IRSAC further recommends that the principle stated in Treasury Regulation § 31.3406(j)-1(c) that “[an issuer] may not take into account any such matching details in determining whether to open or close an account with a [payee]” remain in effect and apply to the expanded program.
5. If the IRS determines it necessary to modify regulations in order to implement these recommendations, that the IRS work with Treasury to amend Treasury Regulations to expand use of TIN Match.
6. Reduce or eliminate information reporting penalties for name/TIN mismatch where those penalties are assessed under Section 6721 and 6722 and the transaction subject to reporting does not permit use of TIN Match.

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Large Business and International Subgroup Report

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INTRODUCTION

The 2026 IRSAC Large Business and International (LB&I) subgroup consists of five members. The subgroup members currently practice or previously practiced in the areas of corporate finance, high net worth individuals, general corporate, international tax, real estate, partnerships, trusts, strategic tax planning, mergers and acquisitions, and reporting.

The Large Business and International (LB&I) Division is responsible for tax administration activities for domestic and foreign businesses with a United States tax reporting requirement and assets equal to or exceeding $10 million as well as the Global High Wealth and International Individual Compliance programs. Its vision, as a world class organization responsive to the needs of its customers in a global environment while applying innovative approaches to customer service and compliance, is to apply the tax laws with integrity and fairness through a highly skilled and engaged workforce.

The LB&I subgroup valued the opportunity to work collaboratively with LB&I leadership and other IRS officials throughout the year. We especially appreciated the assistance of the Office of National Public Liaison, our subgroup liaisons, and the IRS personnel who provided information, coordinated discussions, and contributed their expertise to the development of our recommendations.

We are pleased to present three reports with recommendations that we worked on in 2026:

1. Elective Form 1099 Reporting in Lieu of Schedule K-1 Reporting
2. Corporate Taxpayer Identity Protection Framework
3. Modernizing Administration of Certain Passive Foreign Investment Companies (PFICs)

ISSUE ONE: Elective Form 1099 Reporting in Lieu of Schedule K-1 Reporting

Executive Summary

The income of many pass-through entities consists entirely or almost entirely of items of income of a type generally reported on Forms 1099, such as interest, original issue discount (OID), dividends, and capital gain. The IRSAC recommends that the IRS generally permit these pass-through entities to elect a simplified information reporting regime where they issue Forms 1099 to their owners in lieu of providing Schedules K-1 and Schedules K-3.

Background

Pass-through entities play a significant role in the U.S. tax system, with millions of S corporation tax returns and 5.5 million partnership returns filed annually.[178] Partnerships and S corporations are widely used for operating businesses, investment vehicles, family investment arrangements, real estate ventures, private funds, and other commercial arrangements. The pass-through reporting regime is essential because these entities generally are not subject to federal income tax at the entity level, and owners must report their distributive shares of the entities' tax items. Under current law, partnerships generally must file an annual return and furnish partners with information required to determine their distributive shares of partnership income, gain, loss, deduction, and credit.[179]

The Schedule K-1 is the information statement that a pass-through entity files with the IRS and furnishes to each owner to report that owner's share of the

[178] See IRS, SOI tax stats – S corporation statistics; https://www.irs.gov/statistics/soi-tax-stats-s-corporation-statistics and Table 1 of the Form 1065 instructions. In addition, certain trusts and estates report to beneficiaries using Schedule K-1s.

[179] Sections 6031(a) and (b); Treas. Reg. § 1.6031(a)-1(a)(1)-(2).

entity's income, gain, loss, deduction, credit, and other tax items. It tells the owner how to report those items and provides information that may affect the character, timing, source, or treatment of income at the owner level.

Many pass-through entities generate income consisting entirely or almost entirely of interest, original issue discount (OID), dividends, capital gain, and other passive types of items that are already familiar to taxpayers and return preparers through existing information reporting systems. Examples may include certain investment clubs, family investment partnerships, investment holding vehicles, and investment entities whose activities are largely limited to holding stock, debt instruments, publicly traded securities, money market investments, and similar financial assets. For these entities, Schedule K-1 (and where applicable, Schedule K-2 and K-3) reporting often provides little information beyond that which taxpayers are already accustomed to receiving in annual Forms 1099 and brokerage tax statements. At the same time, preparation and review of Schedules K-1 imposes substantial costs on pass-through entities and their owners. Complexity is compounded where Schedule K-3 must be furnished even though the entity has limited or no meaningful foreign activity relevant to many investors. Nevertheless, these entities generally must prepare and distribute Schedule K-1 and, in many cases, Schedule K-3, even where much of the information reported is not necessary to ensure proper tax reporting by their owners.[180]

[180] The IRS currently provides a domestic filing exception and a small partnership filing exception from Schedules K-2 and K-3 reporting in certain circumstances. See Partnership Instructions for Schedules K-2 and K-3 (Form 1065) (2025), Who Must File, Domestic Filing Exception (Exception to Filing Schedules K-2 and K-3), and Small Partnership Filing Exception. Under this exception, in addition to a few requirements, a partnership for which the only activity consists of passive category income and de minimis foreign taxes (not exceeding $300) provides information on these foreign items to its owners on "payee statements", such as Forms 1099 or similar information statements furnished by financial intermediaries. One requirement to qualify for this exception is that partners receive a notification from the partnership at the latest when the partnership furnishes the Schedule K-1 to the partners, which states that partners won't receive Schedule K-3 from the partnership unless the partners request the schedule, and that no such requests are received by the "1-month date". The 1-month date is 1 month before the date the partnership files the Form 1065.

The complexity of Schedule K-1 reporting often creates taxpayer confusion and delayed filing. Many individual taxpayers do not understand the distinctions among ordinary business income, portfolio income, separately stated items, basis adjustments, liabilities, and other partnership tax concepts. This complexity can result in requests for extension and additional return preparation costs,[181] can make it harder for taxpayers to reconcile information reported by the pass-through entity with information reported elsewhere, or may lead to taxpayers not reporting the information at all.[182] Many owners may need to file amended returns due to last-minute receipt of Schedules K-1 or amended K-1s. The IRS also faces tax administration challenges associated with Schedule K-1 data.[183]

A simplified reporting regime would reduce compliance burdens on both entities and owners, improve taxpayer understanding of reported income, leverage existing IRS information reporting infrastructure, and enhance the IRS's ability to match information reported to taxpayers against tax returns. First, taxpayers would receive information in a format that is already widely understood and integrated into commercial tax return preparation software. Second, pass-through entities could experience meaningful reductions in compliance costs associated with

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[181] A taxpayer receiving a Schedule K-1 is frequently ineligible to use the lowest-cost versions of major commercial tax-preparation software and may be required to upgrade to premium products to report pass-through income, increasing compliance costs. For example, each of TurboTax and H&R Block generally requires a "Premier" product to enter Schedule K-1 information. See https://www.hrblock.com/online-tax-filing/ and https://turbotax.intuit.com/personal-taxes/online/premium/#featuresTab.

[182] A 2014 GAO report found that partnership and S corporation misreporting is substantial and that IRS has difficulty tracking income flowing through Schedules K-1. The report estimated roughly $91 billion annually of partnership and S corporation income misreporting during the years studied. See GAO, Partnerships and S Corporations: IRS Needs to Improve Information to Address Tax Noncompliance (GAO-14-453). https://www.gao.gov/products/gao-14-453.

[183] See The Treasury Inspector General for Tax Administration report, The Use of Schedule K-1 Data to Address Taxpayer Noncompliance Can Be Improved, Report No. 2019-30-078, available at https://www.oversight.gov/sites/default/files/documents/reports/2019-10/201930078fr.pdf); Internal Revenue Service Advisory Council (IRSAC), Public Report (Publication 5316, Rev. Jan. 2026), Large Business & International Subgroup Report, Issue One: "Recommendations for Modernizing Form 1065, U.S. Return of Partnership Income," Internal Revenue Service (Jan. 2026) (available at https://www.irs.gov/pub/irs-pdf/p5316.pdf).

preparing Schedules K-1 and, where applicable, Schedules K-3.[184] Third, the IRS may benefit from increased reliance on existing information reporting and matching infrastructure. To the extent that information is reported on standardized Forms 1099, taxpayers and preparers may be less likely to mischaracterize reported amounts. Fourth, taxpayers may receive reporting information that is easier to reconcile with brokerage records and other tax information statements. Finally, the proposal would permit the IRS to evaluate whether targeted simplification efforts such as this could improve taxpayer service and voluntary compliance without requiring broader changes to the pass-through tax regime.

Existing Forms 1099 benefit from taxpayer familiarity, established filing systems and information return matching processes. They do not currently report a beneficial owner's distributive share of items from a pass-through entity. The IRSAC believes the IRS should evaluate whether these existing systems could support a limited group of pass-through entities whose tax items closely resemble items already reported on Forms 1099.

Eligible Entities

The IRSAC recognizes the potential complexities and opportunities for abuse an elective simplified reporting regime provides. Potential safeguards could limit a pass-through entity that would be eligible to make the election ("Eligible Entities") to entities that:

[184] For 2025, the IRS instructions for the Form 1065 are 70 pages long and the instructions for the Schedule K-1 exceed 35 pages. Even for "small" partnerships, the IRS estimates the Form 1065, of which Schedules K-1 form a part, to result in a compliance burden in excess of $5,000.

1. derive no more than a de minimis[185] amount of its gross income from "Non-Form 1099 Income";[186]
2. did not own an equity interest in a passive foreign investment company (as defined in Section 1297) and is not a "United States shareholder" in a "controlled foreign corporation" (as defined in Sections 951 and 957 respectively) during the relevant tax year;[187]
3. have only a single class of equity interest (ignoring a single class of general partnership interest in the case of a limited partnership);
4. did not make in-kind distributions during the relevant tax year; and
5. did not have any indebtedness outstanding during the relevant tax year.

Deductions, Losses, and Credits

A principal objective of the proposal is to limit this alternative regime to situations in which owners are unlikely to require significant partnership-specific information. Deductions, losses, and credits generally would not be reported through Forms 1099. The IRSAC expects that Eligible Entities would typically generate only limited expenses, such as organizational expenses, administrative costs, tax preparation fees, state filing fees, and custodial charges.[188]

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[185] Many de minimis standards already exist within the Code. E.g., Section 904(j) (Individuals may claim foreign tax credits without filing Form 1116 if foreign taxes are below specified thresholds (currently generally $300/$600 depending on filing status)); Section 954(b)(3) (Subpart F income is treated as de minimis and therefore excluded from Subpart F treatment if total foreign base company income and insurance income do not exceed the lesser of 5% of gross income or $1 million).

[186] For these purposes, "Non-Form 1099 Income" would generally include any ordinary business income and any income other than interest, original issue discount, market discount, dividends, capital gain and other categories of income specifically identified by the IRS as suitable for reporting under the alternative elective regime. If the recommendation in this report is adopted, any Non-Form 1099 Income could be reported on a Form 1099-MISC.

[187] In the case of foreign taxes withheld by multiple foreign jurisdictions, the pass-through entity may need to provide a supplemental statement with withholding by jurisdictions, as is the current market practice for brokers and financial institutions with respect to mutual funds. See e.g., https://advisors.vanguard.com/tax-center/tax-season-calendar/previous-year.

[188] A supplemental annual statement, similar in function to broker year-end tax statements, may provide an effective solution. Such a statement could include deductions and expenses

Filing and Timing

Forms 1099 filed under this alternative method could be delivered on the same timeframe as Schedules K-1 unless the IRS determines that a different due date is administratively necessary. Aligning the timing with Schedule K-1 would reduce disruption for pass-through entities and taxpayers who already plan for partnership reporting deadlines. Entities could be free to file Forms 1099 and deliver them to owners earlier than required, which would enhance owners' filing of their tax returns and IRS matching procedures.

Notwithstanding the election, any electing Eligible Entity should be required to maintain the same books, records, and supporting information that it would otherwise maintain for federal tax purposes. In addition, the entity should continue to file a complete entity-level income tax return (other than Forms K-1 and K-3), including Form 1065 where applicable, so that the IRS retains access to complete entity-level information. The election should also not eliminate otherwise applicable backup withholding, taxpayer identification number reporting, or penalty, correction, or recordkeeping rules applicable to information returns.

Recommendations

The IRSAC recommends that the IRS permit Eligible Entities to elect to report owners' taxable income using existing Forms 1099 in lieu of furnishing Schedule K-1 and Schedule K-3, except to the extent an owner requests Schedules K-1 and/or K-3 by the "1-month date" under rules analogous to the Domestic Filing Exception for Schedules K-2 and K-3. For purposes of the

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allocated to owners, losses not otherwise reflected on Forms 1099, tax credits, de minimis Non-Form 1099 Income, and other explanatory information useful to taxpayers. The IRS should consider whether the supplemental statement needs to be filed with the IRS, provided the electing entity maintains the underlying information and makes it available upon examination.

recommendation, the IRSAC believes that the following operational rules are appropriate:

1. For purposes of determining whether an amount of income is de minimis for purposes of determining whether an entity is an Eligible Entity, adopt a de minimis threshold by reference to Section 954(b)(3) (equal to the lesser of five percent of gross income or $1 million for purposes of determining eligibility).

2. Permit electing entities to utilize existing Forms 1099 (determined without regard for any Form 1099 dollar reporting thresholds), including Forms 1099-INT, 1099-DIV, 1099-OID, 1099-B, and 1099-MISC, rather than requiring development of an entirely new reporting platform, and revise those forms and their instructions as necessary to permit the reporting of owners' distributive shares, including items allocated but not distributed.

3. Permit electing entities to furnish supplemental annual statements reporting deductions, losses, credits, and other information not otherwise reflected on Forms 1099.

ISSUE TWO: Corporate Taxpayer Identity Protection Framework

Executive Summary

Business identity theft is a persistent tax-administration risk. A stolen or misused Employer Identification Number (EIN) can support an unauthorized return, refund or credit claim, information return, or account change. The IRS has strengthened business-return filters, fraud-risk assessment, and organizational oversight; however, its public-facing protections remain weighted toward detection and post-event response. IRS guidance directs affected entities to Form 14039-B after suspicious activity has occurred.[189]

Individual taxpayers can obtain an Identity Protection Personal Identification Number (IP PIN), a filing credential designed to prevent another person from using the taxpayer's identifying number on a federal income tax return. IRS public guidance does not offer an EIN-based counterpart for entities. The result is a control gap in a business environment where officers, employees, return preparers, payroll providers, and other authorized users may act for the same taxpayer.[190]

The IRSAC recommends a phased, technology-centered framework that: (1) establishes an accountable roadmap; (2) pilots an EIN Protection PIN or equivalent authorization control; (3) adds taxpayer-controlled alerts and controls to Business Tax Account; (4) standardizes and digitizes case management; and (5) improves measurement and aggregate reporting. The objective is not a system-wide launch or a labor-intensive overlay. It is a measured prevention program that

[189] Internal Revenue Service, Form 14039-B, Business Identity Theft Affidavit (Rev. May 2021), https://www.irs.gov/pub/irs-pdf/f14039b.pdf

[190] Internal Revenue Service, Get an Identity Protection PIN, https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin

uses existing digital channels, tests risk and usability, and scales only when results justify expansion.

Background

The Government Accountability Office (GAO) has identified business identity theft refund fraud as an evolving threat and concluded that the IRS needed a more comprehensive assessment of risks associated with business-related tax returns.[191] Since that recommendation, the IRS has made significant progress through enhanced agency-wide leadership, completion of a business identity theft fraud risk assessment, and deployment of additional fraud-detection filters. These efforts provide an important foundation for further strengthening business identity-theft prevention.

Business identity protection presents challenges that differ from individual taxpayer identity protection. Any preventive control must verify not only the identity of the person accessing or filing for an entity, but also that person's authority to act on behalf of the entity. The process must also accommodate delegated tax filing responsibilities, including work performed by return preparers, payroll providers, filing agents, and other authorized representatives.

These operational realities make a phased approach preferable to immediate broad-scale implementation. A targeted pilot would allow the IRS to test taxpayer usability, delegated-authority controls, recovery procedures, false-positive risk, and administrative burden before expanding any new entity-level protection program.

Accordingly, the recommended framework below focuses on measurable prevention, secure taxpayer-facing controls, and improved case management. It

[191] U.S. Government Accountability Office, Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns, GAO-20-174 (Jan. 30, 2020), including recommendation status updated through Feb. 2025, https://www.gao.gov/products/gao-20-174

builds on existing IRS digital services and fraud controls rather than calling for a separate standalone platform.

Recommendations

The IRSAC commends the IRS for strengthening business identity-theft risk management and recommends the following phased actions.

1. **Develop and Publish a Business Identity Protection Roadmap**

   The IRS should assign executive accountability for a cross-functional roadmap covering prevention, detection, case management, and taxpayer communication. The roadmap should identify participating functions, major technology dependencies, pilot sequencing, decision points, and outcome measures. Public milestones should remain at a high level so they provide accountability without disclosing fraud detection methods.

   The roadmap should treat identity proofing, entity authority, transaction authorization, monitoring, recovery, and victim assistance as one control lifecycle. A unified design will reduce duplication and help leadership direct investment toward controls that prevent downstream work rather than merely moving it between functions.

2. **Pilot an EIN Protection PIN or Equivalent Filing Authorization Control**

   The IRS should design and test an optional, revocable, entity-level control for selected business returns. Initial participation should focus on willing taxpayers, prior verified victims, and other populations selected through IRS risk analysis. The pilot should authenticate both the person and the person's authority to act for the entity; support controlled use by authorized preparers and filing agents; and include secure issuance, renewal, recovery, and revocation.

   The IRS should test more than one technical model where feasible. A rotating EIN Protection PIN could be compared with a taxpayer-approved filing token or pre-filing authorization in Business Tax

Account. The individual IP PIN program demonstrates the administrative value of a preventive filing credential, but an entity pilot must be designed for delegated authority and third-party filing.[192]

Pilot measures should include prevented or challenged filings, acceptance and rejection rates, false positives, taxpayer burden, recovery demand, downstream case inventory, and cost per protected return. Expansion should depend on measured net benefit and system readiness.

3. **Expand Business Tax Account Controls and Alerts**

The IRS should use Business Tax Account as the principal taxpayer-facing control center for business identity protection. Add opt-in, near-real-time alerts for return acceptance, refund claims, address or responsible-party changes, user-access changes, and power-of-attorney or tax-information-authorization updates. Current Business Tax Account capabilities provide a logical digital foundation for additional entity services.[193]

For selected high-risk actions, the IRS should evaluate taxpayer confirmation, temporary holds, or step-up authentication, with clear override and recovery paths. Alerts should be delivered only through verified channels and should disclose enough information to prompt action without exposing protected return data.

4. **Standardize and Digitize Business Identity-Theft Case Management**

The IRS should establish common intake, routing, documentation, ownership, escalation, and closure standards across business income tax, employment tax, information reporting, accounts management, and compliance functions. Taxpayers and authorized representatives should

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[192] Internal Revenue Service, Get an Identity Protection PIN, https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin

[193] Internal Revenue Service, Business Tax Account, https://www.irs.gov/businesses/business-tax-account

receive appropriate status visibility and a clear escalation path for complex or time-sensitive cases.

Form 14039-B remains an important victim-assistance tool, but the IRS should enable secure digital submission and structured data capture where feasible. Digitization should feed a common case record, reduce repeated document requests, and permit management reporting without requiring taxpayers to navigate internal organizational boundaries. Published service-level goals should distinguish initial acknowledgment, assignment, and resolution, and should be paired with transparent performance measures.[194]

5. Improve Data Integration, Measurement, and Transparency

The IRS should establish consistent definitions for suspected business identity theft, confirmed identity theft, EIN misuse, fictitious-entity fraud, preparer compromise, third-party misconduct, and false positives. Internally, relevant indicators should be connected across EIN issuance, filing, account access, authorization, refund, and compliance systems, subject to disclosure and security requirements.

The IRS should publish annual aggregate measures for case receipts, inventory, aging, resolution time, fraud type, affected return categories, and false-positive rates. Public reporting should not reveal detection thresholds or taxpayer information. Better measurements will allow IRS leadership, IRSAC, Congress, and taxpayers to evaluate whether technology investments reduce fraud, taxpayer burden, and downstream casework.

The recommended framework would help prevent unauthorized EIN use, improve taxpayer visibility into account activity, reduce identity-theft casework and

[194] Internal Revenue Service, Form 14039-B, Business Identity Theft Affidavit (Rev. May 2021), https://www.irs.gov/pub/irs-pdf/f14039b.pdf

resolution burden, and provide IRS leadership with measurable data to assess program effectiveness and guide future investments.

ISSUE THREE: Modernizing Administration of Certain Passive Foreign Investment Companies (PFICs)

Executive Summary

The current administration of the passive foreign investment company (PFIC) rules under Sections 1291 through 1298 impose substantial compliance burdens on a growing population of taxpayers whose investments bear little resemblance to the tax-motivated arrangements that prompted enactment of the PFIC regime. Many individual taxpayers, particularly those living abroad, hold foreign mutual funds and similar publicly-traded investment vehicles acquired through routine investing or from employment. These taxpayers frequently encounter complex reporting requirements, substantial compliance costs, and significant barriers to voluntary compliance.

The IRS should modernize administration of the PFIC rules without weakening their underlying anti-deferral objectives. In particular, the IRSAC recommends that the IRS expand the existing mark-to-market regime under Section 1296, increase the threshold to qualify for the de minimis exception from the annual Form 8621, *Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund*, and publish a list of "qualified exchanges or other markets".

Background

Congress enacted the PFIC provisions as part of the Tax Reform Act of 1986 to address concerns that U.S. taxpayers could use foreign corporations to defer U.S. taxation of passive investment income and convert ordinary income into

capital gain.[195] The global investment environment has changed significantly since enactment of these provisions. Increased international mobility, cross-border employment, and worldwide investing have resulted in growing numbers of U.S. taxpayers owning interests in foreign mutual funds and similar retail investment products.[196] These investments were sometimes acquired before the taxpayer became a U.S. tax resident or were purchased as ordinary savings and retirement investments through local financial institutions.

Although many of these investment products are economically similar to U.S. regulated investment companies, they often are treated as PFICs for U.S. federal income tax purposes. As a result, taxpayers frequently become subject to a reporting regime that can be difficult to understand and costly to administer. Compliance often requires an annual filing of Form 8621, detailed historical recordkeeping, complex calculations involving acquisitions and distributions over multiple years, and specialized professional assistance.

The compliance burden associated with PFIC reporting can be particularly difficult for individual taxpayers. Retail investors frequently must engage specialized tax advisors to determine PFIC status, track annual basis adjustments, prepare Form 8621, *Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Funds,* evaluate possible elections, and compute tax under multiple alternative regimes. Many taxpayers become aware of the PFIC rules only after years of ownership, which substantially increases the compliance burden. To "purge" the negative consequences prospectively of owning PFIC stock with respect to which no qualified electing fund or mark to market election has been made, a taxpayer generally makes a "deemed sale

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[195] See Sections 1291-1298 of the Code; H.R. Rep. No. 99-426, at 987-990 (1985); Tax Reform Act of 1986, Pub. L. 99-514, §§ 1231-1238.

[196] According to the Investment Company Institute (ICI) 2026 factbook, regulated open-end funds outside the United States hold over $43 trillion of assets. See https://www.ici.org/system/files/2026-04/2026-factbook-quick-facts-guide.pdf. Most of this is attributable to European Undertakings for the Collective Investment in Transferable Securities, which is the regulatory framework created by the European Union to govern mutual and exchange-traded funds. See https://funds-europe.com/ucits-drive-eu-assets-past-e25tn-efama/.

election" pursuant to which the taxpayer is treated as selling PFIC stock for fair market value and immediately reacquiring it.[197] Any built-in gain is taxed under the Section 1291 excess distribution regime. Obtaining the historical acquisition, distribution and valuation information can be difficult or impossible. Even where that information is available, purging elections require taxpayers to determine adjusted basis, calculate gain, allocate amounts over the holding period, apply the highest historical tax rates applicable to each PFIC year, compute the associated Section 1291 interest charge using quarterly Section 6621 underpayment rates, and prepare the required election reporting. These calculations are highly complex, time-consuming, and prone to error, particularly for taxpayers who have held PFIC investments for multiple years.

The IRS has successfully reduced taxpayer burden through the use of web-based computational tools in other areas, and a similar approach would improve compliance and accuracy in the PFIC context. Through such a tool, taxpayers would enter basic information such as acquisition dates, purchase price, fair market value on the qualification date, prior distributions, prior excess distributions, prior "QEF" inclusions, and other basis adjustments. The calculator would then automatically compute the deemed sale gain, allocate the gain under the Section 1291 rules, apply the appropriate historical tax rates and interest charges, and generate a completed election statement and draft Form 8621 reporting schedules for attachment to the taxpayer's return. By automating these mechanical calculations, the IRS would reduce compliance costs, improve consistency among taxpayers, decrease calculation errors, and encourage eligible taxpayers to make purging elections that transition them from the punitive Section 1291 regime. Such a tool would be particularly valuable for retail investors and taxpayers without access to specialized international tax advisors.

A taxpayer holding multiple foreign mutual funds may be required to prepare numerous Forms 8621 annually. Where investments have been acquired through

[197] Section 1291(d)(2)(A); Treas. Reg. §1.1291-10.

periodic purchases or dividend reinvestment programs, additional complexity may arise from the need to track separate acquisition lots and historical basis information. As of 2018, the latest year for which data is publicly available, the IRS confirmed that, on average, individual filing Form 8621 with their Form 1040 tax return filed 11 Forms 8621, partnerships and passthrough entities filing Form 8621 with their return filed 16 Forms 8621, and C Corporations filing Forms 8621 with their return filed 28 Forms 8621.[198] This document also recognizes the limits of the data available, noting that they identified the 61,836 taxpayers who filed at least one Form 8621 for 2018, but acknowledging the data may not reflect the PFIC investor population as a whole.

The resulting compliance burden may significantly exceed the amount of income generated by the underlying investment. These challenges increase compliance costs, contribute to reporting errors, and discourage voluntary compliance among taxpayers who generally present limited tax-administration risk.

> The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and the estimated burden for business taxpayers is approved under OMB control number 1545-0123. The estimated burden for all other taxpayers who file this form is shown below.
>
> | | |
> |---|---|
> | **Recordkeeping** | 16 hr., 58 min. |
> | **Learning about the law or the form** | 11 hr., 24 min. |
> | **Preparing and sending the form to the IRS** | 20 hr., 34 min. |
>
> Source: IRS Instructions for Form 8621 (Rev. December 2025)

The IRSAC believes these burdens create challenges not only for taxpayers, but also for tax administration. Complex reporting requirements increase the likelihood of inadvertent noncompliance and reporting errors, particularly among taxpayers who are unfamiliar with the PFIC rules. They also require IRS resources to be devoted to reviewing highly technical reporting

[198] Internal Revenue Bulletin: 2021-05, February 1, 2021, available at https://www.irs.gov/irb/2021-05_IRB.

positions involving routine retail investments, rather than focusing on taxpayers presenting greater compliance risk.

These outcomes create a significant mismatch between the policy objectives of the PFIC regime and the practical realities of modern retail investing. Many affected taxpayers acquired foreign funds through ordinary local brokerage accounts, employer-sponsored savings programs, retirement arrangements, or investments made while residing abroad. These taxpayers generally do not use foreign pooled investment vehicles to achieve tax deferral or income conversion. Nevertheless, they are often subject to the default Section 1291 regime, including interest-charge calculations and complex historical income allocations that were originally designed to address abusive tax-motivated arrangements.

Current law includes a mark-to-market election under Section 1296 that can significantly simplify administration of the PFIC rules. Expanding access to mark-to-market treatment would simplify reporting, reduce inadvertent noncompliance, and better align enforcement resources with the anti-deferral objectives for which the PFIC regime was originally enacted. Under this regime, at each year-end, the shareholder recognizes as ordinary income the excess of the stock's fair market value over its adjusted basis and may claim an ordinary deduction when fair market value falls below basis, subject to a cap equal to the shareholder's unreversed prior mark-to-market inclusions.[199] Eligibility for that election, however, depends upon whether an investment constitutes "marketable stock" within the meaning of Treasury regulations.[200] Generally, stock may qualify as marketable stock if it either is regularly traded on a "qualified exchange or other market",[201] or if the PFIC offers for sale (or has outstanding) stock that is redeemable at its net asset value in a

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[199] Section 1296(a)(2); Treas. Reg. §1.1296-1(a)(3).

[200] Treas. Reg. §1.1296-2.

[201] Treas. Reg. §1.1296-2(c). Treasury regulations require taxpayers to determine whether a foreign exchange satisfies technical qualification criteria, yet provide no comprehensive list of qualifying exchanges. As investments increasingly occur in developing markets, taxpayers must often conduct exchange-by-exchange legal diligence for smaller markets. The resulting uncertainty increases compliance costs and may lead similarly situated taxpayers to reach inconsistent conclusions regarding Section 1296 eligibility.

manner similar to that of a U.S. regulated investment company ("NAV stock").[202] Taxpayers frequently lack the information needed to confirm whether stock qualifies as marketable stock, and the IRSAC believes that five of the eight requirements to qualify as NAV stock are outdated, overly restrictive and unnecessary to satisfy the congressional concerns underlying the PFIC regime.

The first requirement for NAV stock is that the foreign corporation must have more than 100 shareholders with respect to the relevant class of shares at all times during the calendar year, excluding related shareholders under section 267(b).[203] Many foreign mutual funds are held through banks, insurance companies, retirement platforms, nominee structures, and other intermediaries or may have special share classes.[204] In those cases, a taxpayer may reasonably believe that thousands of investors hold economic interests in the fund, but may not know whether the fund technically has more than 100 shareholders for purposes of the regulation. In these cases, the 100 shareholder requirement serves no legitimate tax-avoidance purpose.

The second requirement is that, at all times during the calendar year, the class of shares of the foreign corporation must be readily available for purchase by the general public at its net asset value and the foreign corporation must not require a minimum initial investment of greater than $10,000.[205] Many foreign funds, especially institutional share classes, or funds in jurisdictions that impose higher minimum-investment thresholds by regulation, exceed this ceiling. This condition can fail for reasons that have nothing to do with the fund's quality or transparency, but purely because of how share classes are priced.

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[202] Section §1296(e)(1)(B).

[203] Treas. Reg. § 1.1296-2(d)(1)(i).

[204] For example, a European UCITS fund may issue numerous share classes distinguished by currency, distribution policy, hedging profile, investor type, or fee structure. The relevant class may have significantly fewer holders than the overall fund, creating uncertainty regarding whether the 100-holder test is met for the particular class owned by the taxpayer. Similarly, similar to U.S. financial clearing systems, the fund itself may permit only institutional shareholders through which retail investors hold their beneficial interest.

[205] Treas. Reg. § 1.1296-2(d)(1)(ii).

The third requirement is that, at all times during the calendar year, quotations for the class of shares of the foreign corporation must be determined and published no less frequently than on a weekly basis in a widely available permanent medium not controlled by the issuer of the shares, such as a newspaper of general circulation or a trade publication.[206] For most European funds (i.e., Undertakings for Collective Investment in Transferable Securities (UCITS) funds) or similar foreign retail funds, this requirement is arguably the most antiquated of the NAV-stock rules, as it reflects a pre-internet paradigm. The examples reference newspapers and trade publications. Modern funds generally disseminate NAVs through electronic databases, financial terminals, fund supermarkets, and web portals rather than newspapers. Most NAV information is published by the fund sponsor or its affiliates. In the European Union, funds within the UCITS regulatory framework typically publish NAVs on the manager's website, the fund administrator's website, the transfer agent's website, or through electronic fund platforms.

The fourth requirement is that at least annually, independent auditors must prepare publicly available financial statements of the foreign corporation that include balance sheets as well as income and expense statements.[207] It is unclear what is needed to satisfy the “publicly available” standard and why it is necessary for regulated funds.[208] For example, the audited statements might only be sent to existing shareholders, or filed with a local regulator without public posting.

A further requirement is that at all times during the calendar year, the foreign corporation must have no senior securities authorized or outstanding, including any debt other than in de minimis amounts.[209] The IRSAC questions whether the presence of limited fund-level debt affects the reliability of a fund’s NAV,

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[206] Treas. Reg. § 1.1296-2(d)(1)(iii).

[207] Treas. Reg. § 1.1296-2(d)(1)(iv).

[208] To qualify as NAV stock, Treasury Regulation Section 1.1296-2(d)(1)(v) requires that a PFIC be supervised or regulated as an investment company by a foreign government or an agency or instrumentality thereof that has broad inspection and enforcement authority and effective oversight over investment companies.

[209] Treas. Reg. § 1.1296-2(d)(1)(vi).

particularly as U.S. regulated investment funds are permitted to have limited amounts of debt outstanding.[210] Highly regulated retail funds can have short-term borrowing, unsettled trades, overdrafts, custodial advances, subscription/redemption timing mismatches, or other routine liabilities. A U.S. investor often has no ability to determine whether any of these obligations constitute "debt" outstanding during the year. Further, the "at all times during the calendar year" standard is exceptionally strict. A fund could satisfy the policy objectives of the rule throughout the year yet technically fail because of a temporary borrowing outstanding for a brief period.

The restrictive definition of NAV stock undermines tax administration and voluntary compliance, particularly in light of the anti-abuse rules embedded in the current regulations.[211] Further, current regulations generally require a Section 1296 mark-to-market election to be made by the due date, including extensions, of the taxpayer's return. A taxpayer who fails to make a timely election generally must seek relief under Treas. Reg. §301.9100-3, potentially requiring a private letter ruling (PLR) and a substantial user fee (currently $14,500). Requiring a PLR for a passive retail investor in marketable PFIC stock can impose a compliance cost disproportionate to the investment and the tax at issue.

Finally, the PFIC reporting regime is affecting an increasing number of smaller taxpayers through inflation and market conditions. A Form 8621 is required to be filed for every PFIC not subject to the qualified electing fund or mark-to-market regime unless a shareholder does not receive an excess distribution from, or recognize gain on the sale or disposition of the stock of, the PFIC and the individual taxpayer’s value of all PFICs exceeds $25,000, $50,000 for a married taxpayer filing a joint return. Those dollar thresholds were adopted in 2013 and have not been adjusted with inflation or market performance. The result is that an increasing number of small taxpayers are subject to a reporting regime that was

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[210] 15 U.S.C. Section 80a-18(f)(1) provides that a registered open-end investment company (i.e., a typical mutual fund that may qualify as a RIC) may borrow from a bank so long as it maintains specified asset coverage.

[211] See Treas. Reg. § 1.1296-2(d)(2).

intended to deter deferral using complex offshore arrangements, rather than to impose substantial compliance burdens on small retail investors with ordinary investment portfolios that happen to be based in other countries.

Recommendations

The IRSAC recommends that the IRS:

1. Publish a list of "qualified exchanges or other markets" for Section 1296 purposes;
2. Modify the definition of NAV stock to:
    a. Replace the 100 shareholder requirement with a requirement that the taxpayer reasonably believes it owns a less than five percent economic interest in the fund,
    b. Remove the provisions prohibiting a fund from requiring a minimum initial investment of greater than $10,000,
    c. Remove the current requirement of quotations for the class of shares of the foreign corporation and replace them with a contemporary standard, such as the "publicly-traded" standard in Treas. Reg. § 1.1273-2;
    d. Remove the requirement that financial statements of the foreign corporation be "made available to the public", or at least clarify that a financial statement filed with a regulator or public authority or provided to shareholders satisfies this standard, and
    e. Replace the requirement that, at all times during the calendar year, the foreign corporation have no senior securities authorized or outstanding, including any debt other than in de minimis amounts, with the same debt incurrence standard that applies to U.S. regulated investment companies;
3. Permit taxpayers to treat as "marketable stock" any stock that they "reasonably believe" meets the requisite requirements;

4. Develop an online PFIC purging election calculator that allows taxpayers to input the information necessary to compute a deemed sale or deemed dividend election, automatically apply the Section 1291 tax and interest calculations, and generate a completed Form 8621 and related election statements, thereby reducing compliance costs, improving accuracy, and encouraging voluntary compliance.
5. Double the existing de minimis reporting thresholds in Treasury Regulation section 1.1298-1(c)(2),[212] expand them to include circumstances where an excess distribution is less than $1,000, and index all of these amounts for inflation going forward.

[212] The IRSAC notes that the amounts stated in this regulation would have increased by more than 40% today had they been indexed for inflation. See https://inflationcalculator.com/inflation/2013-to-2026/.

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Small Business/Self-Employed Subgroup Report

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INTRODUCTION

The 2026 IRSAC Small Business/Self-Employed (SB/SE) Subgroup consists of seven members, including CPAs, Enrolled Agents, attorneys, and academics. The many years of tax experience of this collaborative group include service to individuals and business entities in compliance, planning and controversy; public service including through VITA and volunteer efforts with professional organizations to improve our tax laws; tax research and scholarship; and teaching current and future tax professionals.

The SB/SE Business Operating Division (BOD) supports tax reporting for over 160 million individual tax returns, approximately one million small business entities and over 38 million employment, excise, estate and gift tax returns filed annually. "In fiscal year 2025 SB/SE assessed nearly $16 billion and collected more than $89.2 billion in taxes that would not have otherwise been reported or paid."[213] The functions within the SB/SE Division include collection, examination, specialty, and fraud/Bank Secrecy Act (BSA).[214]

The SB/SE Subgroup members are honored to serve on the IRSAC. We thank all of the many IRS personnel whom we worked with from the SB/SE BOD as well as other groups within the IRS including Stakeholder Liaison, National Public Liaison, Stakeholder Partnerships, Education, and Communication (SPEC), Tax Outreach, Partnership and Education (TOPE), and Taxpayer Advocate Service (TAS) for their support and assistance. For exemplary assistance and guidance throughout the year, we especially thank:

- Lia Colbert, Division Commissioner, SB/SE
- Tambra Eppard, SB/SE Division
- Brianne Wilner, SB/SE Division

[213] For additional information on the SB/SE Division, *see* https://www.irs.gov/about-irs/small-business-self-employed-division-at-a-glance, as updated July 21, 2026.

[214] IRS, "Join us for Careers in Examination & Collection;" https://www.jobs.irs.gov/small-businessself-employed.

- Maritza Rabinowitz, SB/SE Subgroup Liaison
- Anna Millikan, Tax Pro Partnerships & Advisory Groups

We are pleased to present one report with recommendations that we worked on in 2026. In addition, subgroup members served as the lead on eight of the general reports included in the 2026 report. The 2026 report for the SB/SE Subgroup - *Collection: Improve Early Identification of Non-Filed Employment Tax Returns and Collection of Unpaid Employment Taxes*, is based on a topic identified by the subgroup with support from the BOD.

ISSUE ONE: Collection: Improve Early Identification of Non-Filed Employment Tax Returns and Collection of Unpaid Employment Taxes

Executive Summary

Employment taxes are a significant source of federal revenue, and employment tax delinquencies can grow rapidly when an employer uses taxes withheld from employees to finance its operations or other expenditures. Early identification and intervention can protect revenue, prevent liabilities from pyramiding, save IRS enforcement time due to fewer seriously delinquent cases, and improve future voluntary compliance.[215] These objectives are particularly important while the IRS operates with constrained enforcement resources[216] and some taxpayers believe non-compliance will not be caught.[217]

To address this issue, the Small Business / Self-Employed Subgroup met with subject matter experts (SMEs) from the Small Business / Self-Employed Division (SB/SE) to consider how the IRS could better educate new businesses that obtain employer identification numbers (EINs) about their employment tax obligations and identify employment tax non-compliance earlier among all employers, including failures to make timely federal tax deposits or file required

[215] National Taxpayer Advocate, *Research Prospectus: Comparing the Effect of Revenue Officers and the Automated Collection System on Future Compliance*, in *2012 Annual Report to Congress* 143, 143–44, 147–48 (2012) ("NTA 2012 Report") (reporting earlier IRS studies finding that revenue officer work on priority Federal Tax Deposit (FTD) Alerts improved subsequent compliance and future deposits, while noting that the studies did not directly compare the Automated Collection System with revenue officers or the collection queue).

[216] TIGTA, Snapshot Report: Status of the IRS's Workforce as of January 2026, June 9, 2026; https://www.tigta.gov/sites/default/files/reports/2026-06/2026ier009fr.pdf. This report summarizes the details of the 28% net decrease in IRS personnel (from 103,000 to 74,000 employees) through January 2026.

[217] Richard Rubin, "America's New Tax Mantra: "The IRS Isn't Going to Catch Me," *Wall Street Journal*, April 12, 2026; https://www.wsj.com/politics/policy/irs-staffing-tax-enforcement-1a18e33f.

employment tax returns. The Subgroup focused on several existing sources of information available to the IRS, including Form SS-4, *Application for Employer Identification Number*; businesses' federal tax deposit histories; Form 941, *Employer's QUARTERLY Federal Tax Return*; Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*; and wage data reported on Form W-2, *Wage and Tax Statement*, and Form W-3, *Transmittal of Wage and Tax Statements*.

These discussions identified opportunities to build upon existing IRS processes, including the Federal Tax Deposit (FTD) Alert program and the Combined Annual Wage Reporting (CAWR) program. The IRSAC recommends that the IRS provide more timely and targeted education to new employers, evaluate whether existing early-warning tools can be refined or expanded, use wage and withholding information more promptly, and apply earlier intervention and graduated enforcement based on the risk presented by each case.

Background

Employers generally must withhold federal income tax and the employee share of Social Security and Medicare taxes from wages and must pay the employer share of Social Security and Medicare taxes.[218] The federal income tax and employee share of Social Security and Medicare taxes withheld from employees are commonly referred to as "trust fund taxes" because the employer holds those amounts in trust for the United States until they are deposited with the IRS.[219] The employer share of Social Security and Medicare taxes, although payable by the employer, is not a trust fund tax. Federal income tax withheld is reported on each employee's Form W-2 and generally claimed as a credit against the employee's federal income tax liability on Form 1040, *U.S. Individual Income*

[218] Sections 3102(a), 3111(a), (b), 3402(a).

[219] Sections 7501(a).

Tax Return.[220] Employers generally report the federal income tax withheld and both the employee and employer shares of Social Security and Medicare taxes quarterly on Form 941; they also make federal tax deposits according to the applicable deposit schedule.[221] Employers separately report each employee's annual wages and withholding on Form W-2, which is filed with the Social Security Administration (SSA).[222]

Employers must furnish each employee with Form W-2, reporting the employee's annual wages and withholding, and file Copy A of Form W-2 with the SSA by January 31 of the year after the year to which the Form W-2 relates.[223] Forms W-2 may be filed with the SSA electronically or on paper, although employers required to file at least ten information returns in the aggregate generally must file their Forms W-2 electronically.[224] The SSA uses the reported wage information to maintain each employee's earnings record, which is used to determine eligibility for and the amount of future Social Security benefits.[225] The SSA also transmits Form W-2 information to the IRS, where it may be matched against the employer's Forms 941 through the CAWR process.[226]

Employment tax non-compliance represents a significant component of the federal tax gap. The gross tax gap is the difference between the estimated true tax liability for a given tax year and the amount that is paid voluntarily and on time. It is comprised of the non-filing gap, the underreporting gap, and the underpayment gap. The "net tax gap" is the portion of the gross tax gap expected to remain unpaid after enforced and other late payments. For tax year 2022, the IRS projected a gross tax gap of $696 billion, of which $127 billion was attributed to employment

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[220] Sections 31(a)(1).

[221] Treas. Reg. § 31.6011(a)-4(a)(1); *see generally* Treas. Reg. § 31.6302-1.

[222] IRS, *General Instructions for Forms W-2 and W-3* (2026); *see also* Treas. Reg. §§ 31.6051-2(a), 31.6071(a)-1(a)(3).

[223] Sections 6051(a), (d), 6071(c).

[224] Treas. Reg. § 301.6011-2(b)(2), (c)(1), (4), (6).

[225] SSA, *Employer W-2 Filing Instructions & Information | Critical Links*, https://www.ssa.gov/employer/critical.htm (last visited Aug. 26, 2026).

[226] Internal Revenue Manual ("IRM"), pt. 4.19.4.1.1(1) (June 11, 2025).

tax non-compliance.[227] After accounting for a projected $90 billion in enforced and other late payments, the IRS projected a net tax gap of $606 billion, of which $119 billion (or approximately 20%) was attributable to employment tax non-compliance.[228]

Tax System Impact

When employers withhold trust fund taxes from their employees and fail to remit those amounts to the IRS, the employees may be unaware of the employer's non-compliance. When an employer furnishes Forms W-2 to its employees and files them with the SSA, which transmits the information to the IRS, the employer's non-compliance has three related consequences. First, the government has not received the taxes withheld and reported on Form W-2. Second, when an employee files Form 1040, the employee generally may claim a credit for the federal income tax actually withheld, even though the employer has not remitted that amount to the IRS. For example, if an employer withholds $10,000 in federal income tax from an employee's paycheck and does not remit that amount to the IRS, the government has not received $10,000 from the employer, but the employee generally may still claim a $10,000 income tax withholding credit when filing Form 1040.[229] Third, the SSA credits the individual's earnings record based on the wages reported on Form W-2, and that record is used to determine eligibility for and the amount of future Social Security benefits, even when the employer has not remitted the associated employment taxes to the Treasury.

IRS Processing of Form SS-4

Form SS-4 is the application used by corporations, partnerships, and sole

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[227] IRS, *Federal Tax Compliance Research: Tax Gap Projections Map for Tax Year 2022*, Pub. 5870 (rev. Oct. 2024), https://www.irs.gov/pub/irs-pdf/p5870.pdf.

[228] *Id.*

[229] Section 31(a)(1); *see also* Treas. Reg. § 1.31-1(a).

proprietors to apply for an EIN when needed to, among other things, open business bank accounts, and file income and employment tax returns. Form SS-4 includes two questions relevant to employment tax enforcement. Line 13 asks for the highest number of employees expected in the next 12 months, and line 15 asks for the first date wages are paid.[230]

Once the IRS processes the application and assigns an EIN, the business receives a notice informing it of its nine-digit EIN and its assigned income and employment tax filing requirements based on the information provided on Form SS-4.[231]

During the Subgroup's discussions with the IRS, SMEs advised that the IRS generates internal reports using Form SS-4 information to identify potential federal tax deposit and filing non-compliance and mails related notices to the business.

IRS Alerts Identifying Non-Filing and Non-Payment

For businesses that have been operating and were compliant with their federal tax deposit and filing requirements but later stop filing or reduce / stop making deposits, the IRS's FTD Alert program may identify the change before the applicable employment tax return is due.[232] The program generally applies to semi-weekly depositors that have made no federal tax deposits during the current quarter or have made them in substantially reduced amounts.[233] Its selection model considers the employer's past compliance and current deposit patterns.[234] FTD Alerts A and B are assigned directly to Field Collection, while Alert C cases receive a "soft notice" (Notice CP 239).[235] Separate return-delinquency and balance-due

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[230] IRS, *Instructions for Form SS-4, Application for Employer Identification Number* 5 (rev. Dec. 2025).

[231] IRM, pt. 21.7.13.5.11.2.1(1), (2) (May 9, 2017).

[232] IRM, pts. 5.7.1.1(6), 5.7.1.1.1(1) (June 23, 2026).

[233] IRM, pt. 5.7.1.2(1), (2) (June 23, 2026).

[234] IRM, pt. 5.7.1.2(2) (June 23, 2026).

[235] IRM, pts. 5.7.1.1.5(1), (2), 5.7.1.2(3) (June 23, 2026).

processes identify business returns not filed after the applicable processing period and assessed liabilities that remain unpaid.[236]

Collection Cases Assigned to Local Revenue Officers

A revenue officer (RO) has the responsibility to contact and work with taxpayers on collection cases assigned to Field Collection, including balance-due accounts, delinquent-return investigations, and FTD Alerts A and B. The collection process is regulated to protect taxpayers' rights and ensure that levies, seizures, assessments of the Trust Fund Recovery Penalty, and other collection actions satisfy applicable legal and procedural requirements.[237] In their role, ROs analyze bank accounts, financial statements, and other financial documents to determine the taxpayer's ability to pay and the appropriate case resolution. Depending on the circumstances, the resolution may include full or partial payment, an installment agreement, a determination that the account is currently not collectible, or appropriate enforcement action. In employment and other trust fund tax cases, an RO may also determine whether the trust fund recovery penalty should be assessed against one or more responsible persons.

IRS Timing to Take Action After Non-Compliance Is Identified

The IRS may be able to identify potential instances in which a new business has not filed Forms 941 or made federal tax deposits based on the filing requirements and first wage date reported on Form SS-4. According to SMEs, this process may take more than 90 days, depending on when the new business disclosed its first wage date. When potential non-compliance is identified, the IRS may issue a notice reminding the business of its employment tax obligations and

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[236] IRM, pts. 5.1.11.1.3(1) (Aug. 14, 2025), 5.1.11.2.1(3), (4) (Jan. 15, 2010), 5.19.1.2(2) through (4) (Dec. 5, 2025).

[237] *See, e.g.*, Sections 6320, 6330, 7803(a)(3).

requesting delinquent returns and payments, or may assign the matter to Field Collection, depending on the information available and the risk classification of the case.

The existing FTD Alert procedures expressly recognize the importance of early intervention. The Internal Revenue Manual (IRM) provides that FTD Alerts involving delinquent taxpayers present an "early opportunity" to assist and educate taxpayers before their liabilities pyramid and the growing debt becomes more difficult to resolve.[238] It directs ROs to review federal tax deposit requirements with the taxpayer and provide appropriate educational materials, including Notice 931, *Deposit Requirements for Employment Taxes*, Publication 3151-A, *The ABCs of FTDs*, and Publication 15, *Employer's Tax Guide*.[239] This guidance supports building on the existing FTD Alert program rather than creating an entirely new alert process.

For businesses that fall out of compliance, the IRS response similarly depends on the information available and the risk presented. A previously compliant employer that substantially reduces or stops making federal tax deposits may generate an FTD Alert, while a missing return or reported balance due may enter the applicable notice and collection process. Although the relevant compliance conditions may be identified systemically, the resulting treatment is not always limited to a computer-generated notice. Alert C cases receive Notice CP 239, while Alerts A and B are assigned directly to Field Collection.[240]

Balance-due accounts, once they meet applicable assignment criteria, may be removed from a Campus collection stream or the collection queue and assigned to an RO. Once the case is in the RO's inventory, the RO may contact the taxpayer by letter or telephone and, when appropriate, conduct a field visit in accordance with applicable IRS procedures.

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[238] IRM, pt. 5.7.1.7(1) (June 23, 2026).

[239] IRM, pt. 5.7.1.7(1), (2) (June 23, 2026).

[240] IRM, pts. 5.7.1.1.5(1), (2), 5.7.1.2(3) (June 23, 2026).

In addition, employers, even though they may not have filed Forms 941 or remitted federal tax deposits, generally provide Forms W-2 to their employees and submit them electronically or on paper to the SSA by January 31 of the following calendar year. Once the SSA transfers the Form W-2 information to the IRS, the CAWR program compares federal income tax withheld, Social Security wages and tips, and Medicare wages and tips reported on Forms W-2 with the corresponding amounts reported on Forms 941 and other employment tax returns. Federal tax deposit history provides an additional source of information that the IRS may consider in evaluating the employer's compliance.[241] As previously noted, the IRS generally allows an employee to claim a credit on the employee's Form 1040 for federal income taxes actually withheld even though the employer failed to remit those funds to the IRS. The CAWR process therefore can identify material discrepancies, but not necessarily at the earliest point in the employer's non-compliance. For example, the IRS states that its review of 2024 IRS-CAWR cases began in April 2026.[242]

In any of the above situations, the time it takes to identify non-compliance is critical to collecting taxes due and preventing future non-compliance. A National Taxpayer Advocate research prospectus reported that earlier IRS studies found improved subsequent compliance and future deposits following RO intervention on priority FTD Alerts.[243] The prospectus cautioned, however, that those studies did not directly compare RO treatment with treatment through the Automated Collection System or the collection queue. The findings suggest that earlier RO intervention may improve future compliance as well as immediate collections.

Enforcement Actions

The SB/SE Collection function has reinvigorated an initiative from several

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[241] IRM, pt. 4.19.4.1.1(1) (June 11, 2025).

[242] IRS, *Combined Annual Wage Reporting Employment Tax Problem Inquiries*, https://www.irs.gov/businesses/small-businesses-self-employed/combined-annual-wage-reporting-employment-tax-problem-inquiries (last updated Feb. 4, 2026).

[243] NTA 2012 Report, *supra*, at 143–48.

years ago under which geographic areas with concentrations of high-priority collection inventory are identified and ROs from across the country are sent to those locations for a limited period to contact non-compliant taxpayers and use appropriate collection and enforcement tools. The IRM refers to this initiative as a Revenue Officer Compliance Sweep (ROCS) and identifies egregious employment tax cases as one type of high-priority inventory that may be addressed through a ROCS.[244] Public notices concerning a 2026 IRS collection initiative in Lancaster County, Pennsylvania, similarly advised residents that ROs from other states would conduct in-person visits in the region.[245] The results of these initiatives can help the IRS evaluate which combinations of advance outreach, taxpayer education, personal contact, and enforcement action improve current collections and future compliance.

The circumstances of non-compliant employers that fail to file Forms 941 and remit federal employment taxes generally fall along a continuum reflected by two different situations. One is a business that is struggling to make ends meet either from poor business practices or unfortunate business or personal circumstances. This business withholds employment taxes from its employees and uses the funds to keep the business afloat. At the other end of the continuum is a business owner who uses the employment taxes withheld from the business' employees for the owner's personal benefit or to purchase luxury items. The appropriate collection response may differ substantially between these situations. Enforcement should be graduated and based on the amount and duration of the liability, the employer's compliance history, its responsiveness to IRS contacts, its financial condition and ability to become current, the risk of continued pyramiding, and evidence that withheld taxes have been diverted. Where the facts indicate a willful failure to collect, account for, or pay over employment taxes, the RO should

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[244] IRM, pts. 1.4.50.10.7(1), (2) (Apr. 1, 2025), 1.4.50.10.7.1(1), (2), 1.4.50.10.7.2(1), (2) (Oct. 20, 2023).

[245] *See* Millersville Borough, Notification from the Department of the Treasury/Internal Revenue Service (Aug. 2026); https://millersvilleborough.org/notification-from-the-department-of-the-treasury-internal-revenue-service/.

follow the applicable fraud-development and criminal-referral procedures.

Recommendations

The IRSAC makes the following recommendations to increase collection of unpaid employment taxes and improve future employment tax filing and payment compliance.

1. Evaluate whether the IRS can receive or access Form W-2 and Form W-3 wage and withholding information earlier without imposing a duplicative filing requirement or additional cost on employers.
2. Match Form W-2 information against the employer's Forms 941 as promptly as practicable and consider the employer's federal tax deposit history when evaluating any material discrepancy. A material discrepancy should be used as a risk indicator in determining the appropriate compliance treatment, including whether earlier assignment to an RO is warranted.
3. Modify the FTD Alert program's selection criteria, coverage, and use of available information to identify material employment-tax non-compliance earlier.
4. Include with the EIN assignment notice, concise educational materials and links describing employment tax filing and deposit obligations where the applicant's responses indicate that the business has or expects to have employees or otherwise establish an employment tax filing requirement. The IRS should make links to those materials readily available to all new EIN recipients.
5. Consider promptly assigning a new business to Field Collection when it remains non-compliant after receiving an applicable notice and does not respond within the applicable response period, based on the case's risk and complexity. Treat a previously compliant business' failure to remain compliant as a risk indicator and prioritize earlier intervention when warranted by the amount and duration of the liability, the employer's deposit and filing history, its responsiveness and financial condition, the risk of continued pyramiding, or possible diversion of withheld taxes.

6. Continue to identify geographic areas with high concentration of high-priority non-compliance and assign ROs from across the country through ROCS and similar initiatives to visit taxpayers and use appropriate collection and enforcement actions, and evaluate which approaches improve current collections and future compliance.

7. Apply progressively stronger enforcement when an employer continues to accumulate unpaid employment taxes and lacks a viable path to current compliance, based on the amount and duration of the liability, the number of delinquent quarters, the employer's compliance history and responsiveness, its financial condition, and the risk of continued pyramiding.

8. Promptly evaluate for referral to Criminal Investigation cases in which ROs identify evidence that a business owner willfully diverted employment taxes withheld from employees for their personal benefit and make the referral when the applicable criminal-referral standards are satisfied.

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Tax Exempt & Governmental Entities Subgroup Report

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INTRODUCTION

The 2026 IRSAC Tax Exempt & Governmental Entities (TE/GE) Subgroup consists of eight members, including CPAs and attorneys. The many years of experience of this collaborative group includes expertise in many TE/GE areas of focus including tax-exempt organizations, higher education, employee plans, tax-exempt bonds and tribal governments.

The TE/GE Subgroup members are all honored to serve on the IRSAC. We thank all of the many IRS personnel whom we worked with from the TE/GE BOD as well as other groups within the IRS. Special thanks to Brian Ward for all his hard work and help/guidance throughout the past year working with our Subgroup.

We are pleased to present the following five reports with recommendations that we worked on in 2026.

ISSUE ONE: Artificial Intelligence (AI) Use for Tax Exempt and Governmental Entities

Executive Summary

The IRS has focused on technology as a key resource to complement the talents of its staff and their capacity to execute its mission. Artificial Intelligence capability and tools are a key part of IRS strategy. This report provides some background on this initiative as well as potential ways for the Tax Exempt / Governmental Entities division to enhance its operation.

Background

The IRS is advancing its technology and artificial intelligence (AI) development and deployment to improve service effectiveness, yield efficiency, expand educational and program offerings, and enhance resilience. Though AI has recently gained prominence as an emerging technology, the IRS's current use of AI builds on longstanding use of advanced analytics and machine-learning techniques. With considerable data, databases, and resources, AI is expanding the IRS' technology toolkit through predictive and generative AI use.

The IRSAC believes that the IRS can leverage AI to increase compliance, maximize revenue, and enhance service delivery, particularly for IRS work teams with high volume demands and/or reduced staffing levels. These recommendations are intended to augment IRS staff capability and capacity, not as a substitute for final decision making, which should always remain the responsibility of IRS personnel.

This report provides some specific suggestions for AI use by the Tax Exempt and Governmental Entities Division (TE/GE). These suggestions are not comprehensive, but are intended to serve as conceptual illustrations. Our recommendations include the use of AI to streamline compliance review, automate

processes, and enhance educational or reference material and programs for practitioners and customers.

Recommendations

Staff from the IRS Tax Exempt and Governmental Entities Division requested a review and suggestions for AI use in its operation. Though not comprehensive, we recommend the following initial application of AI, analytics, automation, or other appropriate technology to TE/GE's operations.

Identify Nonprofit Tax Returns for Potential Audit

Identify and assess potential "red flag" indicators to determine whether TE/GE should consider potential outreach to an exempt organization. Some potential indicators on the IRS Form 990 include:

- **Part VI, Line 5 *Significant Diversion of Assets*** – An affirmative response (Yes) to a significant diversion of assets occurrence may indicate fraud.
- **Part VIII, Line 8c *Fundraising Net Income*** – A positive amount reported will generally indicate that the exempt organization's special event accounting or reporting is not accurate.
- **Part VIII, Line 9c *Gaming Activities*** – A negative amount reported may indicate that the exempt organization has undertaken an illegal raffle with a resulting potential unrelated business income reporting requirement or liability.
- **Part IX, Line 11d *Lobbying Expenses*** – Lobbying expenses greater than 5% of total expense may indicate excessive lobbying activity by the organization, which may jeopardize its tax-exempt status.
- **Part IX *Functional Expenses*** –Multiple years' use of the same functional expense allocation percentages may indicate inaccuracy.

- **Schedule A, Part II, Line 17 *Public Support Test*** – If one of these boxes is checked for the past four years, a review of the tax-exempt purpose may be advisable.
- **Schedule A, Part III, Line 2 *Admissions, Merchandise & Services*** – Amounts that exceed a certain threshold or percentage may raise a compliance issue.
- **Schedule A, Part III, Line 7a *Disqualified Persons*** – Analyze amounts received by disqualified persons, including board members.
- **Schedule B, Part I *Contributors***– Analyze amounts received from governmental entities.
- **Schedule D, Part II *Conservation Easements*** – Analyze responses to this section for additional review or analysis.
- **Schedule L *Transactions with Interested Persons*** – Identify any entry in the schedule that conflicts with a negative entry in Form 990, Part VI, Lines 12a,12b, or 12c.
- **Schedule R, Part V *Related Organizations and Unrelated Partnerships*** – Analyze amounts and information recorded for these selected transactions.

Enhance Compliance Through Education – Automatic Mailings

AI, analytics, automation, or other appropriate technology can be used by the IRS to identify tax exempt entities that could benefit from educational information on a compliance topic. When a red flag entry is recorded or an amount exceeds a certain level, TE/GE should consider potential outreach with the exempt organization. Some example indicators on the IRS Form 990 include:

- **Part VI, Line 15a *Processes to Determine Compensation*** – Information about reasonable compensation and documentation requirements when an exempt organization checks “yes” on that box.

- **Part IX, Line 25 *Total Functional Expenses*** – Guidance on the definition of fundraising expenses if that amount is greater than $10,000.
- **Part V, Line 1a *Payroll Tax Forms*** – Worker classification guidance if an exempt organization reports more than 10 payroll tax forms.
- **Form 990 PF *Private Foundations*** – Automatically send out "template" notice to all §501(c)(3) organizations which report an amount of less than 10% on both Schedule A, Part II, Line 14 and Line 15 to let the §501(c)(3) organization know that it should be filing a Form 990-PFfor the current year.
- **Part V, Line 15 *Code Section 4960*** – Executive Compensation Excise Tax guidance if that box is affirmatively checked.
- **Part V, Line 16 *Educational Institutions Subject to Code Section 4968*** – Endowment Excise Tax guidance if that box is affirmatively checked.

Streamline or Automate Selected Review of Tax Exemption Applications

- **Form 1023 *EZ Filers*** – Determine whether the applicable state corporate database contains certified Articles of Incorporation for the charitable organization applicant which are compliant from a §501(c)(3) perspective, including a proper purposes clause, proper operational restrictions, and proper dissolution clause.
- **Form 1023 Part VI *Financial Information from an applying exempt organization*** – Identify inconsistencies on Form 1023, Part VI ***Financial Information***.

Determine the Existence of Unrelated Business Income

AI, analytics, or the appropriate technology can be used by the IRS to identify the existence of Unrelated Business Income for Tax Exempt Entities based upon data recorded in selected portions of its tax return, IRS Form 990. Some example indicators are listed below.

- **Form 990, Part VIII, Line 11** Identify any amount that is greater than $1,000 and/or reported in Column (B) of Part VIII.
- **Form 990, Part X, Line 23 *Mortgage Liability*** If an amount is reported here, see if there is also an amount reported on Form 990, Part VIII, Line 6 ***Rental Income*** to determine whether there is potential debt-financed income to be reported on a Form 990-T.
- **Form 1065K-1, Line 1 *Ordinary Income*** Identify if an amount is recorded for any partnership or limited liability corporation (LLC) of which an exempt organization is a partner or member to determine whether a Form 990-T should be filed reporting unrelated business income.
- **Form 1065K-1, Line 20V *Other Information*** Identify entries for any partnership or LLC of which an exempt organization is a partner or member to determine if there is any potential unrelated business income to be reported on a Form 990-T.
- **Other** Review any payments that are identified to or from related parties that would be classified as UBIT under the related party rules of Code Section 512(b)(13).

Considerations for Employee Plans

- Identify completeness of filings under the Voluntary Compliance Program (VCP), and assess the complexity of issues raised in the filing to expedite assignment to an IRS representative and completion of the process of approving the application.
- Assess completeness of Forms 5500 upon filing, including the presence of all required schedules and audits.
- Assess completeness of any plan sponsor response to a retirement plan audit request, including the comprehensive list of documents provided.
- Assist in the review of retirement plan documents to ensure all required restatements and amendments have been executed.

Considerations for Tax-Exempt Bonds

- Reconcile information reported on Forms 8038, 8038-G, and 8038-GCwith related Forms 8038-T, 8038-R, and 8703, Form 990 Schedule K, filing histories, and available transaction information to identify omissions or inconsistencies for further review.
- Review official statements, EMMA continuing disclosures, financial statements, and issuer or borrower websites to identify and organize post-issuance developments such as project delays, unspent proceeds, refundings, defeasances, asset dispositions, or changes in use.
- Identify arrangements potentially relevant to private business use by recognizing and connecting references to leases, concessions, management or operating agreements, private operators, or private control across lengthy narrative documents and linking each observation to its source.
- Assist in screening for potential arbitrage and rebate issues by comparing issue dates, anticipated spending schedules, refunding or defeasance information, and related rebate or yield-reduction filings.

Other Educational or Administrative Uses

- Use AI, analytics, or the appropriate technology tool to search judicial decisions and summarize any impact on existing guidance to determine if changes need to be made to IRS procedures or forms.
- After a change in precedent, identify taxpayers that are similarly situated that would be affected by the change.
- Help to investigate whether any exempt organizations are abusing government grants.

ISSUE TWO: Broaden the IRS Interpretation of "Essential Government Function" Under Section 7871 of the Internal Revenue Code

Executive Summary

Since 1982, Indian tribal governments have occupied a uniquely disadvantaged position under the federal tax-exempt bond rules relative to every state and local government in the country. While states, counties, and cities may issue governmental tax-exempt bonds to finance essentially any public purpose — including revenue-generating facilities such as hotels, golf courses, convention centers, parking structures, and sports stadiums — Indian tribal governments remain confined by Section 7871(c) of the Internal Revenue Code (IRC) to financing only those activities the IRS deems an "essential governmental function." As interpreted by the IRS for over three decades, that term excludes precisely the kind of revenue-producing enterprise activity that many tribal governments need most. Because most tribal governments lack the broad-based property, sales, or income tax base that funds state and local governments elsewhere, they depend on revenue-producing facilities — such as hotels, recreational facilities, and similar enterprises — to generate the income needed to pay for schools, health clinics, public safety, and other core governmental services.

The IRSAC recommends that the IRS revisit its interpretation of "essential governmental function" under Section 7871(c) and (e). The IRSAC does not recommend, and does not believe it necessary, to change any of the statutory text. Rather, the IRSAC recommends that the IRS exercise its existing interpretive authority to align the tribal standard with the way the term is actually applied to states — that is, by asking whether a state or local government could and would finance a similar facility with governmental (non-private-activity) bonds, rather than by asking whether the facility resembles a traditional public work such as a school or sewer system.

The IRSAC further recommends that the IRS recognize that the Tribal Economic Development Bond program enacted in 2009 — a temporary, $2 billion, nationally capped volume-cap program under Section 7871(f) — was designed as a stopgap, not a permanent solution, and has not resolved the underlying disparity. Utilization data, allocation bottlenecks, and the program's statutory restrictions demonstrate that a capped, application-based bond program is not an adequate substitute for genuine parity between tribal and state governmental bonding authority.

The bottom line of this report is straightforward: tribal governments should be able to use their own tax-exempt bonding authority, without a national volume cap or a competitive allocation process, to build revenue-generating facilities that fund tribal government operations — just as states and localities do every day. The IRS can achieve this result through reinterpretation of existing law, consistent with the legislative history of Section 7871, without waiting on further congressional action.

Background

The Origins of Section 7871 and the "Essential Governmental Function" Standard

Prior to 1982, Indian tribal governments were not treated as governmental units for purposes of section 103 of the IRC and therefore could not issue tax-exempt bonds at all. Congress addressed this gap through the Indian Tribal Governmental Tax Status Act of 1982, Public Law No. 97-473, which added section 7871 to the Code and, for the first time, treated tribal governments as States for a limited set of tax purposes, including the issuance of tax-exempt bonds.

Congress did not, however, grant tribes the same bonding authority enjoyed by states. Section 7871(c) conditioned tribal bond eligibility on the requirement that substantially all bond proceeds be used in the exercise of an "essential

governmental function.” The Senate Finance Committee's report accompanying the 1982 Act explained that tax-exempt financing was not intended to be available to tribes for commercial or industrial activities, and that essential governmental functions were meant to encompass activities such as schools, streets, and sewers. The report went on to reason “that these provisions do not permit an Indian tribal government (or subdivision) to issue tax-exempt bonds under circumstances where a corresponding issue by a State (or political subdivision) would not be tax-exempt.” S. Rep. No. 97-646, at 13-14 (1982).

Two structural limitations were thus embedded in tribal bonding authority from the outset that do not apply to states: tribes generally cannot issue qualified private activity bonds (with one narrow manufacturing-facility exception), and substantially all proceeds of any tribal governmental bond must satisfy the essential-governmental-function test. States face no comparable functional test on their general governmental bonds.

The 1987 Amendment: Congress Narrows the Standard Further

In the Omnibus Budget Reconciliation Act of 1987 Congress added section 7871(e), which defines “essential governmental function” to exclude any function that is not customarily performed by state and local governments with general taxing powers.

> *The term ‘essential governmental function’ does not include any governmental function that is not customarily performed (and financed with governmental tax-exempt bonds) by State and local governments with general taxing powers — House Ways and Means Committee, 1987*

This “customarily performed” language is the operative statutory text, and it is the foundation for the recommendation in this report. Congress did not freeze the definition to a fixed 1982 list of schools, streets, and sewers; it tied tribal eligibility to what state and local governments customarily do with their own governmental bonds — a standard capable of evolving as state practice evolves. The 1987 Committee report's illustrative examples of excluded activities were

commercial and industrial facilities such as private rental housing, cement factories, and mirror factories — enterprises that generate private profit rather than public revenue, and that states themselves would not customarily finance with governmental bonds either.

The 2006 Advance Notice of Proposed Rulemaking

By the mid-2000s, the IRS had received a growing number of private letter ruling and technical advice memorandum requests testing the boundaries of the essential-governmental-function standard, including rulings on tribal golf courses and a full-service conference hotel. In August 2006, Treasury and the IRS published an advance notice of proposed rulemaking (ANPRM) soliciting comment on how to define “essential governmental function” under Section 7871(c) and how to apply the “customarily performed” limitation of Section 7871(e). That rulemaking was never finalized, and the IRS has continued to resolve the question case by case through private letter rulings and technical advice memoranda — an approach that is slow, expensive for tribes, and produces inconsistent, non-precedential results.

The same year, the Government Accountability Office, at Congress's request, examined the extent to which states and local governments actually finance the categories of facilities the IRS has treated as commercial when built by tribes. GAO found that state and local governments provide substantial public financing for transportation facilities, parking garages and lots, recreational facilities including numerous municipal golf courses, convention centers, and hotels and related lodging facilities — the same categories of projects that tribal governments have been denied essential-governmental-function treatment for financing. GAO's findings demonstrate that facilities with commercial characteristics are not inherently outside the realm of governmental activity. State and local governments routinely finance and operate such facilities when they serve broader public purposes.

Illustrative Comparison

The table below illustrates the disparity between how state and local governments finance a category of facility and how the same category of facility is treated when a tribal government seeks to finance it.

Facility Type	Treatment When Financed by a State or Local Government	Treatment When Financed by an Indian Tribal Government
Golf courses	Routinely financed with governmental tax-exempt bonds; GAO identified numerous municipally owned golf courses nationwide	IRS has ruled tribal golf-course financing falls outside "essential governmental function." FSA 200247012 (Aug. 12, 2002)
Convention-center hotels	Financed with governmental bonds pledging hotel-tax or lease revenue in many cities	IRS technical advice has treated a tribal conference hotel as not customarily performed by state and local governments. TAM 200704019
Sports stadiums/arenas	$5.3B in stadiums/arenas built using tax-exempt municipal bonds	Not eligible under §7871(c); would require scarce, capped TED bond allocation instead
Parking facilities, recreation complexes	Customarily financed with tax exempt bonds. $3.5B in municipal parking facilities.	Must qualify as "essential governmental function" or compete for TED bond volume cap

The 2009 Tribal Economic Development Bond Program Is a Temporary, Capped Workaround — Not a Fix

Recognizing the disparity, Congress included a targeted, temporary measure in the American Recovery and Reinvestment Act of 2009: new Section 7871(f), authorizing "Tribal Economic Development Bonds" (TED Bonds) without regard to the essential-governmental-function test of Section 7871(c). Critically, however, Congress capped this relief at a $2 billion national volume cap, to be allocated among all federally recognized tribes by Treasury in consultation with the Department of the Interior and directed Treasury to study whether the underlying essential-governmental-function restriction should be repealed on a permanent basis.

More than fifteen years later, that permanent fix has not occurred, and the TED Bond program itself illustrates why a capped allocation program cannot substitute for genuine bonding parity:

- National cap, not tribal capacity: The $2 billion volume cap is fixed in the aggregate for 575 federally recognized tribes nationwide, an amount comparable to the annual private-activity bond volume cap of a single mid-sized state.
- Competitive, application-based allocation: Tribes must apply to the IRS for a specific dollar allocation, describe the project in detail, and compete against other tribes for a shrinking pool of unallocated volume cap — an administrative burden no state government faces to issue its own governmental bonds.
- Low utilization driven by structural friction: IRS data show that in the program's first several years, only a small fraction of the volume cap was actually allocated and used; one tracked period saw roughly 13 percent of a $1.8 billion pool awarded, and one prominent tribal project forfeited an allocation after a 180-day construction deadline could not be met before Treasury clarified draw-down rules.
- Restrictions unrelated to the underlying policy problem: TED Bonds may not finance any facility housing Class II or Class III gaming, must be located on the tribe's reservation, and are subject to allocation-forfeiture rules that do not apply to conventional governmental bonds issued by states.
- Temporary by design: Because Section 7871(f) was enacted as a fixed-dollar, non-recurring authorization rather than a permanent grant of authority, tribes cannot rely on it for long-term capital planning the way states rely on their permanent, uncapped governmental bond authority.

Commentators representing tribal governments have likewise concluded that increasing or renewing the TED Bond volume cap would not be a permanent fix, and have urged Congress to consider further extensions only as a bridge while

the underlying essential-governmental-function restriction is addressed. The IRSAC agrees with that assessment but believes we need not wait for further congressional action: the IRS can revisit its own interpretation of the pre-existing Section 7871(c)/(e) standard.

Recommendations

The IRSAC recommends that the IRS reinterpret "essential governmental function" under Section 7871(c) and (e) in a manner that is fully consistent with the statutory text and legislative history described above, but that eliminates the current disparity between tribal and state governmental bonding practice. Specifically:

Recommendation 1: Adopt a State-Parity Functional Test

The IRS should stop testing tribal projects against an implicit, static list of traditional public works. In its own rulings and examinations, it should apply the statutory "customarily performed" standard of §7871(e). Under that standard, a tribal facility should qualify as an essential governmental function when state and local governments have financed similar facilities with their own governmental (non-private-activity) tax-exempt bonds, whether or not the facility also generates revenue.

Recommendation 2: TE/GE Issue an Operating Directive

The Director of Government Entities or appropriate TE/GE leadership issue a directive requiring that any proposed adverse determination under §7871(e):

- Identify the actual activity being evaluated, rather than relying only on its industry classification.
- Document the relevant state and local government comparators.
- Evaluate both public-purpose and commercial-operation characteristics.

- Consider, without treating as conclusive, tribal ownership, public benefit, and the use of net revenues for government operations.
- Obtain review from the appropriate ITG or Tax-Exempt Bonds technical specialist before finalizing a conclusion based on commercial characteristics.

Recommendation 3: Add Clarification to IRS FAQs

The IRS maintains FAQs on §7871 and essential governmental functions. TE/GE, or more specifically the Office of Indian Tribal Governments, can incorporate the following language without creating or changing policy guidance:

> "An activity is not automatically excluded from consideration as an essential governmental function merely because it generates revenue, charges fees, or resembles an activity conducted by private businesses. The determination depends on the nature and operation of the activity, including whether comparable activities are customarily performed by state and local governments with general taxing powers. Governmental ownership and dedication of net revenues to governmental operations may be relevant considerations but do not independently establish qualification."

Recommendation 4: Engage in Tribal Consultation Before Finalizing Guidance

Consistent with Treasury tribal consultation policy, the IRS should consult directly with tribal governments and national tribal organizations in developing any revised guidance, given the direct and substantial effect such guidance would have on tribal governmental operations and self-determination.

The essential-governmental-function standard was never intended to freeze tribal governments into financing only the categories of facilities that were common in 1982, nor to treat tribally owned, revenue-generating governmental enterprises

more harshly than the state and local governments section 7871 was designed to make tribes equivalent to. The statutory text Congress adopted in 1987 — a test keyed to what state and local governments customarily finance with governmental bonds — already supports a broader, parity-based interpretation. The IRSAC recommends that the IRS adopt that interpretation, so that tribal governments may use tax-exempt bonds, on the same terms as states, to build the hotels, recreational facilities, and other revenue-generating enterprises that fund essential tribal government services.

Sources relied upon include Public Law No. 97-473 (1982) and its accompanying Senate Finance Committee report; the Omnibus Budget Reconciliation Act of 1987, Public Law No. 100-203, and the accompanying House Ways and Means Committee report; the 2006 Advance Notice of Proposed Rulemaking (REG-118788-06); U.S. Government Accountability Office, GAO-06-1082, Federal Tax Policy: Information on Selected Capital Facilities Related to the Essential Governmental Function Test (2006); the American Recovery and Reinvestment Act of 2009, Public Law No. 111-5, and related Treasury and IRS guidance on Tribal Economic Development Bonds (including Notice 2009-51 and Notice 2012-48); and published industry and tribal-government commentary on TED Bond utilization.

ISSUE THREE: Promoting the Use of IRS Digital Communications

Executive Summary

The IRSAC submits this report to recommend that the IRS modernize how it communicates with state and tribal governments. Workforce reductions across the IRS have thinned the ranks of dedicated field representatives who historically served as the primary point of contact for state and tribal partners, leaving many government partners without a reliable, direct channel to IRS subject-matter experts. State agencies and tribal governments increasingly report long telephone hold times, inconsistent case handoffs, and uncertainty about where to route time-sensitive questions on withholding, information reporting, tribal general welfare exclusions, employment tax, and revenue-sharing distributions.

The IRSAC recommends that the IRS respond to this capacity gap not by attempting to rebuild the prior field-based model at its former scale, but by investing in scalable digital communication infrastructure purpose-built for governmental partners. Specifically, this report recommends that the IRS: (1) establish dedicated, AI-assisted intake mailboxes that automatically triage and route state and tribal inquiries to the correct subject-matter unit; (2) develop a secure online portal allowing state and tribal officials to submit, track, and manage requests without waiting on hold; and (3) formalize coordination with the Department of the Treasury's Office of Tribal and Native Affairs (OTNA) to ensure that tribal governments receive notices, regulatory updates, and guidance through a single, authoritative, and predictable channel.

Taken together, these recommendations would preserve the responsiveness that dedicated field representatives once provided, while giving the IRS a durable, lower-cost communication model that can scale with demand and remain resilient to future staffing fluctuations.

Background

For many years, state and tribal governments relied on a high-touch service model built around IRS Government Liaisons and dedicated field representatives. This model was resource-intensive but effective: it gave state and tribal partners a known point of contact and reduced the likelihood that time-sensitive matters, such as data exchange issues, withholding disputes, or general welfare exclusion questions, would be lost in general call-center queues.

Recent and ongoing workforce reductions have significantly diminished this field presence, leaving state and tribal officials routed into the same general public-facing phone lines used by individual taxpayers and practitioners, with telephone hold times that can extend for hours. This is a poor fit for governmental callers, who often have statutory deadlines, payroll and revenue-distribution obligations, and constituents depending on timely resolution. It also creates inefficiency for the IRS itself, since general call-line staff frequently lack the specialized background needed to resolve intergovernmental matters on first contact, resulting in repeated transfers and callbacks.

The IRSAC recognizes that the IRS cannot fully restore the prior staffing level of dedicated field representatives in the near term. The recommendations below are designed to help the IRS meet its intergovernmental communication obligations within current and likely future resource constraints, by shifting from a staffing-dependent model to a technology-enabled one that is easier to sustain and scale.

Recommendations

Recommendation 1: Establish Dedicated, AI-Assisted Intake Mailboxes for State and Tribal Governments

The IRSAC recommends that the IRS create dedicated email inboxes reserved exclusively for state and tribal government officials, separate from general public correspondence channels. Limiting access to verified government

and tribal points of contact would allow the IRS to treat inbound messages with an appropriate level of priority and would prevent these channels from being overwhelmed by unrelated volume.

- AI-assisted triage and routing. Incoming messages could be automatically classified by subject matter and routed to the appropriate subject-matter specialist, reducing the number of manual handoffs and the risk that a request is misdirected.
- Automated acknowledgment and expectations-setting. Every inquiry would receive an immediate confirmation of receipt, a reference or case number, and a realistic estimate of response time, so that state and tribal staff are not left uncertain whether a request was received.
- Escalation logic for time-sensitive matters. Messages flagged as urgent could be automatically escalated for expedited human review rather than waiting in a standard queue.
- Human oversight retained throughout. AI tools should assist with classification, routing, and drafting suggestions, but all substantive responses to state and tribal governments should continue to be reviewed and issued by qualified IRS personnel, consistent with the Service's existing quality and accuracy standards.

Recommendation 2: Develop a Secure Online Portal for Submitting, Tracking, and Managing Requests

The IRSAC further recommends that the IRS develop or expand a secure online portal specifically for state and tribal government users, modeled on the online account and case-management tools the IRS has already deployed for individual and business taxpayers. Such a portal would give government and tribal officials a self-service alternative to telephone contact and would materially reduce the reliance on hold-line queues.

- Request submission. Authorized state and tribal officials could submit structured requests (categorized by topic and urgency) directly through the portal, attaching supporting documentation as needed.

- Status tracking. Users could log in at any time to view the real-time status of a submitted request, see which unit is handling it, and receive notifications when action is taken, eliminating the need for repeated status-check phone calls.
- Case history and continuity. A persistent case record would allow any IRS employee who picks up a request to see its full history, reducing the need for state and tribal officials to re-explain their issue each time they are transferred.
- Tiered access for authorized users. Access could be limited to designated state agency and tribal government contacts, verified through an identity-proofing process consistent with IRS authentication standards, to protect the confidentiality of taxpayers and government information.

Recommendation 3: Formalize Coordination with Treasury's Office of Tribal and Native Affairs

For tribal governments specifically, the IRSAC recommends that the IRS establish a formal, documented coordination agreement with the Department of the Treasury's Office of Tribal and Native Affairs (OTNA) to serve as a consistent, authoritative channel for distributing IRS notices, regulatory updates, and other communications to tribes.

- A single, predictable distribution channel. The IRS could route tribal-facing notices, proposed regulations, and guidance updates through OTNA on a defined schedule, ensuring that all tribes receive the same information at the same time.
- Two-way feedback loop. Formal coordination should not be one-directional. OTNA is well positioned to relay tribal questions, concerns, and requests for clarification back to the IRS, helping the Service identify recurring points of confusion before they become widespread compliance issues.

The reduction of dedicated field representatives has created a real and growing gap in the IRS's ability to communicate efficiently with its state and tribal

government partners. The IRSAC believes this gap can be addressed not by reversing workforce trends, but by building modern, scalable digital infrastructure: AI-assisted intake mailboxes, a self-service online portal, and formalized coordination with Treasury's Office of Tribal and Native Affairs. Together, these measures would spare state and tribal employees from hours spent on hold, give them visibility and control over their requests, and ensure tribal governments receive consistent, timely, and authoritative communication from the IRS. The IRSAC welcomes the opportunity to work with the Service to develop and implement these recommendations.

ISSUE FOUR: 410(b) Coverage Testing Grace Period

Executive Summary

Pursuant to Section 410(b), qualified retirement plans must pass a minimum coverage requirement. The IRC contains a transitional rule for plan sponsors who engage in a corporate transaction. One requirement to use the transitional rule prohibits certain changes to the plan during the transition period. However, the language of the IRC and Treasury regulations are not entirely consistent.

The IRSAC strongly encourages the IRS to provide specific guidance on the prohibition against plan changes in Section 410(b)(6)(C)(i)(II) and Treas. Reg. §1.410(b)-2(f). The guidance should adhere to the strict and narrow language in the text of the IRC. The guidance should give a specific list of amendments that are not permitted, and should expressly allow all amendments unless they are specifically stated on that prohibited list. The guidance should also give direction on what factors must be considered in the determination of whether a change is "significant". The guidance should also clarify what amendments are permitted because they were made "by reason of the change in members of a group."

Background

Pursuant to Section 410(b), qualified retirement plans must pass a minimum coverage requirement. There are several ways of passing the coverage test. The purpose of the minimum coverage requirement is to ensure that non-highly compensated employees are accruing benefits in numbers commensurate with accruals received by highly compensated employees.

The IRC contains a transitional rule for plan sponsors who engage in a corporate transaction. The transitional rule creates a grace period during which a plan is deemed to have passed the coverage test. The grace period begins on the date of the transaction and ends on the last day of the first plan year beginning

after the transaction date. Section 410(b)(6)(C). The purpose of the transitional rule is to give retirement plan sponsors some breathing room to determine how new employees (or new related employers) will be integrated into the ongoing retirement benefit structure.

The transitional rule imposes several requirements. One requirement prohibits certain changes to the plan during the transition period. However, the language of the IRC and Treasury regulations are not entirely consistent.

Specifically, Section 410(b)(6)(C)(i)(II) requires that "**the coverage** under such plan is not significantly changed during the transition period (other than by reason of the change in members of a group)." (Emphasis added.) The strict language of the statute is fairly narrow. Only significant changes impacting "the coverage" of the plan are prohibited.

However, the prohibition under the Treasury regulations seems to be significantly more broad. Treas. Reg. §1.410(b)-2(f) requires that "there is no significant change in **the plan or in the coverage** of the plan other than the acquisition or disposition." (Emphasis added.) While the statute merely forbids significant changes to the "coverage" under the plan, the regulations forbid significant changes to "the plan or in the coverage." The prohibition in the Treasury regulations is substantially more expansive than in the statute. The regulations could be read to read to prevent significant changes of any type. Neither the statute nor the regulations give any clarification on what changes are "significant."

The inconsistency has created uncertainty for retirement plan sponsors. Questions frequently come up where a plan sponsor relying on the transition rule would like to make some change to the plan that is completely unrelated to the coverage rules. For example, the plan sponsor may want to add one or more of the new optional distribution triggers offered by the SECURE Act or the SECURE Act 2.0. Would this type of change prevent the plan from relying on the transition rule? Plan sponsors typically take a very cautious approach and restrict changes of any sort during the transition period, based upon the restrictive language in the Treasury regulations.

The IRS has provided some guidance on the transition period in Revenue Ruling 2004-11. Specifically, this ruling concludes that an amendment that violates Section 410(b)(6)(C)(i)(II) would result in a loss of the transition rule's grace period only prospectively from the date of the change. However, the guidance does not give sufficient direction on what types of changes are permitted or prohibited. The ruling follows the language in the Treasury regulations, specifying that the transition period ends upon "a significant change in the plan or in the coverage of the plan." The ruling concludes that changes to the plan's benefit accrual formula would be prohibited. But the result given in the ruling is conclusory. It does not provide any real clarification on how to analyze what amendments are prohibited or permitted.

In Revenue Ruling 2004-11, the IRS solicited comments on whether the coverage transition rule should apply under several given scenarios. One of the primary questions raised by these scenarios is whether several hypothetical situations described in the ruling would cause there to be a significant change in coverage under the plan. The request for comment indicates the IRS' acknowledgement that more detailed guidance on what types of changes are permitted or prohibited would be helpful to retirement plan sponsors. However, the IRS has never published any additional guidance on the issue. There is consensus within the retirement plan industry that additional guidance would be extremely helpful.

The guidance could be structured similarly to Notice 2016-16, which addressed the issue of what types of mid-year changes can be made to retirement plans that have a safe harbor feature pursuant to Sections 401(k) and 401(m). Prior to 2016, the IRS interpretation of applicable Treasury regulations effectively prohibited any mid-year changes to safe harbor plans. In Notice 2016-16, rather than listing specific types of mid-year amendments that are permitted, the IRS authorized any changes aside from a specified list of prohibited adjustments.

Recommendations

The IRSAC encourages the IRS to provide specific binding guidance on the prohibition against plan changes in Section 410(b)(6)(C)(i)(II) and Treas. Reg. §1.410(b)-2(f). Such guidance would give needed certainty to plan sponsors who are attempting in good faith to assimilate employees of an acquired entity into its retirement benefit structure. The guidance should reflect the following recommendations:

1. The guidance should adhere to the strict and narrow language in the text of the IRC. The guidance should not list certain types of amendments that would be permitted during the coverage testing transition period. Rather, the guidance should give a specific list of amendments that are not permitted, and should expressly allow all amendments unless they are specifically stated on that prohibited list. It should allow all amendments that do not significantly change the coverage under the plan, as required by the statute. Prohibited amendments should be limited to those that impact the number of employees that are allowed to accrue benefits under the plan.
2. The guidance should permit adjustments that directly impact a plan's coverage if they are not significant. The guidance should also give direction on what factors must be considered in the determination of whether a change is "significant". Factors could include (1) the percentage of plan participants that will be directly affected by the change, (2) whether the change will increase or decrease the number of eligible plan participants, and (3) how the change will affect non-highly compensated participants related to highly compensated participants. The guidance should define "significant" to include only amendments that are designed use the 410(b) grace period to circumvent the nondiscrimination requirements.
3. The guidance should also clarify what amendments are permitted because they were made "by reason of the change in members of a group." An example of a permissible change resulting from the adjustment in group

members would be in an asset acquisition where the buyer's plan is amended to exclude employees of the acquired company.

ISSUE FIVE: Extending Tax Status Regulations for Wholly-Owned Tribal Business Entities to Partially-Owned Tribal Business Entities

Executive Summary

The IRSAC recommends that the IRS work with the Department of the Treasury to update the December 16, 2025 regulations on entities wholly owned by tribal governments to extend to entities partially owned by tribal governments.

Indian tribal governments, like other governments, use their revenues to provide essential and vital programs and services for their citizens, such as public safety, education, healthcare, and housing. However, unlike other governments, federal law and policy have constrained Indian tribal government revenue-generating capabilities., Limitations include the inaccessibility of property and income tax revenues because of the unique nature of land ownership within Indian country, fragile economies in Tribal communities, and jurisdictional restraints. Thus, Indian tribes must rely on commercial entities to generate governmental revenue.[246]

Tribal commercial ventures are either conducted through wholly-owned entities or partially-owned entities. Indian tribes use partially-owned entities to attract capital and investment or necessary skills or services. However, the lack of tax certainty on these partially-owned entities limit their appeal to potential investors resulting in reduced investment. While recent guidance provided tax certainty for wholly-owned entities formed under Tribal law, it deferred consideration of the tax status of partially-owned entities.

[246] Fact Sheet: Tax Status of Wholly Owned Tribal Entities – Final Regulation (December 15, 2025), Fact Sheet: Tax Status of Wholly Owned Tribal Entities – Final Regulations, https://home.treasury.gov/system/files/136/tribal-entities-final-regulation-fact-sheet.pdf

Background

There is little guidance on the federal tax treatment of tribal business entities prior to 1994.

In Revenue Ruling 94-16, 1994-1 Cumulative Bulletin 19 (March 21, 1994), the Commissioner ruled that neither an unincorporated Indian tribe nor a corporation organized under section 17 of the Indian Reorganization Act of 1934 is subject to federal income tax on its income, regardless of the location of the activities that produced the income. However, a corporation organized by an Indian tribe under state law is subject to federal income tax on its income, regardless of the location of the activities that produced the income.

Revenue Ruling 94-65, 1994-2 Cumulative Bulletin 14 (Oct. 17, 1994), extended such exemption from federal income tax to tribal corporations organized under Section 3 of the Oklahoma Welfare Act.

The Treasury published further guidance and issued proposed regulations in 1996 on the treatment of section 17 corporations and section 3 corporations for Federal tax purposes in the notice of proposed rulemaking, Simplification of Entity Classification Rules (PS-43-95), published in the Federal Register (61 FR 21989) onMay 13, 1996 (explaining the basis for the proposed rule later adopted in Treas. Reg. § 301.7701-1(a)(3)).

On December 18, 1996, the Department of the Treasury (Treasury Department) and the IRS published final regulations (TD 8697) in the Federal Register (61 FR 66584) under section 7701, known as the entity classification regulations. These regulations (until their amendment) provided that section 17 corporations and section 3 corporations are not recognized as separate entities for Federal tax purposes.

These Section 7701 regulations, however, did not specifically address whether an entity organized or incorporated under Tribal law and wholly owned by a Tribe (that is, a wholly owned Tribal entity) is recognized as a separate entity for Federal tax purposes. So the Treasury Department and the IRS held Tribal

consultations on the issue on June 21 and June 22, 2023, October 8 and 10, 2019, and a listening session on December 3, 2019.

The December 2025 Final Regulations

On December 16, 2025, the Department of the Treasury published final regulations on entities wholly owned by Indian tribal governments.[247] The final regulations provide clarity on the income tax treatment of entities wholly owned by one or more Indian tribes and organized or incorporated under Tribal law. The regulations conclude that wholly owned Tribal law entities are "not recognized as separate entities for Federal tax purposes and, therefore, are not subject to Federal income tax."[248]

The final regulations, however, did not consider the tax status of partially-owned entities. The preamble to the final regulations explained that the tax treatment of partially-owned entities was "outside the scope" of the final regulations.[249] The preamble continues, "[t]he Treasury Department and the IRS continue to consider possible guidance on the Federal tax treatment of corporations incorporated under Tribal law that are owned in part by persons other than Tribes."[250]

To date, some Tribes have utilized existing federal "check-the-box" regulations for some partially owned entities structured as multi-member Limited Liability Companies. Under these Treasury Regulations, an entity – no matter where formed – with two or more owners can elect to be classified as a corporation or a partnership.[251] These regulations do not, however, encompass circumstances under Tribal law where a partially owned business entity may not be an LLC or take into account the governmental nature of the Indian Tribe-owner. Accordingly, Tribes have sought tax guidance that recognizes the unique treatment of Indian

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[247] 90 Fed. Reg. 58151 (Dec. 16, 2025).
[248] *Id*. at 58161.
[249] *Id*. at 58155.
[250] *Id*.
[251] 26 C.F.R. § 301.7701-3(a); 26 C.F.R. § 301.7701-3(b)(1)(i).

tribal governments under federal Indian law and the distinguishable governmental nature of Tribal entities. Thus, clarity similar to Treasury's final regulations addressing wholly-owned Tribal entities is still needed for entities partially-owned by Indian tribal governments.

Recommendations

The IRSAC recommends that the IRS work with Treasury to update its December 16, 2025 regulations on entities wholly owned by tribal governments to extend to entities partially owned by tribal governments. This would complete a process that dates back to Revenue Ruling 94-16 and tribal consultation and listening sessions going back to 2019.

Any new regulations as to entities partially-owned by tribal governments must begin with new consultations with federally recognized tribal governments either directly by Department of the Treasury, including, without limitation, its Office of Tribal and Native Affairs, as supplemented with trade association presentations such as the Native American Financial Officers Association, (NAFOA), the National Congress of American Indians (NCAI) and other regional and national gaming conferences.

Work on new regulations as to entities partially-owned by tribal governments should be made part of the Treasury Priority Guidance Plan.

Clarifying the tax status of partially-owned tribal business entities for tribal government enterprises would expand access to business partnerships enhancing opportunities for the construction of revenue-generating projects that sustain essential services for their tribal citizens. This approach affirms the federal government's trust responsibility to support tribal self-determination and economic self-sufficiency.

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Taxpayer Services Subgroup Report

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INTRODUCTION

The IRSAC Taxpayer Services Subgroup brings together professionals with diverse backgrounds and extensive experience in tax preparation, taxpayer representation, tax administration, and technology, including representatives from the Volunteer Income Tax Assistance (VITA) program and Low Income Taxpayer Clinics (LITCs). Collectively, our members represent the perspectives of individual and business taxpayers, tax professionals, underserved taxpayer communities, and organizations that interact with the IRS across a broad range of services and programs.

The Taxpayer Services (TS) Division plays a critical role in supporting voluntary compliance by providing taxpayers and their representatives with the information, tools, and assistance necessary to meet their federal tax obligations. As taxpayer expectations evolve, opportunities remain to modernize processes, improve accessibility, reduce administrative burdens, and deliver more efficient and effective service.

Throughout 2026, our subgroup worked collaboratively with IRS leadership and personnel to examine existing processes, identify opportunities for improvement, and develop practical, actionable recommendations. Our discussions reflected a shared commitment to improving the taxpayer experience while recognizing the operational complexities and resource considerations involved in administering the nation's tax system.

We extend our sincere appreciation to Paul Ferrell and Tekila Gray for their leadership, guidance, coordination, and continued assistance in facilitating our work and connecting the subgroup with the appropriate IRS personnel. We are equally grateful to the many IRS subject matter experts who generously dedicated their time and expertise to our discussions. Their willingness to explain current procedures, address our questions, provide operational context, and thoughtfully consider alternative approaches was instrumental in shaping our understanding of

the issues and developing informed, meaningful recommendations. The depth of their knowledge and their dedication to public service contributed significantly to the quality of this report.

The recommendations presented in this report reflect the value of open communication and collaboration between the IRS and the tax professional community. We appreciate the opportunity to contribute to these important discussions and look forward to continued progress toward a more accessible, efficient, and responsive tax administration system.

ISSUE ONE: Suspension of Beard Returns

Executive Summary

As of May 21, 2026, the IRS Taxpayer Protection Program (TPP) had suspended more than 3 million 2025 Forms 1040 from processing.[252] These returns, if e-filed, had already been accepted for e-filing. On their face, they were complete and *ready for processing*. In other words, all of them appeared to meet the test of Beard v. Comm'r, 82 T.C. 766 (1984).

Under Beard, as amplified by Fowler v. Comm'r, 155 T.C. 106 (2020), a return is complete if (1) the document purports to be a return and provides sufficient data to calculate tax liability, (2) the taxpayer makes an honest and reasonable attempt to satisfy the requirements of the tax law and (3) the taxpayer executes the document under penalties of perjury. After four decades, Beard is still good law: it is cited in IRS Chief Counsel advice[253] and by at least one Court of Appeals grappling with tax debt.[254] A series of articles in the tax press recently reexamined Beard and Fowler, relying on these cases to argue the IRS should not reject returns that have already been accepted for e-filing.[255]

For low-income families, income tax refunds are generally attributable to refundable child-based tax credits, such as the earned income tax credit and the additional child tax credit. These tax benefits comprise, on average, 10 percent of household cash flow for this cohort.[256] Suspended returns, including returns claiming child-based tax credits, do not appear on IRS account transcripts or in the IRS "Where's My Refund?" application. As a result, it can be days, weeks or even

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[252] Written response from IRS Taxpayer Services (TS) to the IRSAC, June 1, 2026.

[253] IRS CCA 202547014.

[254] In re Salvador, 97 F.4th 1171 (9th Cir. 2024).

[255] See, e.g., Justin Schwegel, Crying Fowl[er], Part 1: Fowler's Implications for Electronic Tax Administration, Tax Notes Federal, Volume 184, August 19, 2024.

[256] Congressional Budget Office, "The Distribution of Major Tax Expenditures in 2019," October, 2021. https://www.cbo.gov/publication/57413.

months before taxpayers or their representatives (if they have them) know why a critical refund has not been issued.

In her Fiscal Year 2027 Objectives Report to Congress (the Report), National Taxpayer Advocate Erin Collins (the "NTA") aptly describes the potential consequences when things do not proceed as expected for low-income families:

> Many taxpayers rely on their refunds to pay rent, buy groceries, cover medical expenses, or meet other basic living needs. Delayed refunds can create real financial hardship, particularly for lower-income taxpayers and vulnerable households living paycheck to paycheck.[257]

It is significant that, of the eleven Objectives featured in the Report, three relate to delayed refunds. Given our issue here, it is also significant that Objective 8 is "Reduce Taxpayer Burden Caused by Suspended Return Processing."

Summary Recommendations & Acknowledgment

The IRSAC agrees with the NTA that current IRS suspended return processes can be improved. Our recommendations are simple, focusing on transparency and taxpayer education. The IRSAC urges the IRS to:

- Record TPP-suspended returns on taxpayer account transcripts and in the "Where's My Refund?" application;
- Improve service on the TPP phone line used by taxpayers to verify their identity;
- Consistently copy authorized representatives on the one-time identity verification letter; and
- Continue education programs that help unrepresented taxpayers deal effectively with identity theft and dual claim issues.

The IRSAC is grateful for the very active participation of IRS officials as we wrote this report. Beginning on June 27, 2025, the IRSAC met with IRS subject

[257] The Report at 5.

matter experts from multiple areas, including Chief Counsel, Information Technology, and Taxpayer Services.

Background

A Persistent Problem

Form 1040 identity theft is a persistent problem for the IRS—and one that it continues to aggressively combat. The Treasury Inspector General for Tax Administration recently reported that, in the past two calendar years (2024 and 2025), the IRS had prevented $7 billion in fraudulent refunds.[258] As noted above, as of May 21, 2026, over 3 million 2025 series Forms 1040 returns were suspended from processing because they tripped one or more[259] of TPP's identity theft filters. As of May 25, 2026, an additional 2.2 million 2025 Form 1040 series returns were suspended because the taxpayer claimed the same child or children as another taxpayer and did not include an IP PIN.[260] Under current procedures, a taxpayer whose e-filed 2025 return is rejected because a dependent's Social Security number was used on another return may e-file the return if the primary taxpayer has a current-calendar-year IP PIN; otherwise, the taxpayer must file a paper return.[261]

Responding To Suspension

Taxpayers with TPP-suspended returns receive a one-time letter from the IRS explaining how to verify their identity with a code, either by phone, online, or at a Taxpayer Assistance Center. Unfortunately, these letters are sometimes not

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[258] TIGTA, "The IRS Continues to Improve the Detection and Prevention of Individual Identity Theft," May 13, 2026, Report No 2026-400-019, Highlights. https://www.tigta.gov/sites/default/files/reports/2026-05/2026400019fr.pdf.

[259] In the 2025 filing season TPP used 295 identity theft filters. TIGTA, "Final Results of the 2025 Filing Season," September 19, 2025, Report No. 2025-400-048, page 10. https://www.oversight.gov/reports/audit/final-results-2025-filing-season

[260] TS written response to questions from the IRSAC, June 1, 2026.

[261] IRS, *Age, name or SSN rejects, errors, correction procedures* (last updated Aug. 26, 2026), https://www.irs.gov/faqs/electronic-filing-e-file/age-name-or-ssn-rejects-errors-correction-procedures.

provided to designated Form 2848 representatives, frustrating adequate representation. In addition, uptake on the TPP phone line is abysmal. Of 2.4 million calls received during the 2026 filing season (through April 18, 2026), only 459,000 were answered by a Customer Service Representative—and then only after an average hold of 20 minutes.[262]

As of May 21, 2026, 61 percent of low-income[263] taxpayers had successfully completed the identity verification process for their 2025 Forms 1040.[264] A pertinent question here is: "Were the remaining 39 percent all identity thieves, or were some simply frustrated by, or unable the complete, the verification process?

Despite the obstacles, verification numbers for 2025 returns filed by low-income taxpayers were significantly better than for 2024. 1.269 million suspended 2024 returns were filed by households with income below 250 percent of the federal poverty level,[265] more than half of the total suspended in that filing season For those returns, only 56 percent completed the verification process by September 2025.

Of those low-income taxpayers who did successfully verify their identity with respect to a 2024 Form 1040:

- 486,000 verified online
- 67,000 verified at a Taxpayer Assistance Center; and
- 159,000 verified by phone.[266]

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[262] Fiscal Year 2027 National Taxpayer Advocate Objectives Report to Congress at 14.

[263] "Low-income" was defined here as households with adjusted gross income of $60,000 or less. According to the U.S. Census Bureau, U.S. median household income in 2024 was $83,730. Melissa Kollar and Zach Scherer, "Income in the United States: 2024," Report Number P60-286, September 9, 2025. https://www.census.gov/library/publications/2025/demo/p60-286.html

[264] TS written response to questions from the IRSAC, June 1, 2026.

[265] IRS Return Integrity & Compliance Services (RICS) written response to questions from the IRSAC, September 23, 2025.

[266] Return Integrity & Compliance Services written response to questions from the IRSAC, September 23, 2025.

According to the IRS, for those low-income taxpayers who did successfully verify their identity for 2024, the average time from IRS *acceptance of the return* to the taxpayer receiving a refund was 57 days.[267] The IRS tells us that the current response time is much improved, with "refunds released 7-10 business days after authentication if no other issues are present.[268]

Dependent Children and the "Third-Party Claimants"

Moving to a related topic, what about those taxpayers whose returns are suspended because a third party claimed one or more of their dependent children? To its credit, the IRS has already issued a news release[269] (and published helpful FAQs on its website[270]), advising taxpayers what to do. Unfortunately, as of May 25, 2026, only 208,000 duplicate claim filers followed the recommended IRS procedure when filing their 2025 returns,[271] less than 10 percent of total returns suspended because of a duplicate dependent claim.

Reconciling Beard with IRS Practice

The final question is "How to reconcile case law with IRS practice?" Given the current amount of identity theft, Chief Counsel's response to the IRSAC is somewhat persuasive: although "facially" meeting Beard requirements, "they [the suspended returns] also contain indicia that the return may have been filed by an

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[267] TS written response to questions from the IRSAC, September 23, 2025.

[268] October 14, 2026 written comment from the IRS.

[269] IR- 2024-294 (Nov. 21, 2024), effective beginning the 2025 filing season. IR-2024-294: IRS takes steps to help prevent refund delays by accepting duplicate dependent returns with an IP PIN for 2025 filing season; taxpayers encouraged to sign up soon for IP PIN, Online Account.

[270] https://www.irs.gov/identity-theft-fraud-scams/frequently-asked-questions-about-the-identity-protection-personal-identification-number-ip-pin#newq6.

[271] TS written response to questions from the IRSAC, June 1, 2026.

ID thief."[272] In other words, the IRS cannot determine if the taxpayer has actually executed the return until the taxpayer verifies their identity. "Execution under penalties of perjury" is the third prong of Beard.

Three Practical Problems

This leaves, however, at least three practical problems. First, there is no record of the return being filed until the taxpayer's identity is verified. If the one-time-only ID verification letter is lost in the mail or misdirected,[273] neither the taxpayer nor their representative (if they have one) will likely know how to resolve the problem so that a refund can be issued. (Unfortunately, the taxpayer's authorized representative does not always receive a copy of the ID verification letter.) The absence of a record can also have a chilling effect on IRS personnel. When practitioners ask if a client's return is suspended, representatives too often respond that they cannot answer that question. Second, as noted above, it is difficult to know what percentage of legitimate taxpayers fail to verify their identify because of systemic or technological barriers.[274] Third, although the IRS has advised taxpayers to include an IP PIN on their returns if their dependents have already been claimed by a third party, a significant number of those affected (1.99 million) did not follow that advice during the 2025 filing season.

Recommendations

The IRSAC recommends:

1. As soon as TPP suspends a Form 1040 for identity theft verification, record on the taxpayer's account transcript that processing of the Form 1040 is

[272] Undated 2025 email from IRS Chief Counsel in response to questions from the IRSAC.

[273] Low-income taxpayers may move frequently, making misdirected mail more likely.

[274] For 2025 returns, as of May 21, 2026, 39 percent had not responded to the ID verification request. TS written response to questions from the IRSAC, June 1, 2026.

suspended, stating in simple terms the reason for the suspension and what the taxpayer needs to do next.[275] For example:

"Processing suspended: taxpayer must verify identity."

2. Similarly, enhance the "Where's My Refund" function to clearly state that the return is suspended until the taxpayer verifies their identity.[276]
3. If the taxpayer has an authorized representative, consistently send a copy of the one-time notification letter to that representative.
4. Improve service on phone lines used to verify identity.
5. Continue education programs for the public (including social media such as YouTube) about what it means to have a return suspended for identity theft.
   a. These should explain, in simple language (a) the extent of tax-related identity theft among individual taxpayers; (b) what it means to have your Form 1040 suspended (i.e. you will not receive your refund); (c) the identity verification process; and (d) what to do if you never receive (or if you lose) the one-time-only letter with code.
   b. Leverage this program by partnering with practitioners, as well as existing VITA and TCE sites and Low Income Taxpayer Clinics, to get the word out through websites, posters, flyers and social media.
6. Implement an education program for parents who are no longer living with their former spouses/partners, but who believe they are eligible for child-based tax benefits.
   a. In addition to providing a clear, concise summary of who has a "qualifying child,"[277] this module should widely publicize appropriate use of
      i. IP PINs to claim a "qualifying child" who has already been claimed by a third party; as well as

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[275] Update from the IRS (October, 2026): "Accounts Management is working with IT to update the transcript as appropriate."

[276] See Fiscal Year 2027 National Taxpayer Advocate Objectives Report to Congress, page 45. https://www.taxpayeradvocate.irs.gov/reports/2027-objectives-report-to-congress/; Update from the IRS (October 2026): "This is in the works and is awaiting programming to complete."

[277] Section 152(c) and (e)

ii. Forms 8332, *Release/Revocation of Release to Exemption for Child by Custodial Parent*.[278]

b. Leverage this program by making posters and flyers available to state family courts as well as to family lawyers.[279]

[278] In some situations, Form 8332 can help settle parental disputes over taxes and incentivize child support.

[279] Many family lawyers are not aware that these alternatives exist.

ISSUE TWO: Strengthening the analytical basis for addressing Earned Income Tax Credit returns that report large Schedule C losses.

Executive Summary

The IRS asked the IRSAC to make recommendations concerning returns that claim both the Earned Income Tax Credit (EITC) and large Schedule C losses. The Service's goal is to prevent fraud and errors on these returns.

The IRSAC agrees that these concerns are legitimate. In fiscal year 2025, the Department of the Treasury reported an estimated $21.1 billion in improper EITC payments at an estimated improper payment rate of 32.7 percent, the highest rate of any Treasury program and the third highest of any federal program that reported an estimate.[280] The EITC is one of five program areas that together account for roughly 73 percent of all reported federal improper payments.[281] In addition, members of the IRSAC have seen an increase in the number of low-income taxpayer returns from third-party preparers with unsubstantiated Schedule C losses.

IRS subject matter experts have advised the IRSAC that large losses can increase the amount of EITC that taxpayers receive and that, based on audits of these returns, the losses generally are not substantiated.[282] IRS data also shows how far the reported losses exceed the underlying business activity: among taxpayers claiming the EITC and reporting a Schedule C loss in tax year 2024, the

[280] U.S. Government Accountability Office, Payment Integrity: Agencies' Estimated Improper Payments Increased to $186 Billion in Fiscal Year 2025, GAO-26-108694 (April 27, 2026), table 1. https://www.gao.gov

[281] GAO-26-108694, figure 2. The five program areas are Medicare, Medicaid, the Earned Income Tax Credit, the Supplemental Nutrition Assistance Program, and the Shuttered Venue Operators Grant program.

[282] GAO-26-108694, table 4. The Additional Child Tax Credit, the Refundable Premium Assistance Tax Credit, and the American Opportunity Tax Credit also reported rates above 10 percent, at 13.6, 31.6, and 30.7 percent respectively. See table 2.

median gross self-employment income was $2,500, while the median Schedule C loss was $12,500.[283]

What remains unexplained is the broader trend. The Government Accountability Office reported a $5.2 billion increase in estimated improper EITC payments between fiscal years 2024 and 2025 and a 5.4 percentage point increase in the improper payment rate, and noted that the Department of the Treasury's Agency Financial Report for fiscal year 2025 gave no reason for the change.[284] Across the federal government, failure to identify root cause is the largest single category of open Inspector General recommendations with respect to improper payments.[285] The IRSAC therefore recommends that the IRS build-out its analysis, update it with more recent tax years, and use it to direct resources, and that any resulting action begin with the least burdensome interventions, directed first at the paid preparers who complete the majority of these returns.

Background

The IRS asked the IRSAC to recommend ways to prevent fraud and errors on returns that combine an EITC claim with a large Schedule C loss. Some errors may result from taxpayer or preparer misunderstanding of the rules governing self-employment income and deductible business expenses. Where fraud occurs, the IRS has focused its compliance efforts on paid preparers who may be helping clients inflate their refunds, not on the taxpayers themselves. The IRSAC shares

[283] GAO-26-108694, table 5. Root causes accounted for 24 of the open recommendations issued to CFO Act agencies for fiscal year 2024, more than any other category. GAO notes that some recommendations were counted in more than one category.

[284] GAO-26-108694, figures 1 and 2 and tables 1 and 2. See note 3 regarding the three other refundable credits reporting rates above 10 percent.

[285] GAO-26-108694, figure 7 and appendix I, citing Department of the Treasury, Office of Inspector General, Financial Management: Audit of Treasury's Compliance with the PIIA Requirements for Fiscal Year 2024, OIG-25-027 (May 27, 2025).

the goal of preventing fraud while protecting the low-income taxpayers who rely on the credit.

EITC improper payments in national context

As noted above, the Government Accountability Office reported in April 2026 that federal agencies estimated about $186 billion in improper payments for fiscal year 2025, an increase of roughly $24 billion over the prior year. The EITC accounted for about $21 billion, or 11 percent of the government-wide total. Among the eight federal programs reporting at least $5 billion in estimated improper payments, the EITC reported the highest estimated improper payment rate at 32.7 percent, well above Medicaid at 6.1 percent and the Supplemental Nutrition Assistance Program at 10.9 percent. Three other refundable credits administered by the IRS also reported rates above 10 percent.[286] These figures confirm that EITC accuracy is a material payment integrity concern.

This is an issue that the IRS is under sustained external pressure to address. For fiscal year 2024, the Treasury Inspector General found the Service noncompliant with a Payment Integrity Information Act criterion requiring a reported improper payment rate below 10 percent and issued additional recommendations relating to reporting and estimation.[287]

What an improper payment estimate does and does not measure

An improper payment is defined by federal statute as:

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[286] 31 U.S.C. sec. 3352(c)(2)(A). Section 3351(4) supplies the general statutory definition of an improper payment quoted above. Government-wide in fiscal year 2025, overpayments accounted for $153.1 billion of the $186 billion total, with the balance consisting of underpayments ($10.0 billion), unknown payments ($14.3 billion), and technically improper payments ($8.4 billion). GAO-26-108694, figure 3.

[287] GAO-26-108694, table 5. Root causes accounted for 24 of the open recommendations issued to CFO Act agencies for fiscal year 2024, more than any other category. GAO notes that some recommendations were counted in more than one category. Separately, 13 of the 24 CFO Act agencies received 61 total recommendations for fiscal year 2024, of which 20 were repeated from prior years.

> "any payment that should not have been made or that was made in an incorrect amount . . . and includes any payment to an ineligible recipient."

The definition includes underpayments as well as overpayments. Separately, for purposes of producing these estimates, the statute directs agencies to treat as improper any payment whose propriety the agency cannot determine because documentation is insufficient or absent.[288] An improper payment estimate is therefore not a fraud estimate, and it is not a measure of intentional noncompliance. The IRSAC raises this distinction because the improper payment figures are frequently cited as though they were evidence of fraud, and because the design of an appropriate remedy depends on whether the underlying driver of error is, for example, statutory complexity, preparer misconduct, or the taxpayer's failure to document.

GAO's most recent review reinforces this point. Among the open recommendations that Inspectors General issued to CFO Act agencies on payment integrity compliance for fiscal year 2024, the largest single category, with 24 recommendations, concerned the identification of root causes.[289] The recurring finding across agencies is that estimates are produced without a sufficient account of what is producing them.

What IRS compliance data show

IRS data shared with the Subgroup indicate that this segment is both growing and disproportionately noncompliant. According to IRS subject matter experts, the percentage of EITC returns with a large Schedule C loss increased

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[288] 31 U.S.C. sec. 3352(c)(2)(A). Section 3351(4) supplies the general statutory definition of an improper payment quoted above. Government-wide in fiscal year 2025, overpayments accounted for $153.1 billion of the $186 billion total, with the balance consisting of underpayments ($10.0 billion), unknown payments ($14.3 billion), and technically improper payments ($8.4 billion). GAO-26-108694, figure 3.

[289] GAO-26-108694, table 5. Root causes accounted for 24 of the open recommendations issued to CFO Act agencies for fiscal year 2024, more than any other category. GAO notes that some recommendations were counted in more than one category. Separately, 13 of the 24 CFO Act agencies received 61 total recommendations for fiscal year 2024, of which 20 were repeated from prior years.

from 10 percent in tax year 2015 to 19 percent in tax year 2024.[290] Separately, IRS National Research Program audit data for tax years 2016 through 2020 show that EITC claimants reporting a large Schedule C loss overclaimed the credit at a rate of 81.6 percent, compared with 48.0 percent for EITC claimants with any Schedule C and 30.5 percent for EITC claimants overall. On average across those years, this group of roughly 650,000 returns accounted for an estimated $1.28 billion in EITC overclaims and $4.55 billion in total tax underreporting each year.[291]

The role of return preparers

IRS subject matter experts advised the IRSAC that in tax year 2024, paid preparers completed approximately 59 percent of Schedule C returns reporting large losses, up from 56 percent in tax year 2020, and approximately 64 percent of EITC returns that include a Schedule C, unchanged from tax year 2020. Neither figure isolates the population this issue concerns, which is the intersection of the two: returns that both claim the EITC and report a large Schedule C loss. Both available measures nonetheless indicate that paid preparers complete a substantial majority of the returns from which this segment is drawn.[292] This is consistent with the broader EITC population: the National Taxpayer Advocate has reported that 79 percent of returns claiming the credit were prepared by non-credentialed preparers, that 91 percent of IRS audits of EITC returns were of returns prepared by non-credentialed preparers, and that non-credentialed preparers were responsible for 99 percent of the credits disallowed through IRS examination.[293] IRS data for 2026 point in the same direction: among preparers with

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[290] Figures provided to the Subgroup by subject matter experts in the IRS Return Integrity and Compliance Services (RICS) organization. The 59 percent figure is the paid preparer share of Schedule C returns reporting large losses in tax year 2024, up from 56 percent in tax year 2020. The 64 percent figure is the paid preparer share of EITC returns that include a Schedule C in tax year 2024, unchanged from tax year 2020.

[291] National Taxpayer Advocate, 2023 Annual Report to Congress, Most Serious Problem 5, figure 2.5.2, Audit Rates and Dollars Adjusted on Prepared EITC Returns, Credentialed Versus Non-Credentialed Preparers, TY 2021. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_05_Return-Preparer.pdf

[292] Data provided to IRSAC by IRS Subject Matter Experts in August 2026.

[293] Low-income taxpayers may move frequently, making misdirected mail more likely.

25 or more EITC returns, between 92.2 and 94.5 percent of those who prepared 11 or more returns combining a large Schedule C loss with at least $1,000 in EITC held no professional credential, compared with 71.2 percent of preparers who prepared none.[294]

In the IRSAC's view, if a majority of the affected returns are produced by a comparatively small number of preparers, the most efficient point of intervention is the preparer rather than the low-income taxpayer. A low-income taxpayer who received incorrect advice about deductible business expenses is not well positioned to detect the error, and a notice or examination directed at that taxpayer imposes the cost of the preparer's conduct on the person least able to bear it.

Recommendations

The IRSAC recognizes the IRS's obligation to ensure that all taxes legally owed are collected and that refundable credits reach only eligible taxpayers. The IRSAC also observes that the EITC population consists overwhelmingly of low-income filers, that a majority of EITC returns are prepared by others, and that the compliance gain available from any intervention has not yet been quantified. The recommendations below are ordered accordingly: first establish a causal relationship, then apply the least burdensome action to correct the problem, then measure whether the intervention worked.

1. Focus on larger potential infractions first

The IRSAC recommends that the IRS select returns in this segment using a risk-based methodology informed by the Pareto principle, estimating each year the loss amount that captures the approximately 20 percent of preparers responsible for roughly 80 percent of potentially improper claims. Recalculating

[294] IRS, "Letters or phone calls about due diligence and filing errors," listing, among others, Letter 4858, You May Not Have Met Your Due Diligence Requirements, and Letter 5025-F, You Prepared Inaccurate Tax Returns - You Risk Penalties from an Audit. https://www.irs.gov/tax-professionals/eitc-central/letters-or-phone-calls-about-due-diligence-and-filing-errors

this amount annually, without publishing it, would make selection less predictable and more difficult to circumvent.

2. Update and publish the analysis of this segment

The National Research Program analysis the IRS shared with the Subgroup shows that EITC claimants with large Schedule C losses overclaim the credit at a rate well above that of EITC claimants generally. Because those estimates average tax years 2016 through 2020, before the growth in large-loss reporting through tax year 2024, the IRS should update them with more recent data, estimate this segment's share of the $21.1 billion fiscal year 2025 EITC improper payment estimate, and distinguish among causes such as unsubstantiated expenses, computational or eligibility errors, and suspected intentional misreporting.

3. Report on the root causes of the fiscal year 2025 increase

The Government Accountability Office reported a $5.2 billion increase in estimated improper EITC payments for fiscal year 2025 and noted that Treasury's agency financial report offered no reason for the increase. The IRS should identify and publish the drivers of that change, including any increase attributable to increased Schedule C loss reporting. Doing so would also respond directly to the pattern GAO identified, in which root causes were the most frequent subject of open Inspector General recommendations across federal agencies.

4. Begin with preparer-directed education and outreach

Given that paid preparers completed between 59 and 64 percent of the returns in the broader tax year 2024 populations from which this segment is drawn, the IRS should direct its first intervention at that population. The problem concentrates among a relatively small number of preparers. Of the roughly 121,000 preparers who filed 25 or more EITC returns, about 6,000 (5 percent) each filed more than 20 returns that combined the EITC with a large Schedule C loss.

Together, those 6,000 preparers filed 56 percent of all such returns[295]. IRS should deliver targeted guidance on substantiation requirements for business expenses, the treatment of losses in computing earned income, and due diligence obligations under I.R.C. section 6695(g).

5. Include plain-language guidance in letters sent before examination

The IRS currently sends due diligence letters to tax return preparers whose returns present a risk of potential errors or fraud.[296] However, these letters use generic language and do not explain which filing patterns or practices triggered the IRS's concerns. Consequently, preparers may not understand which specific conduct they should correct, reducing the letters' effectiveness as an educational and preventive intervention.

As discussed in the background section, the amount of tax revenue at risk is significant. The IRSAC therefore recommends developing a more targeted letter that could state:

> "We have identified that you prepared a significant number of tax returns reporting substantial Schedule C losses while also claiming the Earned Income Tax Credit and/or other refundable tax credits. We request that you review returns presenting these characteristics and file amended returns when appropriate.
>
> Failure to exercise the required due diligence may result in penalties under Internal Revenue Code section 6695(g), *Failure to Be Diligent in Determining Eligibility for Certain Tax Benefits*, and Treasury Regulation § 1.6695-2.
>
> If, during the next filing season, you prepare another significant group of returns presenting similar characteristics, your

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[295] See Fiscal Year 2027 National Taxpayer Advocate Objectives Report to Congress, page 45. https://www.taxpayeradvocate.irs.gov/reports/2027-objectives-report-to-congress/

[296] Section 152(c) and (e)

clients may be selected for audit, and you may be subject to a due diligence visit."

A more specific letter would give preparers a meaningful opportunity to identify which potential questionable practices are under IRS review and clearly communicate the potential consequences of failing to do so.

6. Deliver taxpayer education through existing trusted channels

Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites already reach the affected income population and are bound by IRS quality and due diligence standards. Because Schedule C returns with losses are outside the scope of VITA and TCE, and recognizing the training demands volunteers already carry, the IRS should consider providing these sites with brief guidance to help volunteers recognize these returns and refer taxpayers to appropriate assistance. Low Income Taxpayer Clinics, which represent taxpayers in disputes with the IRS, should be encouraged to include this topic in their education and outreach efforts.

7. Establish and publish measures of effectiveness

The IRS should define in advance what a successful intervention looks like, whether measured by change in the rate of large-loss reporting among affected filers, change in the improper payment estimate attributable to the segment, or the ratio of dollars protected to administrative cost. Results should be reported publicly and used to determine whether further action in this area is warranted. If the analysis shows that this population accounts for a small share of potential revenue loss, the IRSAC recommends that the IRS redirect its attention to segments where the return on investment is higher.

ISSUE THREE: OBBBA Refundable Adoption Tax Credit Education and Outreach Strategy

Executive Summary

As part of the One Big Beautiful Bill Act of 2025 (P.L. 119-21, July 4, 2025), Congress amended Section 23, Adoption Expenses to add Section 23(a)(4) making a portion of adoption expenses refundable. The IRSAC has been asked by Taxpayer Services to create an outreach and education strategy to disseminate information about the refundable portion of the Adoption Tax Credit to tax professionals, nonprofits, and community advocates. Our recommendations outline a comprehensive strategy to make both the tax preparer community and the general public aware of this valuable new refundable tax credit.

Background

As part of P.L. 119-21, Congress amended Section 23, Adoption Expenses to add Section 23(a)(4) making a portion of adoption expenses refundable.

Section 23 was originally signed into law as part of P.L. 104-188 in August of 1996 to create a nonrefundable credit for adoption expenses. The credit was capped at $5,000 for the adoption of an eligible child and $6,000 for the adoption of a child with special needs. There were income limitations on who could use the credit. Section 23 was amended multiple times, most recently on July 4, 2025 as part of P.L. 119-21.

The new legislation had two major effects on Section 23. It made a portion of the adoption credit refundable and allowed Indian tribal governments to determine whether a child qualified as a special needs child for the adoption credit.

The changes to Section 23 do not create new eligibility rules for the adoption credit. Rather, they simply make the credit partially refundable. Beginning in tax year 2025, up to $5,000 (indexed for inflation) of the adoption credit may be refundable.

The Adoption Tax Benefits: An Overview from the Congressional Research Service[297] (CRS) provides some metrics to guide policy considerations in this area. The majority of adoption tax credits go to upper-income Americans despite the fact that a substantial number of adoptions are made by lower and middle-income Americans. In 2022, for example, 47% of adoption tax credit claimants had income under $75,000, but these taxpayers received only 22% of the adoption tax credit dollars that year. This discrepancy in income levels relative to credit dollars is considered an economic "unfairness" by the CRS report. To make sure that adoption tax credits can be more widely utilized by lower and middle-income taxpayers, it is important to educate tax preparers and taxpayers about this new refundable credit.

Recommendations

The IRSAC recommends that the IRS adopt the following outreach and education strategy, which is set out in greater detail in Exhibit A:

1. Add Form 8839 (Qualified Adoption Expenses) to the scope of the VITA program. The new refundable portion of the adoption credit is intended mainly to benefit low- and middle-income families, the same taxpayers VITA serves. If VITA volunteers cannot prepare Form 8839, many of these families will either not learn about the refundable credit or be unable to claim it without paying for professional preparation. Bringing Form 8839 into scope would help the credit reach the people Congress meant it to help.

[297] Congressional Research Service, Adoption Tax Benefits: An Overview, R44745 (updated May 30, 2025), https://www.congress.gov/crs-product/R44745.

2. Develop plain-language educational content explaining what changed under P.L. 119-21 and why it matters. Materials should state that up to $5,000 (indexed for inflation) of the adoption credit is refundable for adoptions finalized in 2025 and later years, that the refundable portion must be claimed in the year the adoption is finalized and cannot be carried forward, that the nonrefundable remainder retains the five-year carryforward and that special needs determinations may now be made by Indian tribal governments. Content should confirm that the credit applies to domestic private, international, foster care and special needs adoptions, and should direct taxpayers to Form 8839, Qualified Adoption Expenses, and to the IRS adoption credit landing page.
3. Prioritize outreach to the populations for whom refundability is most consequential. Primary audiences are (1) foster-to-adopt families, (2) prospective adopters with household income of approximately $30,000 to $100,000 who cite cost as the principal barrier to adoption, (3) social service agencies at the county level in all states and (4) VITA volunteers and paid preparers who serve these households. Secondary audiences are special needs adoption advocates, adoption agency staff and caseworkers, and faith communities that operate adoption ministries.
4. Adopt a plain-language core messaging framework tailored by audience. Messaging should define the term “refundable” rather than assume familiarity with it, lead with the concrete $5,000 cash-back figure rather than the $17,280 maximum credit, note that the adoption credit may be claimed alongside the child tax credit and the child and dependent care credit, and identify the income phase-out threshold so that working families understand the credit is designed for them.
5. Deploy a coordinated digital outreach campaign. The campaign should include short explainer videos, graphics contrasting prior and current law and shareable image cards distributed across major social media platforms; to the extent the IRS’s authority permits, paid placements targeted to parents aged 25 to 50 within the relevant income range; and Stakeholder Liaison

email outreach to adoption agencies, foster parent associations, state child welfare agency newsletters, United Way affiliates, legal aid organizations and community action agencies.

6. Build community partnerships with agencies and organizations that assist with adoptions. Working through Stakeholder Liaison, VITA sites and Low Income Taxpayer Clinics, the IRS should (1) place a one-page explainer in adoption agency intake packets, (2) train caseworkers and social workers through brief lunch-and-learn webinars, (3) present at foster parent orientations and PRIDE training sessions, (4) coordinate with national partners such as Families Rising and the Dave Thomas Foundation for Adoption, (5) supply bulletin inserts and talking points to faith leaders, and (6) support community workshops, exhibit tables at adoption fairs and child welfare conferences, and virtual question-and-answer sessions.
7. Equip the tax preparer network to identify eligible clients. The IRS should (1) create a one-page adoption credit checklist for every VITA site, (2) add an adoption credit module to VITA training materials, (3) offer a free continuing education webinar for enrolled agents and CPAs, (4) provide a front-desk intake script prompting preparers to ask every client whether they adopted a child during the year, and (5) partner with the National Association of Tax Professionals (NATP), the National Association of Enrolled Agents (NAEA), state CPA societies, national return preparation firms, the AICPA, the ABA Tax Section, tribal governments, and the AARP Tax-Aide program.
8. Conduct a public relations campaign through consumer and specialty media. This should include press releases featuring family case studies, pitches to local television consumer segments, radio segments, placements with adoption-focused and family finance podcasts and websites, and outreach to personal finance publications.
9. Produce a standard set of print and digital materials for IRS and partner use. Print materials should include a one-page flyer with a Quick Response (QR) code, an FAQ brochure answering the ten most common questions about the credit, a poster and a caseworker tip sheet designed for a 30-second

handoff, each available in English, Spanish and other high-demand languages and in an ASL-friendly layout. Digital assets should include a platform-sized social media graphics pack, a captioned 90-second animated explainer video in English and Spanish, and a modular 10- to 20-slide deck that partner organizations can co-brand.

10. Implement the campaign in three phases and measure the results. Phase one should build general awareness beginning immediately, phase two should target the 2027 filing season with social media placements and community presentations, and phase three should evaluate campaign performance and recruit additional community partners. The IRS should set targets for the success metrics identified in Exhibit A, including landing page visitors, materials distributed, partner organizations enrolled, social media impressions, VITA volunteers trained, press placements, workshop attendance and preparer continuing education completion.

Exhibit A

IRSAC Proposed Adoption Credit Outreach and Education Strategy

This is the IRSAC's recommended IRS Public Education and Marketing Strategy for tax professionals, nonprofits, and community advocates related to the new refundable adoption tax credit found in Section 23(a)(4) as created by P.L. 119-21.

This strategy plan is a combined effort between traditional IRS outreach channels and outreach through community partners. VITAs and LITCs can be particularly helpful in partnering with the IRS to get the word out about the new refundable portion of the Adoption Credit. VITAs can reach the target audience of low- and middle-income taxpayers at filing and LITCs can partner with community organizations on a micro level to get the word out. The IRS can partner with large national organizations including networks of tax preparers as recommended below.

1. Explaining the Credit to Taxpayers: What Changed and Why It Matters

Before P.L. 119-21 (Pre-2025)

The adoption credit was entirely nonrefundable. It could reduce a family's tax bill to zero, but if they owed nothing in federal taxes, common for lower-income families, they received no tax benefit for the year of adoption. Unused credit could carry forward for up to five years, but families with persistently low incomes might never benefit.

After P.L. 119-21 (2025 and later tax years)

Up to $5,000 of the adoption credit is now refundable, indexed annually for inflation. This means even families with zero tax liability can potentially receive a check. The remaining credit above $5,000 remains nonrefundable with the existing

five-year carryforward. Special needs adoptions qualify for the full credit regardless of actual out-of-pocket expenses.

The credit applies to:

- Domestic private adoptions
- International adoptions
- Foster care adoptions
- Special needs adoptions (full credit regardless of expenses incurred)
- Adoptions where special needs determinations are made by Indian tribal governments (new under P.L. 119-21)

Important filing details to relay to both taxpayers and community partners:

- File for the credit using IRS Form 8839
- For further information or questions, direct taxpayers to new IRS landing page with easy-to-understand details
- The refundable portion cannot be carried forward so taxpayers must claim it in the year of adoption finalization
- The nonrefundable remainder carries forward for up to five years
- The amount of the credit is reduced at certain income levels and phased out entirely at certain income levels
- All key amounts are indexed for inflation annually

2. Target Audiences

To reach the broadest number of taxpayers, the IRS should direct its resources in a targeted manner. The primary audience would be those most likely to have the largest benefit from the revised credit. Reaching all the audiences described below can be achieved through a targeted IRS social media strategy in combination with outreach efforts by LITCs and VITA sites.

Primary Audiences

Foster-to-Adopt Families

This refers to families and individuals currently fostering who are considering or in process of adoption. These are often lower-to-middle income individuals who previously had no tangible benefit from the credit. The $5,000 refundable portion is a direct financial game-changer for this group.

Priority level: Highest impact / Most underserved by prior law.

Low- and Middle-Income Prospective Adopters

This category applies to families and individuals who want to adopt but cite cost as the primary barrier. These households have income of approximately $30,000 to $100,000. The refundable portion of the credit directly offsets court fees, legal fees, home study costs, and travel expenses that previously stood between these families and adoption.

Priority level: Highest impact / Cost is the number one stated barrier.

VITA Volunteers and Tax Preparers

Volunteer Income Tax Assistance (VITA) sites serve exactly the low-to-moderate income families who benefit most. Every VITA preparer should know this credit thoroughly and ask every potentially eligible client about adoption.

Priority level: Highest Impact/ Reach many taxpayers who might not otherwise be aware of the refundable credit.

Secondary Audiences

Special Needs Adoption Advocates

This category focuses on advocates working with families and individuals adopting children with documented special needs. These adoptions qualify for the

full $17,280 credit, including the $5,000 refundable portion, even with zero qualifying expenses.

Adoption Agency Clients and Social Workers

Caseworkers and adoption agency staff are natural information conduits. Educating them turns them into a force multiplier. Every family they advise gets the message without additional outreach cost.

Faith Communities

Churches, mosques, synagogues, and faith-based nonprofits often run adoption ministries or support networks. Pastors, ministers, imams, rabbis, and priests are trusted messengers who can gather people who closely match the target demographic profile.

3. Core Messaging Framework Suggestions

Below are suggested messages for various target audiences:

The Headline Message

The adoption process just became more affordable. A new federal law means you could get up to $5,000 back, even if you owe nothing in taxes.

Supporting Messages by Audience

For Foster and Low-Income Families

You do not have to owe taxes to get money back. If you adopt in 2025 or later, the IRS can send you up to $5,000 as a refund check, no tax bill required.

For Special Needs Adoption

No out-of-pocket expenses? No problem. If you qualify from an income perspective and your child has been determined to have special needs by your

state or tribal government, you qualify for the full $17,280 credit automatically, including $5,000 in cash back.

For Faith Communities

If your congregation supports adoption ministry, this is news worth sharing. Federal law now provides up to $5,000 as a direct payment to adopting families, a real difference for families considering adoption.

For Tax Professionals and VITA Volunteers

Ask every client whether they adopted. For those who adopted: the adoption credit now has a $5,000 refundable component. Clients with little or no tax liability can receive cash they previously could not access.

Recommendation: What to Avoid in Messaging

- Do not say 'tax credit' without immediately explaining what it means in plain terms
- Do not use the word refundable without defining it. Most taxpayers do not know the difference between refundable and nonrefundable credits
- Do not lead with the maximum credit of $17,280; start with the $5,000 cash-back figure first as it is more concrete

Recommendation: Key Talking Points

- The old credit helped only qualifying families who owed taxes; this helps everyone
- If you qualify, you will receive $5,000 cash back even if you don’t owe; this is new as of 2025
- Special needs adoptions: full $17,280 credit, no expenses/receipts required for families who qualify
- The adoption tax credit stacks with other credits such as the Child Tax Credit and Child and Dependent Care Credit
- To claim, file Form 8839 with your tax return

- Income phase-out begins at approximately $259,190 (in 2025); this credit is designed for working families
- The credit applies to adoptions finalized in 2025 and later; if you adopted in 2025 or later, act now

4. Outreach Channels

The following are all potential outreach channels and strategies with suggested organizations to carry out the outreach:

Digital Outreach

Social Media (to be done by the IRS)

Platforms: Facebook, Instagram, TikTok, YouTube Shorts, Pinterest

- Short explainer videos: 'What is a refundable credit?'
- Before-and-after comparison graphics showing old versus new law
- Real family testimonials with permission
- Shareable 'Did you know?' image cards
- Paid targeting: parents aged 25 to 50, income $30K to $100K, foster care interest, faith community interest
- Partner with adoption-focused social accounts and foster parent Facebook groups

Email and Direct Digital Outreach (to be Done by Either IRS or Community Partner)

- Email list of adoption agencies, foster parent associations, and support groups (LITCs, VITAs, Stakeholder Liaison)
- Request inclusion in state child welfare agency newsletters (Stakeholder Liaison)
- Send to United Way affiliates, legal aid organizations, and community action agencies (Stakeholder Liaison, LITCs)

Community Partnerships

Adoption Agencies and Foster Networks (IRS Stakeholder Liaison and LITCs)

- Partner with state and local adoption agencies to include a one-pager in every intake packet (IRS)
- Train social workers and caseworkers via 30-minute lunch-and-learn webinars (IRS)
- Speak at foster parent orientation meetings and PRIDE training sessions (IRS or LITCs)
- Partner with Families Rising (formerly NACAC (North American Council on Adoptable Children)) (IRS and LITCs)
- Coordinate with the Dave Thomas Foundation for Adoption (IRS or LITCs)

Faith Communities (Stakeholder Liaison, VITAs, and LITCs)

- Provide bulletin inserts and sermon talking points for faith leaders
- Host a brief presentation at congregation adoption ministry events
- Offer printed materials sized for bulletin boards and welcome tables

Tax Preparer Network

VITA Sites and Professional Preparers (IRS)

- Develop a VITA adoption credit checklist: laminated, one page, at every site
- Add learning module to VITA training materials
- Provide freeCEcredit webinar for enrolled agents and CPAs
- Create a front-desk intake script: 'Did you adopt a child in 202[-]?'
- Partner with NATP, NAEA, and state CPA societies for member outreach
- Target H&R Block, Jackson Hewitt, and AARP Tax-Aide programs

Public Relations (IRS)

- Issue press releases with compelling family case studies
- Pitch local TV news consumer segments: 'New law puts money back in adopting families' pockets'
- Target adoption-focused podcasts and parenting and family finance shows
- Submit information to adoption.com, adoptivefamilies.com, and foster care news outlets
- Pitch Kiplinger, NerdWallet, and The Balance for personal finance coverage

In-Person Events (VITAs, LITCs)

- Conduct free Adoption Tax Benefit workshops at libraries and community centers
- Host an exhibit table at adoption fairs, foster care conferences, and child welfare summits
- Host virtual Q and A sessions on Facebook Live or Zoom

5. Recommended Marketing Materials

Print Materials (to be provided by the IRS)

One-Page Flyer

Design: simple, QR code linking to the IRS page explaining the refundable adoption credit. It should be made available in English, Spanish, other high-demand languages, and an ASL-friendly layout. These flyers should be distributed in adoption agency waiting rooms, courthouse bulletin boards, VITA site lobbies, libraries, and churches.

FAQ Brochure

This should answer the ten most common questions about the credit in plain language. Designed for a family to pick up and understand without any tax background.

Poster

This should feature a bold headline, simple bullet points, and a QR code. It should be designed for adoption agency waiting rooms, courthouse bulletin boards, VITA site lobbies, libraries, and places of worship.

Caseworker Tip Sheet

This should be a one page, bullet-point format, designed for a 30-second handoff conversation. It should tell the caseworker exactly what to say and where to send the family for more information.

Digital Assets (to be provided by IRS)

Social Media Graphics Pack

- Sized for Facebook, Instagram, TikTok thumbnail, and Pinterest
- Consistent visual identity across all platforms
- Three message variants: general awareness, special needs focus, tax season urgency

Explainer Video (90 Seconds)

- Animated, attention-grabbing, captioned, plain language
- Available in English and Spanish
- Formatted for both YouTube and TikTok.

Slide Deck for Webinars and Presentations

- 10-20-slide modular deck covering: what changed, who benefits, how to claim, and where to get help
- Customizable opening slide for partner organization branding

6. Campaign Phases

This campaign should be undertaken in phases with phase 1 focusing on building awareness (starting now). Phase 2 should target tax season (Spring 2027) and should be accompanied by a social media campaign as well as additional community presentations. Phase 3 should focus on evaluating the success of the outreach strategy as well as adding additional community partners.

7. Suggested Success Metrics[298]

Metric	Target
Landing page unique visitors	
Flyers distributed	
Partner organizations enrolled	
Social media impressions	
VITA volunteers trained	
Press placements secured	
Workshop attendance	
Partner organization share rate	

[298] Targets to be set by IRS

ISSUE FOUR: Unapplied Payments – Secondary SSN

Executive Summary

In accordance with Executive Order 14247, Modernizing Payments to and from America's Bank Account (March 25, 2025), the IRS has been pursuing an aggressive program to digitalize both its disbursements (for example tax refunds) and receipts (for example payments). This program includes all taxpayers whether individual or business.

The following recommendations are made for joint 1040 filers using Direct Pay as one alternative[299] to electronically make tax payments. Taxpayers using Direct Pay have experienced payments being made by the secondary SSN on a jointly filed tax return not being applied to a joint return balance due. While the IRS does instruct on irs.gov that the taxpayers must use the primary SSN to make payments, the instruction is hidden below an expansion tab and missed and even if found, could be made clearer. Payments made using the secondary SSN are held as overpayments for the secondary SSN and issued as refunds to the secondary filer leaving the joint balance due underpaid with attendant consequences.

The IRSAC makes four recommendations to mitigate or eliminate this experience. These recommendations address the presentation of the married-filing-jointly instruction on irs.gov, the clarity of that instruction, direct communication with tax preparers, and evaluate and update the account and payment processing rules in Direct Pay necessary to ensure payments made by either spouse are appropriately associated with a joint liability.

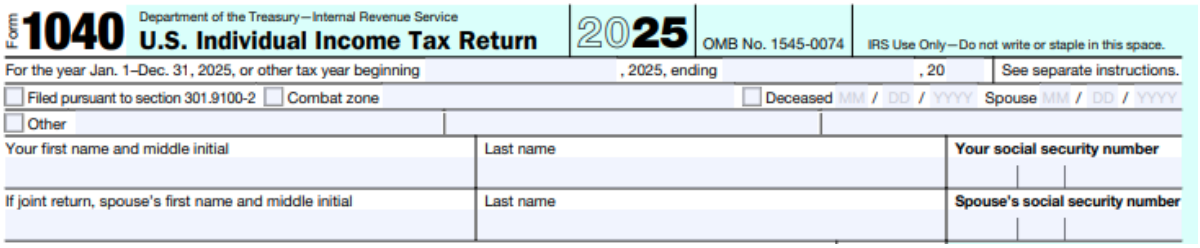
[299] See https://www.irs.gov/payments

Background

In response to Executive Order 14247, Modernizing Payments to and from America's Bank Account,[300] the IRS has stepped up efforts to promote the use of its various electronic payment options.[301]

Of the 162.8 million 1040 tax returns reported as filed in the Internal Revenue Service 2025 Databook,[302] 116.9 million 1040 refunds were issued[303], leaving 45.9 million balance due out of which 16.3 million were paid using Direct Pay.[304]

Form 1040 filed by a married couple filing jointly, lists spouses as shown here with the "secondary SSN" being the spouse listed on the second line.



Form 1040	Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Return	2025	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2025, or other tax year beginning	, 2025, ending	, 20		See separate instructions.
☐ Filed pursuant to section 301.9100-2 ☐ Combat zone		☐ Deceased MM / DD / YYYY	Spouse MM / DD / YYYY	
☐ Other				
Your first name and middle initial	Last name		Your social security number	
If joint return, spouse's first name and middle initial	Last name		Spouse's social security number	

Unfortunately, within a highly successful program, more than one tax preparer has reported through IRSAC members (including IRSAC members themselves who are professional preparers) that payments made through Direct Pay by the secondary SSN on a jointly filed 1040 return, including returns where the primary filer passed within the tax year and the return filed is the last return for the deceased, are not applied to the jointly filed balance due 1040 tax return. The payments made using the Secondary SSN are treated as overpayments and refunded to the secondary SSN. The refund to the secondary SSN subsequently

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[300] Executive Order 14247, Modernizing Payments To and From America's Bank Account, March 25, 2025; https://www.whitehouse.gov/presidential-actions/2025/03/modernizing-payments-to-and-from-americas-bank-account/.

[301] See https://www.irs.gov/payments.

[302] See https://www.irs.gov/pub/irs-pdf/p55b.pdf, Page 4.

[303] Ibid, Page 2.

[304] Ibid, Page 22.

results in the balance due on the jointly filed return becoming past due and subject to penalty and interest.

The IRS does understand this limitation within its Direct Pay Program as it has provided specific instructions on its website[305] under an expandable tab titled "If you're married filing jointly". The language under this expandable read:

Important: Enter information for the spouse whose name is listed first on the tax return when you make your payment. This lets us correctly credit the payment to the account.

To some, this instruction may be clear. To others, possibly not. For example, does this include estimated payments? Is there an issue if the spouse listed first has died? Also, many taxpayers would reasonably presume that any payment with their SSN will be associated with the return they filed that shows their SSN, regardless of whether their name is listed first or second on the return. The IRSAC believes there may be three possibilities to help with any confusion. First would be to default the expandable as open and strengthen the highlight and font size of the instruction. Second is to visually picture the instruction. Three, address the scenario where the primary taxpayer is deceased.

Furthermore, given that this is a limitation, the IRS should proactively outreach to tax preparers emphasizing the importance of getting this right when making payments.

Additionally, it is not completely clear whether this same situation applies to payments through Online Account. Walking through this option, the taxpayer is not asked to identify themselves as either the primary or secondary filer, suggesting this is not an issue using online accounts. IRS should evaluate whether Individual Online Account and Direct Pay apply joint-liability payments differently and determine the appropriate technical solution."

[305] See https://www.irs.gov/payments/direct-pay-with-bank-account

Recommendations

The IRSAC recommends that the IRS:

1. Default the instruction labeled “If you’re married filing jointly” on the “Pay personal taxes from your bank account”[306] page on irs.gov as “expanded” thereby not requiring the taxpayer to manually expand the instruction.
2. Make the language provided more comprehensive.
3. Issue a special communication to tax preparers emphasizing the need to use the primary SSN when using Direct Pay.
4. Evaluate and update the account and payment processing rules in Direct Pay necessary to ensure payments made by either spouse are appropriately associated with a joint liability.

[306] See https://www.irs.gov/payments/direct-pay-with-bank-account

ISSUE FIVE: Engaging and Encouraging Saver's Match Participation

Executive Summary

The IRS developed an initial communication and outreach plan to taxpayers and various stakeholders to promote participation in the Saver's Match Program that begins in 2027 as authorized by the SECURE 2.0 Act of 2022. The IRS sought feedback from the IRSAC for its report to Congress on or before July1, 2026 (as required by the Act). This report recaps the recommendations made to the IRS prior to the release of the report to Congress. The IRSAC's recommendations address the need to educate lower-income taxpayers who lack access to workplace retirement plans or the funds to contribute to them, to proceed with the outreach channels the IRS has already identified and to expand outreach to state and local trade associations, community institutions and faith communities.

Background

The IRSAC received an initial overview of the Saver's Match Initiative and Communication Strategy on January 13, 2026. The IRS Communication Strategy reflected two phases. Phase One focused on building general awareness and Phase Two on education covering key details of the program. Four major action categories were established to support these two phases.

1. Identify Target Audience and Critical Stakeholders
2. Identify Communication Channels and Tools
3. Engage with External Stakeholders
4. Develop Congressional Report

Each of the first three contained a number of named actions.

Subsequently, the IRSAC was briefed on May 5, 2026. This briefing included a number of new elements including an eligible population for outreach of 55.2 million. New elements included:

1. A comparison of Saver's Match to Trump Accounts
2. Eligibility Account Options
3. Disbursement Method and Process Maps
4. Development and Deployment Plans
5. A Draft of new Form 8880A to request the match
6. Plans for a new IRS.gov page
7. Pre-Filing Season Deployment Activities

The IRSAC is quite impressed with the progress the IRS has made to make this program successful.

Recommendations

Generally, the emerging communication plans initially identified were thoughtful and covered the basics. The IRSAC offers the following additional recommendations beyond the actions the IRS had already identified.

1. Recognize that Saver's Match Program promotion efforts face a bigger challenge of educating lower income taxpayers (the primary target audience) who do not have access to qualified retirement plans or funds to contribute. These individuals may need information not only on the merits of the program, but also information about how to open an IRA account. Federal law does not require that employers offer 401(k) or equivalent plans, although a number of states have state-sponsored IRA programs that require employers without a retirement plan to facilitate payroll contributions. Where employers, especially smaller businesses, do not offer qualified retirement plans, taxpayers would need to open IRAs to participate in the program.
2. Proceed with implementing the program shared with the IRSAC including outreach to tax preparers, financial institutions, plan administrators,

employers and the tax software industry, establishing a Saver's Match website, employing social media promotional placements, and outreach through VITA, Low Income Taxpayer Clinic (LITC), National Tax Forums and relevant paper channels, such as notices and publications mailed to taxpayers. These are channels previously employed to educate the taxpaying community about refundable credits, and it makes sense to employ them here.

3. Expand outreach to include state and local trade associations serving groups like landscapers, restaurant owners, construction workers, roofers, home builders, farmers, town and city governments, localized congressional offices, chambers of commerce, high schools, technical and trade schools, and community colleges. In addition, reaching out to faith communities would be useful as many of these groups provide practical financial education to the communities they serve. While some of these outreach efforts may be contemplated by the drafters of the plan, they were not explicitly identified in the meeting held or the materials provided to the IRSAC.

ISSUE SIX: Preventing Tax Scams and Fraud Suffered by Low-to-Moderate Income Taxpayers by Enhancing and Expanding the Successful VITA Program

Executive Summary

The IRSAC understands the IRS currently has limited capacity to deliver fraud- and scam-prevention initiatives and tax education resources to low- and moderate-income taxpayers. The IRS's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs provide free tax-return preparation by IRS-certified volunteers operating within the rigorous supervision and quality-control frameworks of nonprofit organizations. Although these programs have expanded in recent years, their growth has been modest, especially considering the millions of taxpayers who still do not have access and could benefit from these programs. Strengthening and scaling these trusted, accessible programs would extend the IRS's reach and help reduce—and ultimately prevent—the fraud and scams that disproportionately harm vulnerable taxpayers.[307]

[307] 79% of returns that included an EITC claim were prepared by non-credentialed tax preparers, and 91% of the IRS audits to EITC returns were directed toward those tax returns prepared by non-credentialed tax preparers. "Non-credentialed preparers were responsible for 99 percent of the credits disallowed by IRS Examination." "This snapshot of data drawn from prepared returns claiming the EITC suggests that non-credentialed preparers are less equipped than their credentialed counterparts to accurately determine their clients' tax liabilities. In turn, this poor performance subjects taxpayers to a range of potential hardships, including refund delays or refunds that must be paid back…" Figure 2.5.2: Audit Rates and Dollars Adjusted on Prepared EITC Returns, Credentialed Versus Non-Credentialed Preparers, TY 2021 https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_05_Return-Preparer.pdf

Background

Origins of the VITA Program

The IRS's Volunteer Income Tax Assistance (VITA) program originated under the Tax Reform Act of 1969. It was established to expand taxpayer education and provide free tax assistance to low- and moderate-income individuals through trained community volunteers. The program's original objectives were to help underserved taxpayers understand and meet their federal tax obligations, prepare and file accurate returns, and claim the tax benefits for which they were eligible. Although VITA initially operated without direct federal financial support, Congress established a federal matching-grant program in 2007. The Grant Program Office administers the program within the IRS Taxpayer Services Division's Stakeholder Partnerships, Education, and Communication (SPEC) function.[308]

Deficiencies in the VITA application process

The process for obtaining VITA recognition and establishing a site is not clearly or publicly documented, making it difficult for prospective organizations to navigate. The IRS website includes some pages about becoming a VITA site[309], and SPEC relationship managers also conduct outreach in the field to identify potential VITA partners. When a SPEC relationship manager is involved, they may help new partners navigate the complex process and understand its steps and requirements.

To initiate the process, an organization must email partner@irs.gov and complete a sign-up form.[310] The same sign-up form is used both by individuals seeking to become VITA volunteers—who may prepare only a few dozen returns—

[308] Pub 4883 https://www.irs.gov/pub/irs-access/p4883_accessible.pdf

[309] "Become and IRS partner to help in your community", https://www.irs.gov/individuals/become-an-irs-partner-to-help-in-your-community

[310] VITA/TCE Volunteer and Partner Sign Up Form https://freetaxassistance.for.irs.gov/s/sign-up-form

and by organizations seeking to operate VITA sites, which may recruit and train dozens of volunteers and prepare thousands of returns.

After signing up to become a VITA partner, the organization must complete and sign the "VITA/TCE Partner Sponsor Agreement"[311], and must develop a service plan in partnership with the assigned SPEC representative. This part of the process is repeated every year the organization operates the site.

During regular operations, the site must follow the requirements established in the "VITA/TCE Handbook for Partners and Site Coordinators".[312]

The complexity of opening a new VITA site may be one reason the number of sites has remained relatively stable over the past five years. The table below shows the change in the total number of VITA sites by state during this period:

State/Unit Count	Total Filing Season 2022 VITA Site Count	Total Filing Season 2023 VITA Site Count	Total Filing Season 2024 VITA Site Count	Total Filing Season 2025 VITA Site Count	Total Filing Season 2026 VITA Site Count
AE	30	28	8	9	2
AK	5	52	51	49	47
AL	101	90	78	86	76
AP	20	19	8	8	6
AR	62	65	60	82	84
AZ	112	116	114	106	100
CA	498	547	581	579	584
CO	92	100	117	112	94
CT	100	106	105	102	107
DC	19	16	17	20	17
DE	17	14	14	17	15
FL	298	330	357	328	322

[311] VITA/TCE Partner Sponsor Agreement, Form 13533. https://www.irs.gov/pub/irs-pdf/f13533.pdf

[312] Publication 5683, VITA/TCE Handbook for Partners and Site Coordinators, https://www.irs.gov/pub/irs-pdf/p5683.pdf

State/Unit Count	Total Filing Season 2022 VITA Site Count	Total Filing Season 2023 VITA Site Count	Total Filing Season 2024 VITA Site Count	Total Filing Season 2025 VITA Site Count	Total Filing Season 2026 VITA Site Count
GA	94	80	133	122	122
HI	45	39	34	34	32
IA	62	85	97	101	98
ID	22	26	27	32	31
IL	94	87	81	85	94
IN	109	103	89	106	95
KS	45	42	46	39	46
KY	70	69	68	73	77
LA	99	107	97	115	107
MA	66	83	96	100	91
MD	56	56	61	59	58
ME	32	39	34	31	38
MI	172	172	180	189	188
MN	113	143	154	169	165
MO	118	100	121	108	110
MS	45	52	48	58	58
MT	29	15	15	13	9
NC	166	115	136	134	123
ND	12	13	10	13	13
NE	27	22	33	23	30
NH	15	18	16	18	17
NJ	88	86	89	102	90
NM	20	23	29	26	26
NV	30	21	32	40	32
NY	316	340	369	348	397
OH	134	140	157	157	143
OK	154	94	90	82	68

State/Unit Count	Total Filing Season 2022 VITA Site Count	Total Filing Season 2023 VITA Site Count	Total Filing Season 2024 VITA Site Count	Total Filing Season 2025 VITA Site Count	Total Filing Season 2026 VITA Site Count
OR	21	32	35	50	40
PA	166	205	214	207	200
PR	293	44	24	29	27
RI	25	25	25	27	26
SC	118	120	127	128	112
SD	34	37	34	34	34
TN	81	79	75	82	76
TX	275	274	281	316	303
UT	64	69	73	58	74
VA	133	131	117	123	111
VT	13	19	28	23	23
WA	35	54	77	86	74
WI	70	70	85	75	70
WV	108	94	90	81	80
WY	16	14	14	13	14
SPEC HQ / Overseas	2	2	2	3	n/a
Total	**5041**	**4922**	**5153**	**5210**	**5076**

Source: Prepared by the IRSAC based on data shared by IRS subject matter experts in August 2026.

The table shows small year-to-year fluctuations in both directions at the national level. It also shows that fewer VITA sites served taxpayers during the 2026 filing season (tax year 2025) than in each of the two previous years. According to the IRS, being a new site is one of the selection criteria for quality-assurance field site visits, and while SPEC force does not track new sites, SPEC territory offices have this information.

VITA's role in preventing fraud and scams

VITA sites help prevent scams and tax fraud by providing eligible taxpayers with a free, IRS-supported alternative to potentially unscrupulous return preparers and by incorporating safeguards into the tax-preparation process. VITA sites serve taxpayers with a median adjusted gross income below $30,000.[313] Without access to these services, some taxpayers may turn to dishonest preparers who charge relatively low fees but falsify return information to inflate refunds and claim a portion of the proceeds. Taxpayers may remain unaware of this misconduct because they lack the expertise needed to understand the tax forms or verify the information reported on their returns. VITA sites are effective tools for preventing tax fraud and scams for several key reasons:

- **Trained, IRS-certified volunteers.** Before working at a VITA/TCE site, volunteers must annually pass the applicable certification tests, including the Volunteer Standards of Conduct certification, and sign an ethics agreement, Form 13615, Volunteer Standards of Conduct Agreement-VITA/TCE Programs, agreeing to follow the Volunteer Standards of Conduct (VSC). Volunteers performing duties requiring tax law knowledge must also pass the applicable tax law certification.

- **Verification of identity and taxpayer information.** Prior to tax return preparation, VITA/TCE sites review government-issued photo identification, Social Security cards or Individual Taxpayer Identification Number (ITIN) letters, relevant tax documents, and any Identity Protection Personal Identification Number (IP PIN). These procedures help prevent identity theft and fraud.

- **VITA/TCE sites conduct a structured interview.** Volunteers use Form 13614-C, Intake/Interview and Quality Review Sheet,[314] to conduct the intake and interview process and to identify missing or

[313] Read table below, under the "VITA Performance over the years" section.

[314] IRS Form 13614-C https://www.irs.gov/pub/irs-pdf/f13614c.pdf

incomplete information, questionable claims, prior identity theft, eligibility for credits, filing status, dependents, income, and expenses needed to prepare an accurate return.

- **VITA/TCE sites require quality review.**[315] Every return prepared at a VITA/TCE site must receive a complete quality review. The quality review includes Form 13614-C, supporting documents, and the completed tax return, with taxpayer participation in the process. This helps identify errors or discrepancies before the return is filed.

- **VITA/TCE sites protect taxpayer data.** VITA/TCE partners and volunteers must follow IRS requirements[316] for privacy, confidentiality, and security of taxpayer information, including secure computers and networks, physical records, remote communications, data retention and disposal of taxpayer information.

- **VITA/TCE sites operate under IRS quality oversight.** IRS reviews assess return accuracy and adherence to Quality Site Requirements (QSR), which are designed to ensure the quality and accuracy of tax return preparation and consistent site operation.[317]

- **VITA sites reduce exposure to "ghost preparers" and refund schemes.** This problem was included in the most recent "Dirty Dozen" list.[318] Dishonest preparers may promise inflated refunds, invent credits, redirect refunds or refuse to identify themselves on returns. Using a VITA site keeps taxpayers away from those dishonest preparers. Moreover,

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[315] VITA's Intake/Interview & Quality Review Process https://apps.irs.gov/app/vita/content/globalmedia/check_your_work_4012.pdf

[316] Publication 4299, Privacy, Confidentiality, and Civil Rights. https://www.irs.gov/pub/irs-pdf/p4299.pdf

[317] Fact Sheet: SPEC Quality Oversight Reviews: What to Expect For SPEC Partners. Pub6050 https://www.irs.gov/pub/irs-pdf/p6050.pdf

[318] IRS news release, March 5, 2026, "Dirty Dozen tax scams for 2026: IRS reminds taxpayers to watch out for dangerous threats" https://www.irs.gov/newsroom/dirty-dozen-tax-scams-for-2026-irs-reminds-taxpayers-to-watch-out-for-dangerous-threats

a return e-filed by a VITA site includes a Site Identification Number (SIDN), a first barrier against fraud and scams.[319]

Eligible Population

Although the IRS does not prescribe specific eligibility requirements for taxpayers seeking services at VITA sites, the program focuses on serving taxpayers who are below EITC thresholds. Many sites offer free tax assistance to low-to-moderate income taxpayers, persons with disabilities, and taxpayers with limited English proficiency. In practice, in 2026 (tax year 2025), this focus has been interpreted to mean that most households served by the VITA site should have an income below $68,000. This amount is adjusted annually by different stakeholders in the field without any IRS supervision or direction.

Table 1 of the IRS Filing Season Statistics[320] reports the number of returns in each income bracket. A table prepared by IRSAC from the published IRS data shows:

Table 1. Individual income tax returns by size of adjusted gross income

AGI Threshold	# all returns	Cumulative #	Share	Cumulative share
no AGI or deficit	1,769,986	1,769,986	1.3%	1.3%
$1-$5,000	5,692,363	7,462,349	4.1%	5.3%
$5,000-$10,000	6,500,898	13,963,247	4.6%	10.0%
$10,000-$15,000	7,598,844	21,562,091	5.4%	15.4%
$15,000-$20,000	7,486,368	29,048,459	5.3%	20.7%
$20,000-$25,000	6,934,913	35,983,372	4.9%	25.7%

[319] IRS website, “Be informed, not fooled by ghost preparers and tax credit scams”, https://www.irs.gov/newsroom/be-informed-not-fooled-by-ghost-preparers-and-tax-credit-scams

[320] Year 2025. Table 1. All individual returns: Selected income items, adjustments, credits, and taxes, by size of adjusted gross income (through filing season cycle 21), https://www.irs.gov/statistics/filing-season-statistics

AGI Threshold	# all returns	Cumulative #	Share	Cumulative share
$25,000-$30,000	6,606,321	42,589,693	4.7%	30.4%
$30,000-$40,000	13,324,285	55,913,978	9.5%	39.9%
$40,000-$50,000	11,904,135	67,818,113	8.5%	48.4%
$50,000-$75,000	21,799,485	89,617,598	15.5%	63.9%
$75,000-$100,000	14,090,140	103,707,738	10.0%	74.0%
$100,000-$200,000	25,051,983	128,759,721	17.9%	91.8%
$200,000-$250,000	4,194,679	132,954,400	3.0%	94.8%
$250,000-$500,000	5,530,851	138,485,251	3.9%	98.8%
$500,000-$1,000,000	1,321,524	139,806,775	0.9%	99.7%
$1,000,000 +	403,536	140,210,311	0.3%	100.0%
Total	**140,210,311**			

Source: IRS, Filing Season Statistics, Table 1, All individual returns: Selected income items, adjustments, credits, and taxes, by size of adjusted gross income (through filing season cycle 21), 2025. Table prepared by the IRSAC. Counts reflect returns filed through cycle 21 of the filing season and are therefore not a full-year total.

These data indicate that nearly 90 million individual income tax returns, approximately two-thirds of all returns filed, report annual incomes below $75,000. Because these figures count returns rather than households, they exclude eligible individuals who do not file a return, a population that VITA sites also serve. These filers represent the potential population of low- and moderate-income taxpayers who could receive assistance through the VITA and TCE programs if sufficient funding enabled the IRS to expand grants and technical support for sites.

VITA Program Performance over the years

The VITA program has experienced moderate growth in the services it provides. An analysis of data supplied by IRS staff from the “IRTF Tables on the CDW,” summarized in the table below, shows that:

- The number of tax returns prepared at VITA sites increased by 49 percent from TY 2020 to TY 2024, although TY 2020 was affected by pandemic-related site closures and therefore provides an unusually low baseline. However, the annual growth rate declined from 14 to 15 percent in TY 2021 and TY 2022 to 5 percent in TY 2024, the most recent year for which data are available.
- The median adjusted gross income reported on VITA-prepared returns was $28,169 in TY 2024.
- Approximately 42.6 million individual income tax returns report annual incomes below $30,000. The number of returns prepared through VITA therefore represents only 6.5 percent of that population. Relative to the broader population of taxpayers with annual incomes below $75,000, VITA-prepared returns represent only 3.1 percent.
- The number of refunds claimed through VITA-prepared returns has remained relatively stable in recent years, increasing by approximately 5 percent annually and by only 1 percent in TY 2024.
- The median refund claimed on VITA-prepared returns has also remained stable between TY 2022 and TY 2024, at approximately $840, following a brief increase associated with COVID-era tax benefits in TY 2020 and TY 2021.
- The median Earned Income Tax Credit claimed on VITA-prepared returns was $632 in TY 2024, and the median Child Tax Credit or Credit for Other Dependents was $1,000. Both medians are calculated among returns claiming the credit.
- Returns filed electronically through VITA sites using an Individual Taxpayer Identification Number (ITIN) account for approximately 1 percent of all returns electronically filed through the program. ITIN-filed returns grew 87 percent between TY 2020 and TY 2024, compared with 49 percent growth in total VITA volume over the same period.
- Returns prepared through VITA sites reported more than $1 billion in tax owed in TY 2024, up from $313 million in TY 2020. The amount of tax owed

on VITA-prepared returns grew at an annual rate of approximately 25 percent between TY 2022 and TY 2024.

Table 2. VITA program performance indicators, TY 2020 to TY 2024

Indicators	TY 2020	TY 2021	TY 2022	TY 2023	TY 2024
Total VITA Returns	1,861,208	2,114,283	2,433,621	2,654,054	2,777,907
Growth rate		14%	15%	9%	5%
Number of VITA Returns that were e-filed	1,842,113	2,092,510	2,404,831	2,621,347	2,746,177
E-filed by SSN	1,825,319	2,071,812	2,377,881	2,589,748	2,714,842
E-filed by ITIN	16,794	20,698	26,950	31,599	31,335
Median Number of Dependents Claimed on VITA Returns	1.59	1.58	1.57	1.56	1.56
E-file rate	99%	99%	99%	99%	99%
Median AGI of VITA Returns	$21,223	$23,388	$24,501	$26,311	$28,169
Median EITC of VITA Returns	$538	$991	$560	$600	$632
Median CTC/ODC of VITA Returns	$1,050	$500	$1,000	$1,000	$1,000
Median Refund Amount on VITA Returns	$1,077	$1,172	$847	$840	$840
Total Number of Refunds Claimed on VITA Returns	1,413,211	1,493,474	1,589,282	1,672,000	1,690,722
Total Amount Owed on VITA Returns	$313,248,063	$541,254,526	$693,554,750	$872,255,925	$1,087,629,294

Source: IRTF tables on the CDW, provided to the IRSAC by IRS Taxpayer Services, May 28, 2026. Average number of dependents calculated for non-zero values only. Medians derived from cases with amounts greater than zero. Table prepared by the IRSAC.

Each of the indicators above is already captured in IRS systems and was provided to IRSAC on request. None of them are published on a recurring basis. Recommendation 1 below addresses that gap.

Volunteers and CAA partners

Based on data collected from the "FY26 Link & Learn Taxes Volunteer Certification List", IRS Subject Matter Experts shared with IRSAC the following data on volunteers for the 2026 tax season:

Type of Certification obtained	# Individuals
Volunteer Standards of Conduct Exam - Test	116,646
Intake/Interview and Quality Review - Test	112,961
Basic - Test	35,631
Advanced - Test	73,547
Site Coordinator - Test	15,474
Over-the-Phone Interpreter (OPI) Services - Test	605
Foreign Student - Test	4,243
Military - Test	3,378
International - Test	1,433
Puerto Rico Level 1	477
Puerto Rico Level 2	356
Puerto Rico Nivel 1 - Examen (Español)	253
Puerto Rico Nivel 2 - Examen (Español)	147

As stated by IRS SMEs, obtaining the certification does not necessarily mean the individual actually volunteers at a VITA site. The IRS is not currently collecting the number of volunteers or any other performance metrics from VITA sites at the end of tax season (except from the sites receiving a VITA grant award).

Finally, the number of CAA partners has grown considerably over the last few years, although there was a slight reduction in the 2026 tax season:

Total Actual CAA Partners	2022	2023	2024	2025	2026
	60	74	97	103	95

Source: Prepared by the IRSAC based on data shared by IRS SMEs in August 2026.

VITA and TCE Grant Programs

As stated on the IRS website[321], "The VITA grant program is an IRS initiative designed to support free tax preparation service for the underserved through various partner organizations. This service helps low-to-moderate income individuals, persons with disabilities, the elderly, and limited English speakers file their taxes each year. IRS awards matching funds…"

Also[322], "The TCE program offers FREE tax help to individuals who are age 60 or older. Cooperative grant agreements are entered into between IRS and eligible organizations to provide tax assistance to elderly taxpayers. The funds provided by the IRS are used by organizations to reimburse volunteers for their out-of-pocket expenses; including transportation, meals and other expenses incurred by them in providing tax counseling assistance at locations convenient to the taxpayers."

The table below shows data on the number of VITA and TCE grant applications received by the IRS and data on the grants issued by the IRS:

VITA	FY22	FY23	FY24	FY25	FY26
Applications					
Applications Received	328	355	364	383	397
Amount Requested	$42,430,728	$43,104,781	$109,808,014	$65,704,171	$60,697,111

[321] IRS VITA Grant Program website: https://www.irs.gov/individuals/irs-vita-grant-program

[322] IRS TCE Grant Program website : https://www.irs.gov/individuals/tax-counseling-for-the-elderly

VITA	FY22	FY23	FY24	FY25	FY26
Awards					
Grants Awarded	301	309	300	316	314
Amount Awarded	$30,000,000	$30,000,000	$40,000,000	$41,000,000	$41,000,000
Median Grant Amount	$58,613	$56,000	$70,351	$70,000	$65,000

TCE	FY22	FY23	FY24	FY25	FY26
Applications					
Applications Received	49	58	64	63	82
Amount Requested	$25,775,063	$13,106,549	$61,820,812	$19,572,727	$19,387,178
Awards					
Grants Awarded	34	39	45	41	47
Amount Awarded	$11,000,000	$11,000,000	$11,000,000	$11,989,769	$12,000,000
Median Grant Amount	$13,000	$23,640	$16,010	$17,500	$15,000

Total SPEC	FY22	FY23	FY24	FY25	FY26
Applications					
Applications Received	377	413	428	446	479
Amount Requested	$68,205,791	$56,211,330	$171,628,826	$85,276,898	$80,084,289
Awards					
Grants Awarded	335	348	345	357	361
Amount Awarded	$41,000,000	$41,000,000	$51,000,000	$52,989,769	$53,000,000

Source: Prepared by the IRSAC based on data shared by IRS subject matter experts in August 2026.

For the 2026 fiscal year, the IRS received 479 VITA and TCE grant applications requesting more than $80 million in funding. Congress, however, appropriated only $41 million for the VITA Matching Grant Program and $12 million

for TCE grants. The IRS ultimately awarded grants to 314 VITA recipients and 47 TCE recipients.[323] The last grant season ended with 118 grant applicants who did not receive funding and requests exceeding the funds allocated by Congress by more than $27 million.

In tax season 2026, the IRS authorized 5,076 VITA sites, while only 314 organizations received VITA matching grants from the IRS. Consequently, hundreds of nonprofits that could provide VITA and TCE services to low- and moderate-income taxpayers may be unable to do so because of limited congressional appropriations and the resulting funding constraints that the IRS VITA and TCE Grant Programs experience.

Moreover, some nonprofit organizations may forgo applying because they recognize that available funding is insufficient to support all applicants and that the grant-application process is complex and resource-intensive.

Recommendations

The VITA program is an IRS success story. The number of taxpayers served annually has continued to grow. As discussed above, VITA sites extend trusted tax assistance and educational resources to low- and moderate-income taxpayers. Strengthening and expanding the VITA program would also enhance the IRS's ability to prevent and combat tax scams and fraud. VITA sites currently prepare approximately 2.8 million returns a year, while the broader population of low- and moderate-income taxpayers includes nearly 90 million tax filers. This disparity demonstrates the VITA program's substantial potential for growth.

Accordingly, IRSAC presents the following recommendations for adoption by the IRS:

1. **Publish annual VITA performance data**. To strengthen engagement with the VITA community and other stakeholders, including

[323] IRS bulletin, IR-2024-301 https://content.govdelivery.com/accounts/USIRS/bulletins/3c50182

academic institutions, public-policy research organizations, congressional staff, and elected officials, the IRS should publish annual program data that include, at a minimum, the following indicators:

a. VITA returns

i. Total number of VITA-prepared returns

ii. Total number of VITA-prepared returns electronically filed using Social Security numbers

iii. Total number of VITA-prepared returns electronically filed using Individual Taxpayer Identification Numbers

b. Adjusted gross income reported on VITA-prepared returns

i. Median adjusted gross income

ii. Number of returns by income bracket, using the brackets reported in Table 1 of the IRS Statistics of Income

c. Child Tax Credit and Credit for Other Dependents claimed on VITA-prepared returns

i. Median CTC/ODC amount

ii. Total CTC/ODC amount

iii. Number of returns claiming the CTC or ODC

d. Earned Income Tax Credit claimed on VITA-prepared returns

i. Median EITC amount

ii. Total EITC amount

iii. Number of returns claiming the EITC

e. Balances due on VITA-prepared returns

i. Total amount due

ii. Number of returns reporting a balance due

iii. Median balance due among returns reporting tax owed

f. VITA sites

i. Total number of sites

ii. Number of sites by state

iii. Median number of returns prepared per site

iv. Number of new sites established during the most recent tax season

v. Number of partners receiving VITA grants and number of sites those partners indicated they would support with the funds.

vi. Median grant amount received by VITA grantees

g. VITA volunteers[324]

i. Total number of volunteers

ii. Number of volunteers by state

iii. Median number of volunteers serving at each site

2. **Expand the program's geographic reach.** The IRS should simplify the application and approval process for organizations seeking to operate VITA sites while preserving all program requirements and rigorous implementation standards.

VITA partners should be encouraged to establish temporary or recurring services in locations that eligible taxpayers already frequent, including libraries and community centers, schools and colleges, faith-based organizations, disability-service organizations, senior centers, Tribal community facilities, large workplaces and union facilities, and housing and social-service agencies.The IRS should start tracking the number of new VITA sites as a desired outcome, as well as instruct SPEC staff to reach out

[324] Volunteer data can be found on Form 13206 (https://www.irs.gov/dmaf/form/f13206) filed by each site at the beginning of the tax season and updated by sites during the season. The form currently includes the number of certified volunteers serving at the site, and their certification level (basic, advanced, etc.). The form may be updated to avoid counting twice individuals who serve at multiple sites.

to communities to find new organizations that may want to apply to provide VITA services.

3. **Reflect demonstrated demand in the budget request and publish the funding gap.** The IRS should reflect the demonstrated demand for VITA and TCE grants in its annual budget submission through the Department of the Treasury, and should publish each year the number of applications received, the total amount requested, the number of grants awarded, the total amount awarded, and the resulting funding gap. Additional funding should support the recruitment, training, and retention of SPEC personnel, as well as larger and more numerous grants to nonprofit organizations seeking to establish or expand VITA sites. The IRS should set a target of doubling the number of returns prepared at VITA sites, to between five and six million annually, within five years.

4. **Consolidate and improve the VITA Program webpage.** Building on the existing VITA Grant Program page noted above, the IRS should consolidate and expand that material into a dedicated section of IRS.gov for current partners, prospective partners, and volunteers. This section should provide application forms, procedures, applicable requirements, and program-performance data. It should also include a clearly identified application for prospective partners and an online system that displays each application's progress through the approval process, its current status, and the anticipated date of approval or denial.

5. **Improve language access.** The IRS provides Over-the-Phone Interpreter (OPI) Services to VITA sites. However, interpreters are not always available when taxpayers arrive, and several taxpayers may be waiting in line for assistance, creating delays that affect site efficiency. Connectivity issues can also affect call quality, particularly at sites operating in basements or rural areas. Although the IRS helps taxpayers locate the few VITA sites that offer services in their preferred language, those sites

may be too far away, leading some taxpayers to use a paid tax preparer instead.

IRSAC recommends that the IRS encourage and support VITA sites in recruiting more bilingual volunteers to provide in-person services.

6. **Support volunteer recruitment and retention.** The IRS should help VITA sites recruit and retain additional volunteers. Increasing the number of volunteers will expand service capacity only if recruitment addresses the program's operational bottlenecks. Sites should recruit for distinct roles, including greeters and appointment coordinators, intake screeners, basic and advanced tax preparers, quality reviewers, interpreters, technology and virtual-service support personnel, and site coordinators.

The VITA Grant Program should permit organizations to use grant funds for volunteer recruitment and retention activities, including recruitment events, recognition programs, award ceremonies, and volunteer-appreciation events.

7. **Expand access to Certified Acceptance Agents (CAA).** Although the number of CAA partners has grown in recent years, there are only 95 CAA partners across more than 5,000 VITA sites. As a result, taxpayers who need CAA services have little chance of finding one in their area. The IRS should require each VITA site to have at least one CAA or a partnership with a CAA for referrals. This requirement would reduce the need for taxpayers to submit original passports to the IRS by mail and wait for the documents to be returned, and would save IRS staff time because they would not have to handle those original documents.

ISSUE SEVEN: Improving Business CAF Functionality to Reduce Authorization Burden and Expand Digital Representation

Executive Summary

On February 9, 2026, the IRS announced the addition of business-level digital capabilities to the Tax Pro Account, designed specifically for tax professionals that use a business Centralized Authorization File (CAF) number. The expansion allows designated business representatives to link a business CAF number to an Employer Identification Number (EIN), control which employees may act under the business CAF, view taxpayer information within the scope of active authorizations, and withdraw active authorizations. The IRS described the release as a foundation for future expansion and as a means to reduce paper-based processes.[325]

The IRSAC supports the direction of this modernization. A properly implemented business CAF model can improve security, simplify the management of staffing changes, reduce the need to list multiple individual designees on Forms 8821, Tax Information Authorization, and reduce the volume of authorizations and revocations requiring manual CAF processing. Business CAF numbers themselves are not new. Form 8821 has long permitted a taxpayer to designate a corporation, firm, organization, or partnership, and current Internal Revenue Manual procedures expressly recognize a business entity as a Form 8821 designee whose authority extends to employees of the named business entity.[326]

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[325] IR-2026-22 (Feb. 9, 2026), IRS announces next expansion of Tax Pro Account to support tax professional businesses; https://www.irs.gov/newsroom/irs-announces-next-expansion-of-tax-pro-account-to-support-tax-professional-businesses.

[326] Internal Revenue Manual (IRM) 21.3.7.3(7), *Processing Third-Party Authorizations onto the Centralized Authorization File (CAF)* ("A Form 8821 designee can be an individual or a business entity.")

The present implementation, however, does not yet provide the functionality most likely to change practitioner behavior at scale. Business CAF authorizations are not currently usable through the Transcript Delivery System (TDS), the principal self-service transcript channel used by tax professionals. Because TDS continues to require access through eligible individual users and individual CAF relationships, firms that need scalable transcript access retain a strong operational incentive to list individual designees rather than rely solely on a business CAF. The result is that the IRS has digitized the administration of a business CAF relationship without yet connecting that relationship to the downstream transcript-delivery function that could produce the greatest reduction in CAF workload.[327]

The current process also depends on Business Tax Account (BTA) eligibility and Designated Official authentication rules that can be difficult for some organizational structures and place ongoing administrative responsibility at a senior executive level. In addition, early adoption has been limited. According to information provided to the IRSAC during development of this issue, as of July, 2026, only 19 business CAFs had been linked to individual users through the new functionality, and the IRS did not yet have meaningful utilization or user-experience metrics for those businesses.[328] These limitations are consistent with concerns raised in prior IRSAC reports and in the National Taxpayer Advocate Fiscal Year 2027 systemic advocacy objectives.[329]

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[327] Jim Buttonow, IRS expands business CAF capabilities, National Association of Tax Professionals (Apr.16,2026) https://www.natptax.com/news-insights/blog/irs-expands-business-caf-capabilities/.

[328] IRS information provided to the IRSAC during 2026 issue development; utilization figure as of July 2026.

[329] National Taxpayer Advocate, Fiscal Year 2027 Objectives Report to Congress, Systemic Advocacy Objective 7, pp. 43-44, and Objective 10, pp. 50-52; https://www.taxpayeradvocate.irs.gov/reports/2027-objectives-report-to-congress/.; Internal Revenue Service Advisory Council Public Report, November 2024, Publication 5316 (Rev. 11-2024), General Issue Eight, pp. 62-68; https://www.irs.gov/pub/irs-prior/p5316--112024.pdf. Internal Revenue Service Advisory Council Public Report, January 2026, Publication 5316 (Rev. 1-2026), Taxpayer Services Issue One, pp. 176-181, and Issue Five, pp. 194-197; https://www.irs.gov/pub/irs-pdf/p5316.pdf.

The IRSAC therefore recommends that the IRS complete the business CAF framework by allowing business CAF administrators to associate authorized users with the appropriate individual CAF numbers, enabling TDS and associated transcript-delivery interfaces to recognize business CAF authority, broadening and simplifying the paths for appropriate organizations to establish and administer the required BTA relationship, allowing appropriate delegation of business CAF administration, and providing implementation support and adoption metrics sufficient to measure whether the functionality is reducing taxpayer and IRS burden.

Background

Business CAF Is an Existing Authorization Structure With New Digital Administration

A Form 8821 designee may be an individual or an entity, including a corporation, firm, organization, or partnership. When a business entity is named as the designee, IRS procedures recognize that the authorization extends to employees of the named business entity. Historically, however, the practical use of a business CAF was concentrated in telephone-based interactions because the business CAF relationship did not provide access to online practitioner tools comparable to those available in an individual CAF relationship. [330]

IR-2026-22 changed that model by announcing the extension of Tax Pro Account functionality to tax-professional businesses. The release permits designated business representatives to manage business CAF access, link the business CAF number to the company EIN, view taxpayer information associated with the business CAF within the scope of active authorizations, and view and

[330] IRM 21.3.7, Processing Third-Party Authorizations onto the Centralized Authorization File (CAF), including procedures recognizing a business entity as a Form 8821 designee and authority extending to employees of the named business entity; https://www.irs.gov/irm/part21/irm_21-003-007r.

withdraw active authorizations. The current Tax Pro Account page also states that tax-professional businesses may add and remove authorized users.[331]

This structure can materially improve authorization security and continuity. A firm-level authorization permits an organization to centrally control which employees may use the authorization. When an employee joins or leaves the organization, access can be adjusted through the business relationship rather than depending on the addition or later withdrawal of numerous individual taxpayer authorizations. For organizations with frequent staffing changes or high authorization volumes, centralized administration can reduce stale access and simplify internal controls.

The same structure can also reduce CAF processing burden. If one business authorization can support the appropriate employees of the named organization, taxpayers and practitioners need not list several individual designees solely to ensure that multiple employees can obtain information. Fewer individual designees can mean fewer CAF records to input, fewer duplicative submissions, fewer changes triggered by employee turnover, and fewer later withdrawals or revocations.

TDS currently relies on an individual user's CAF relationship to determine whether the authenticated requestor is authorized to receive taxpayer transcript information. This presents a particular issue for requestors with multiple CAF numbers because the individual's SSN or ITIN identifies the person but does not, by itself, identify the applicable CAF relationship. The Business CAF enhancement now establishes a separate IRS-maintained relationship between a Business CAF and the individual requestors authorized to act under it. Leveraging that association could allow TDS to continue using a requestor's existing CAF identifier while recognizing taxpayer authorization granted to the Business CAF.

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[331] IRS, Tax Pro Account, “New for tax professional businesses” and “Centralized Authorization File (CAF) number”; https://www.irs.gov/tax-professionals/tax-pro-account. ; IR-2026-22 (Feb. 9, 2026); https://www.irs.gov/newsroom/irs-announces-next-expansion-of-tax-pro-account-to-support-tax-professional-businesses..

The Current Setup Process Creates Friction Before a Firm Can Use the New Functionality

A tax-professional organization generally must first have a business CAF number. The instructions to Form 8821 direct a designee that has not previously been assigned a CAF number to enter "NONE," after which the IRS issues a CAF number directly to the designee. In a paper or manually processed workflow, the organization therefore remains dependent on CAF processing and delivery of the assigned number before it can complete the business CAF linking process.[332]

Next, the organization must also have an individual who qualifies to act as a Designated Official for the relevant entity in BTA. For an S corporation or C corporation, current IRS guidance generally requires the Designated Official to be an officer or managing member, a current employee who received a Form W-2 for the most recent tax filing year, and a person authorized to legally bind the entity. For partnerships, a general partner or managing partner may qualify. The Designated Official must establish the relationship with the entity and complete a mailed-PIN activation process.[333]

These rules have improved since the 2024 IRSAC report, and BTA now supports additional entity types. For example, the IRS currently states that BTA is available for certain single-member limited liability companies that file Form 1120-SorForm 1065, while a single-member LLC filing as a sole proprietor on Schedule C or Schedule F is not yet supported. The IRS also states that a CAF assigned user associated with multiple eligible entities may access those entities from the same BTA sign-in. These expansions are positive, but gaps remain for legitimate

[332] Instructions for Form 8821, Line 2, Designee; https://www.irs.gov/instructions/i8821.

[333] IRS, Manage access in Business Tax Account, Designated Official eligibility and registration; https://www.irs.gov/businesses/manage-access-in-business-tax-account.

organizational structures that do not fit the current Designated Official rules or payroll-based verification model.[334]

The 2024 IRSAC report anticipated this problem. General Issue Eight, Authorization Techniques to Enable Businesses to Utilize Online Accounts, recommended that the IRS authorize the same individuals who may sign an entity's income tax return to act as the initial Designated Official and, if that approach were not adopted, ensure that the authorization method does not restrict eligible individuals so severely that an entity cannot practically use BTA. The report also recommended simplifying the process for identifying and authenticating the Designated Official.[335]

The business CAF use case adds an additional concern: the person appropriate to establish the organization's legal authority is not necessarily the person who should perform ongoing day-to-day authorization administration. In a large accounting firm, tax-preparation business, payroll company, or similar organization, a chief executive officer, managing partner, or other senior official may appropriately attest to or establish organizational authority, but routine tasks such as adding and removing authorized employees are ordinarily operational or compliance functions. A scalable framework should permit the Designated Official to delegate business CAF administration to appropriately authorized personnel, subject to audit logs, revalidation, and other security controls.

TDS Integration Is the Missing Operational Link

The most significant limitation is the absence of business CAF access through TDS. TDS is the IRS's secure online system that allows eligible practitioners to obtain client return and account information. The IRS reports that TDS provides account transcripts, wage and income documents, tax return

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[334] IRS, Business Tax Account, entity eligibility, single-member LLC eligibility, and multiple entities; https://www.irs.gov/businesses/business-tax-account.

[335] Internal Revenue Service Advisory Council Public Report, November 2024, Publication 5316 (Rev. 11-2024), General Issue Eight, Authorization Techniques to Enable Businesses to Utilize Online Accounts, pp. 62-68; https://www.irs.gov/pub/irs-prior/p5316--112024.pdf.

transcripts, records of account, and verification of non-filing letters to eligible users when a proper authorization is on file.[336]

Transcript use is a central practitioner workflow. The 2025 IRSAC report noted that TDS fulfilled approximately 1.47 billion transcript requests in Fiscal Year 2024. The National Association of Tax Professionals (NATP) similarly observed that tax professionals downloaded almost 1.5 billion IRS transcripts in 2024 and that transcript use increased dramatically during the pandemic as practitioners substituted online transcript retrieval for telephone calls.[337]

As of April 2026, business CAF did not provide access to TDS, and the CAF unit confirmed in July that no such integration was currently in the technology pipeline. Therefore, firms must continue to list individual names on Forms 8821 because only individual designees can download transcripts through TDS. Business CAF integration with TDS could materially reduce CAF processing because firms would no longer need multiple individual authorizations for transcript access. Current IRS TDS guidance continues to describe eligibility in terms of eligible individual practitioners and does not identify business CAF authority as a TDS access path[338].

This limitation undermines the principal efficiency case for the new functionality. An organization may centralize authorization administration in Tax Pro Account, but if its employees must still maintain individual CAF relationships to perform high-volume transcript retrieval, the organization has little incentive to move its authorization population away from individual designees. The paper and

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[336] IRS, Transcript Delivery System (TDS); https://www.irs.gov/tax-professionals/transcript-delivery-system-tds.

[337] Jim Buttonow, IRS expands business CAF capabilities, National Association of Tax Professionals (Apr. 16, 2026); https://www.natptax.com/news-insights/blog/irs-expands-business-caf-capabilities/.; *see also* Internal Revenue Service Advisory Council Public Report, January 2026, Publication 5316 (Rev. 1-2026), Taxpayer Services Issue Five, Pre-launch Testing and Post-launch Support, citing IRS Data Book Fiscal Year 2024 Table 10; https://www.irs.gov/pub/irs-pdf/p5316.pdf.

[338] IRS, Transcript Delivery System (TDS); https://www.irs.gov/tax-professionals/transcript-delivery-system-tds.

manual authorization workload therefore persists even after the business CAF feature has been released.

This is especially important because CAF processing already consumes substantial resources. The 2025 IRSAC report documented 4.7 million authorizations processed in 2024 and a sharp increase in volume during 2025. From November 2024 through April 2025, turnaround times averaged 19 business days, compared with the five-business-day processing guideline, and the backlog reached approximately 500,000 authorizations in April 2025. However, in August and September 2026, following the implementation of Robotic Process Automation (RPA) and other operational changes, turnaround times improved. Between August and mid-September, the CAF unit reduced turnaround times for most submissions from 15 business days to 1 business day.[339]

The NATP reported that the IRS processed almost 7 million authorizations in 2025 and that the work consumed more than 972,000 CAF employee hours, or approximately 500 full-time-equivalent employees. Those figures illustrate the potential administrative benefits of automation. A business CAF model can further reduce submission volume. If the IRS enables a firm to use one business authorization as the basis for secure, scalable TDS access, it can reduce the recurring need to input and maintain multiple individual designees.[340]

The Digital Authorization Must Connect to the Work the Representative Is Authorized to Perform

The National Taxpayer Advocate's Fiscal Year 2027 Objectives Report articulates a broader principle that is directly applicable here. TAS states that where Tax Pro Account falls short, taxpayers bear the burden because representatives are forced into inefficient workflows, including paper forms, postal

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[339] Internal Revenue Service Advisory Council Public Report, January 2026, Publication 5316 (Rev. 1-2026), Taxpayer Services Issue One, CAF Authorization Process Improvements, pp. 176-181; https://www.irs.gov/pub/irs-pdf/p5316.pdf.

[340] Jim Buttonow, IRS expands business CAF capabilities, National Association of Tax Professionals (Apr. 16, 2026); https://www.natptax.com/news-insights/blog/irs-expands-business-caf-capabilities/.

mail, fax submissions, and telephone calls. TAS plans to advocate for Tax Pro Account functions comparable to individual online accounts, expanded digital authorization tools, digital case resolution, and high-impact functionality such as access to complete account information and respond to IRS notices.[341]

A business CAF should be evaluated under the same standard. The measure of success is not whether a firm can link a CAF number or add an employee to a list. The measure is whether the authorization allows the representative to perform the work for which the taxpayer granted access through an efficient digital channel. Transcript retrieval is one of the most common first steps in tax preparation, account research, notice resolution, collection representation, income verification, and other taxpayer-service workflows. A digital representation model that stops before scalable transcript delivery is incomplete.

The 2025 IRSAC report made a similar recommendation in a broader online-services context: once a user is authenticated, validated taxpayer authorization should be reusable across appropriate applications without unnecessary revalidation. Business CAF integration with TDS is a natural extension of that recommendation.[342]

Implementation Support and Adoption Measurement Are Needed

Low early utilization also raises implementation and product support questions. During IRSAC discussions with IRS subject matter experts, members sought materials explaining how an organization should configure and use the business CAF functionality. At that stage of the rollout, implementation resources were limited, and demonstrations were discussed as being available through venues such as the IRS Nationwide Tax Forums. The IRS has since added public-

[341] National Taxpayer Advocate, Fiscal Year 2027 Objectives Report to Congress, Systemic Advocacy Objective 7, Reduce Taxpayer Burden by Improving Tax Pro Account, pp. 43-44; https://www.taxpayeradvocate.irs.gov/reports/2027-objectives-report-to-congress/.

[342] Internal Revenue Service Advisory Council Public Report, January 2026, Publication 5316 (Rev. 1-2026), General Issue Five, Simplify Use of Online Tax Services, recommending integration of transcript retrieval into Tax Pro Account; https://www.irs.gov/pub/irs-pdf/p5316.pdf.

facing Tax Pro Account guidance and, in July 2026, released a video explaining the CAF-linking process. These later resources are helpful, but they also reinforce the importance of providing accessible implementation support when a significant new feature is launched, rather than relying principally on in-person demonstrations or informal support channels.[343]

The 2025 IRSAC report addressed this issue directly in Issue Five, Pre-launch Testing and Post-launch Support. It noted that recent digital launches had experienced post-launch issues and recommended that the IRS augment pre-launch testing and consider post-launch technical support for certain digital services. The business CAF rollout presents an opportunity to apply that recommendation through published setup guides, recorded demonstrations, technical troubleshooting, feedback channels, and usage analytics.[344]

Adoption metrics should also be treated as a product requirement. The IRS should be able to measure the number of businesses that have linked business CAFs, the number of authorized users added, the number and types of taxpayer authorizations administered under business CAFs, the number of withdrawals performed electronically, and, after TDS integration, the volume of transcripts delivered through business CAF authority. This data would allow the IRS to determine whether the feature is reducing manual CAF submissions, improving security, and producing a return on the technology investment.

Recommendations

The IRSAC recommends that the IRS take the following actions to complete and promote effective use of business CAF functionality:

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[343] IRS, How to Link a CAF Number (July 23, 2026); https://www.irs.gov/newsroom/how-to-link-a-caf-number.

[344] Internal Revenue Service Advisory Council Public Report, January 2026, Publication 5316 (Rev. 1-2026), Taxpayer Services Issue Five, Pre-launch Testing and Post-launch Support, pp. 194-197; https://www.irs.gov/pub/irs-pdf/p5316.pdf.

1. Enhance TDS so an authenticated individual authorized to act under a Business CAF can access transcripts for taxpayers who authorized that business. TDS could use the individual's existing CAF number while recognizing the Business CAF as the underlying taxpayer authorization, with the appropriate CAF selected where an individual has multiple CAF numbers.

2. Coordinate the expansion of business CAF and transcript functionality with the Large Corporations Access to Electronic Transcripts (Information Reporting Group's Issue Five of this report), including appropriate access for large corporations that need transcripts for related entities but do not satisfy the current TDS eligibility criteria.

3. Enable business CAF authority in TDS and associated transcript-delivery interfaces, including appropriate APIs or other scalable channels used by authorized tax professionals. Business CAF users should be able to retrieve transcripts with a valid business authorization without requiring the taxpayer to separately authorize each employee solely for TDS access.

4. Permit a Designated Official to delegate ongoing business CAF administration to appropriate authorized administrators within the organization. Delegated administrators should be able to add and remove authorized users and perform routine access-management functions subject to role-based permissions, audit logging, periodic revalidation, and other appropriate security controls.

5. Continue to expand BTA eligibility and develop alternative Designated Official verification methods for legitimate organizational structures that do not fit the current entity, ownership, payroll, or officer-based criteria. The IRS should avoid requirements that prevent an otherwise eligible tax-professional organization from using business CAF solely because its payroll or legal structure does not align with the current verification model.

6. Publish comprehensive implementation and support materials for business CAF, including step-by-step setup guidance, recorded demonstrations, troubleshooting resources, and a defined method for users to

report technical or workflow issues. New functionality should be supported through broadly accessible online resources rather than primarily through in-person events.

7. Establish and monitor adoption and outcome metrics for business CAF. At a minimum, the IRS should track linked business CAFs, authorized users, active authorizations administered under business CAF authority, electronic withdrawals, TDS usage after integration, processing-time changes, and estimated reductions in individual CAF submissions. The IRS should use these metrics and structured user feedback to determine whether the functionality is reducing taxpayer and IRS burden.

ISSUE EIGHT: Math Error Notice Drafts, Format and Clarity – Initial Reactions

Executive Summary

Taxpayer Services shared dozens of drafts of revised math error notices with the IRSAC in July of 2026. In this report, the IRSAC provides its initial reactions to a few of the English drafts.[345] Our comments focus on consistency of format, accuracy of captions, and clarity and accuracy of text.

Background

In pertinent part, Section 2(a) of the "Internal Revenue Service Math and Taxpayer Help Act"[346] (the Act) requires that math error notices

> "describe the mathematical or clerical error in comprehensive, plain language"" and
>
> "[include] an itemized computation of any direct or incidental adjustments to be made to the return in correction of the error . . .. "

Per Act Section 2(c), Section 2(a) is effective November 25, 2026.

Section 2(e) of the Act mandates a pilot program, to start no later than May 25, 2027, in which notices meeting the requirements of Section 2(a) would be sent to taxpayers by registered or certified mail, with e-signature confirmation of receipt. An ensuing report to Congress, mandated by Act Section 2(e)(2), would, *inter alia*, assess "the effect of such pilot program on taxpayer response. . . "

[345] The IRSAC has not yet reviewed the Spanish drafts.

[346] PL 119-39, Nov. 25, 2025.

Given the urgency of the statutory deadlines, the IRSAC opts to give Taxpayer Services an *interim* assessment of the math error drafts it has been able to review to date. In brief, the IRSAC found major inconsistencies of format, inaccuracies in captions, and lack of clarity in text.

The IRSAC is comprised of many individuals whose clients receive math error notices. In addition to its textual recommendations, the IRSAC recommends that future versions of the notices be shared on a rolling, as-completed basis, so that IRSAC can more effectively make real-time comments on each notice as it is produced. The IRSAC hopes to partner with Taxpayer Services in this way so that the completed notices reflect the real-world experience of client-facing practitioners.

Recommendations

1. Make format consistent. The IRSAC identified at least five different formats among the notices reviewed. Our first recommendation is that all of the notices be in the same format.
2. Check Clarity of Captions. In our review, we noticed several places where captions could be clarified. For example, many of the notices include a section ("More information about our changes") explaining adjustments to be made to the return as a result of the math error. The captions read: "*Your* tax calculations and "*your* payments and credits." Read literally, this implies that the calculations are those made *by the taxpayer*. In reality, the calculations are IRS calculations in the main, and, in some cases, taxpayer calculations. Our recommendation is to revise the captions to read "Tax Calculations" and "Payments and Credits."
3. Correct textual inaccuracies. Here are two examples of text that, in our view, should be reconsidered:

   CP11: The first sentence reads, "If you disagree, contact us . . . and we will reverse the changes." It would be more accurate to state: "If

you disagree, contact us . . . and we will consider reversing the changes."

CP 11. Although this notice clearly states that interest cannot be reduced or removed "due to reasonable cause," it fails to state that penalties *can* be reduced or removed.

Section on Taxpayer Advocate Service: This section appears in many notices. It states in part, "LITCs can help persons *who speak English* as a second language." LITC clients are not required to speak English. Suggest: "LITCs can also help if English is not your native language."

4. Avoid typographical errors.

   CP12. "If you agree with our change(s) . . ." The first sentence runs into the second.

   CP12B. The computations on page 2 are missing a final line:

   "Adjusted refund . . . . $"

5. Collaborate with the IRSAC's client-facing practitioners. The IRSAC recognizes the resource constraints facing Taxpayer Services and stands ready to review future drafts of math error notices as they are developed. We offer our experience as end-users of these notices to help create products that best promote the objectives of the IRS. We hope you will accept our offer.

APPENDIX A:

IRSAC Comment Letters Submitted to the IRS in 2026

Internal Revenue Service Advisory Council (IRSAC)

1111 Constitution Avenue NW
Washington DC 20224

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Kris Thiessen, Vice Chair

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Tax Exempt/Government Entities Subgroup:
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Pablo Blank
Sam Cohen
Omeed Firouzi
Sarah Narkiewicz
Hussein Tarraf
Rolanda Watson
Lucinda Weigel

March 17, 2026

Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Submitted via email: vdp@ci.irs.gov

Re: **PROPOSED VDP PUBLIC COMMENT**

To Whom It May Concern:

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide comments per the Service's request of December 22, 2025, for "proposed updates to the Voluntary Disclosure Practice, including a more streamlined penalty framework" (IR-2025-124) available at https://www.irs.gov/newsroom/irs-seeks-public-comment-on-voluntary-disclosure-practice-proposal.

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 37 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and representatives of the public. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax administration.

The IRSAC members work within five broad subject matter groups. These subgroups are Information Reporting, Large Business & International, Small Business/Self-Employed, Tax-Exempt/Government Entities, and Taxpayer Services (formerly named Wage & Investment).

Our comments consist of a background report with recommendations prepared by the SB/SE subgroup and included in the IRSAC's January 2026 report (pages 109 to 124). This report was researched using information provided by IRS subject matter experts and a review of existing IRS voluntary disclosure programs and those of a few state tax agencies. The focus of the report is to recommend a broad non-willful voluntary disclosure program to replace the single-issue disclosure programs that exist today and for the proposed revised

program to apply to any type of non-willful errors suitable for resolution through a voluntary disclosure program. We respectfully request that the Service consider the recommendations set forth in the attached report in connection with its consideration of updates to the Voluntary Disclosure Practice.

We appreciate your consideration of these comments and recommendations. IRSAC members are available to discuss any of them further. You can reach us via the IRS Office of National Public Liaison at publicliaison@irs.gov.

Respectfully submitted,



Lucinda Weigel
2026 IRSAC Chair

cc: IRS CEO Frank Bisignano

ISSUE ONE: Broadening and Promoting Settlement Programs

Executive Summary

The IRS asked the IRSAC to evaluate the IRS's use of settlement and voluntary disclosure programs and to identify barriers that discourage participation. These programs are intended to provide taxpayers with certainty and closure while conserving enforcement resources and reducing the tax gap. Yet, these programs are not widely pursued and participation remains limited due to narrow eligibility, complexity, cost, and lack of sufficient awareness by taxpayers and tax advisers. To address this issue, the SB/SE Subgroup met with subject matter experts from the IRS and Office of Chief Counsel and reviewed the range of settlement programs currently available, as well as targeted initiatives used in recent years. These discussions revealed recurring problems and highlighted the absence of any federal program for taxpayers whose domestic tax noncompliance was non-willful but who are unable to demonstrate reasonable cause. This report describes our findings and highlights the shortcomings across existing programs. It recommends expanding eligibility, simplifying participation, improving transparency, modernizing administrative tools, and adopting a federal program modeled on successful state practices to strengthen voluntary compliance.

Background

Settlement Programs at the Federal Level

To better understand the IRS's use of settlement programs, members of the IRSAC requested from the IRS information about the principal settlement initiatives and voluntary disclosure programs administered by the IRS. Through those discussions, as well as our own research, we learned that these programs vary considerably in their scope, eligibility criteria, and effectiveness, but they collectively illustrate the IRS's evolving approach to encouraging voluntary compliance. The following sections summarize various federal programs, identifying their key features, benefits, and drawbacks, as well as their role in the overall compliance framework.

1. VDP

The IRS's Voluntary Disclosure Practice (VDP) is a long-standing program administered by Criminal Investigation that provides taxpayers with a path back into

compliance from potential criminal exposure from willful violations of the tax laws. Although not an amnesty program, participation has historically weighed against prosecution if disclosures are timely and complete.[113] For willful taxpayers, it provides the only structured path to avoid criminal liability, with penalties generally capped within a six-year lookback.

The VDP, however, is narrowly tailored and leaves non-willful taxpayers outside its scope. Participation is costly and often requires burdensome amended filings and a mandatory audit of the submission, while examiner discretion can lead to inconsistent application of penalties and, in some cases, expanded liability. Concerns also persist about the potential sharing of disclosure information with other agencies, which may further discourage participation. Despite these shortcomings, the VDP remains central to the IRS's enforcement strategy, though the IRS does not publish participation statistics, making it difficult to assess its effectiveness.

As of June 2025, the National Taxpayer Advocate (NTA) reported that the IRS has agreed to remove the "willfulness" checkbox from Form 14457, which required taxpayers to affirm under oath that their prior noncompliance was willful.[114] This checkbox had created a chilling effect by effectively prompting self-incrimination. Its removal is expected to allay practitioner concerns and encourage broader participation in the VDP.

2. QARs

Quiet disclosures, generally involving the filing of amended returns without formally entering an IRS settlement program, are not technically settlement initiatives but remain a critical compliance pathway. Treas. Reg. §1.6664-2(c)(2) and (3) establishes the procedures for a "qualified amended return" (QAR), which generally allow taxpayers to reduce the accuracy-related penalty base to zero if an amended return is filed before the IRS contacts the taxpayer.

In practice, the IRS has acknowledged that filing a QAR is a viable path back into compliance, at least for underreporting issues, and thus it occupies a critical place in the

[113] *See* Internal Revenue Manual (IRM), pt. 9.5.11.9 (Sept. 17, 2020).
[114] NTA, Posting of Criminal VDP: TAS Reports a Win For Taxpayers – IRS Agrees to Remove Willfulness Checkbox on VDP Application Form to the NTA Blog (June 24, 2025), https://www.taxpayeradvocate.irs.gov/news/nta-blog/criminal-vdp-tas-reports-a-win-for-taxpayers-irs-agrees-to-remove-willfulness-checkbox-on-vdp-application-form/2025/06/.

overall compliance landscape. This framework encourages taxpayers to correct errors proactively, but its scope is limited: QARs do not address non-filing or non-payment, they provide no relief from interest, and they often require multiple amended filings across years. Moreover, when taxpayers submit amended returns quietly, outcomes can be inconsistent – some taxpayers face little scrutiny while others are audited or penalized – creating uncertainty and discouraging some taxpayers from attempting to correct errors proactively.

3. VCAP-ET

The Voluntary Closing Agreement Process for Employment Tax (VCAP-ET) is an administrative procedure through which certain employment tax issues may be resolved permanently by a closing agreement.[115] Authorized under Section 7121 and implemented through IRS guidance, VCAP-ET is intended for cases where amending returns would not permit prompt, conclusive resolution. It applies to non-willful employment tax issues not easily resolved through amended returns, such as reorganizations or when wages cannot be precisely allocated among employees.

The process provides certainty and finality through closing agreements, so is useful in business transactions requiring definitive resolution. Yet examiner discretion and the possibility of rejection, even when taxpayers come forward, undermine confidence, since penalties may still apply.

4. VCSP

The Voluntary Classification Settlement Program (VCSP), introduced in 2011 and updated in Announcement 2012-45,[116] allows employers to voluntarily reclassify workers as employees for future periods with partial relief from federal employment taxes. Eligibility requires consistent prior treatment of the workers as nonemployees, filing of Forms 1099 for the preceding three years, and no ongoing IRS, Department of Labor, or state worker classification audit. Taxpayers must file Form 8952, Application for Voluntary Classification Settlement Program (VCSP), to apply to participate in this program. In exchange for participation and execution of a closing agreement, employers pay only 10

[115] IRS, *Voluntary closing agreement process - Employment tax issues (VCAP-ET)*, https://www.irs.gov/businesses/small-businesses-self-employed/voluntary-closing-agreement-process-employment-tax-issues-vcap-et (last updated June 2, 2025).
[116] I.R.B. 2012-51.

percent of the employment tax liability that would otherwise have been due for the most recent year, calculated at favorable Section 3509(a) rates, with no interest or penalties and audit protection for prior years. By providing reduced liability, closure, and prospective certainty, the VCSP encourages voluntary compliance in industries where misclassification is common, though participation has remained limited and the IRS does not publish data on uptake or outcomes.[117] Generally, participants must still resolve the classification issue at the state level; there is no coordination of the VCSP with state tax agencies.

5. CSP

The Classification Settlement Program (CSP) was established to resolve worker classification issues during IRS examinations, offering settlement options when the IRS challenges an employer's treatment of workers as independent contractors.[118] Unlike the voluntary VCSP, CSP applies only once an audit is underway and provides graduated settlement terms based on the strength of the employer's position: taxpayers with arguable positions may settle for 25 percent of the employment tax liability for the year under exam, while weaker cases may settle for 100 percent, both calculated under the favorable Section 3509(a) rates. CSP reduces prolonged disputes by providing structured, predictable outcomes and saving enforcement resources, but its use is limited to audit situations, and, like other programs, no participation data are published, making its overall impact on compliance difficult to measure.

6. Tip Reporting Compliance Agreements

The IRS has long used agreements to promote compliance in tip-intensive industries, historically through programs such as the Tip Rate Determination Agreement (TRDA) and the Tip Reporting Alternative Commitment (TRAC). In 2023, the IRS proposed a revenue procedure to establish the Service Industry Tip Compliance Agreement (SITCA) program described as "a voluntary tip reporting program offered by the IRS to employers in the service industry (excluding gaming industry employers)" and "intended to replace the Tip Reporting Alternative Commitment (TRAC) program and the

[117] Additional information is at IRS, Voluntary Classification Settlement Program (VCSP); https://www.irs.gov/businesses/small-businesses-self-employed/voluntary-classification-settlement-program.
[118] *See generally* IRM, pt. 4.23.6 (Feb. 13, 2024).

Tip Rate Determination Agreement (TRDA) program … as well as the Employer-Designed Tip Reporting Program (emTRAC)."[119] The SITCA program was not finalized or implemented.

7. Streamlined Procedures

The Streamlined Filing Compliance Procedures (Streamlined Procedures) were introduced in 2012 to address widespread concerns about taxpayers with unreported foreign financial accounts and income who acted non-willfully.[120] Designed as an alternative to the more punitive Offshore Voluntary Disclosure Program, the Streamlined Procedures require taxpayers to file three years of amended or delinquent returns and six years of delinquent FinCEN Forms 114, *Report of Foreign Bank and Financial Accounts* (FBARs), certify non-willfulness under penalties of perjury, and pay a reduced penalty (or, for nonresidents, no penalty at all). Anecdotally, the program quickly became one of the most widely used disclosure options, striking a balance between accountability and leniency by offering reduced penalties in exchange for honest disclosure.

The benefits of the Streamlined Procedures are substantial. For taxpayers, they provide a defined path back into compliance with limited lookback periods and reduced penalties, removing much of the uncertainty surrounding foreign reporting failures.[121] For the IRS, the program has generated significant revenue and substantially increased reporting of foreign accounts and assets. Yet, the program is limited to taxpayers with foreign income or assets, excluding domestic taxpayers with similar non-willful issues. Certification of non-willfulness is inherently subjective, creating concern among practitioners that taxpayers who make honest mistakes could be second-guessed, and the IRS has not consistently published data on participation or outcomes, making it difficult to evaluate the program's true impact on voluntary compliance. Greater transparency in participation data would help both the IRS and taxpayers assess whether streamlined options are meeting compliance goals.

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[119] IR-2023-19 (Feb. 6, 2023); https://www.irs.gov/newsroom/irs-introduces-new-service-industry-tip-reporting-program, and Notice 2023-13.

[120] IRS, *Streamlined filing compliance procedures*, https://www.irs.gov/individuals/international-taxpayers/streamlined-filing-compliance-procedures (last updated July 10, 2025).

[121] *See* IRS, *U.S. taxpayers residing in the United States*, https://www.irs.gov/individuals/international-taxpayers/us-taxpayers-residing-in-the-united-states (last updated July 9, 2025) (reduced penalties); IRS, *U.S. taxpayers residing outside the United States*, https://www.irs.gov/individuals/international-taxpayers/us-taxpayers-residing-outside-the-united-states (last updated July 10, 2025) (no penalties).

8. DIIRSP

The Delinquent International Information Return Submission Procedures (DIIRSP) were introduced in 2014 as a mechanism for taxpayers with unfiled international information returns, such as Form 5471, *Information Return of U.S. Persons With Respect To Certain Foreign Corporations*, and Form 3520, *Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts*, whose conduct was non-willful but who were not eligible for the Streamlined Procedures. Taxpayers could file the delinquent forms accompanied by a reasonable cause statement explaining their noncompliance, with the expectation that penalties would not be imposed if the explanation was accepted. The program thus appeared to provide a safe harbor for taxpayers who had made mistakes but did not have unreported income or did not fit within the streamlined framework.

9. Select Settlement Initiatives

In addition to standing disclosure programs, the IRS has in recent years offered targeted settlement initiatives aimed at discrete areas of noncompliance, such as the Employee Retention Credit Voluntary Disclosure Program (ERC VDP),[122] micro-captive insurance arrangements,[123] and syndicated conservation easements.[124] Generally, these initiatives are limited to taxpayers already under examination,[125] require execution of a closing agreement, and offer penalty or liability reductions in exchange for finality. Their chief advantage is efficiency: they allow the IRS to resolve large volumes of contentious

[122] *See* IRS, *Employee Retention Credit - Voluntary disclosure program*, https://www.irs.gov/coronavirus/employee-retention-credit-voluntary-disclosure-program (last updated May 29, 2025).

[123] IR-2019-157 (Sept. 16, 2019), IRS offers settlement for micro-captive insurance schemes; letters being mailed to groups under audit; https://www.irs.gov/newsroom/irs-offers-settlement-for-micro-captive-insurance-schemes-letters-being-mailed-to-groups-under-audit.

[124] *See, e.g.*, IR-2024-174 (June 26, 2024), IRS sending settlement offer letters in July to certain taxpayers who participated in Syndicated Conservation Easement transactions; https://www.irs.gov/newsroom/irs-sending-settlement-offer-letters-in-july-to-certain-taxpayers-who-participated-in-syndicated-conservation-easement-transactions.

[125] One recent exception was the special initiative launched in October 2023 for withdrawal of Employee Retention Credit (ERC) claims; see IR-2023-193 (Oct. 19, 2023); https://www.irs.gov/newsroom/irs-announces-withdrawal-process-for-employee-retention-credit-claims-special-initiative-aimed-at-helping-businesses-concerned-about-an-ineligible-claim-amid-aggressive-marketing-scams. In December 2023, the IRS launched a new voluntary disclosure program for certain ERC claims including ones where the taxpayer had already received their refund. See IR-2023-247 (Dec. 21, 2023); https://www.irs.gov/newsroom/irs-new-voluntary-disclosure-program-lets-employers-who-received-questionable-employee-retention-credits-pay-them-back-at-discounted-rate-interested-taxpayers-must-apply-by-march-22.

cases quickly, conserve enforcement resources, and provide taxpayers with certainty while avoiding costly litigation. They also serve an important deterrent function by signaling IRS priorities in high-risk areas. Because they are limited to taxpayers already identified, however, they do little to encourage proactive compliance and, without prominent participation data, cannot be systematically evaluated. As a result, while targeted initiatives are useful tactical tools, they are no substitute for broader disclosure programs that offer taxpayers a predictable, structured way to resolve noncompliance before enforcement action begins.

Absence of a Federal Program for Non-Willful Taxpayers Without Reasonable Cause and States' Approach to Same

In reviewing the IRS's existing settlement and disclosure programs, the IRSAC identified a significant gap: there is no federal program directed to domestic taxpayers whose noncompliance was non-willful but who cannot demonstrate reasonable cause. The Voluntary Disclosure Practice is available for willful taxpayers, and the Streamlined Procedures apply to non-willful foreign income reporting, but domestic taxpayers who acted without intent and without reasonable cause are left with no structured means of resolving their obligations. Their only options are to attempt a "quiet disclosure" by amending returns or to remain outside the system. This gap in federal practice is particularly noteworthy given the importance of reducing the tax gap and encouraging voluntary compliance.

State-Level Settlement Programs

By contrast to federal voluntary disclosure practice, many states have developed general voluntary disclosure programs that address this very category of taxpayers. Jurisdictions such as New York, New Jersey, Rhode Island, and California, along with the Multistate Tax Commission, offer programs that typically limit the lookback period, reduce or waive penalties when taxes and interest are paid, and provide closure through written agreements. Some even allow anonymous participation until the agreement is finalized, further lowering barriers to entry. These programs demonstrate that broad, structured disclosure opportunities can bring taxpayers into compliance who might otherwise remain outside the system.

Taken together, the absence of a comparable federal program and the success of

these state initiatives underscore the need for the IRS to adopt similar measures and to strengthen its existing settlement programs.

Recommendations

1. Recommendations for all settlement programs:
    a. Adopt a federal program modeled on successful state practices to provide domestic non-willful taxpayers without reasonable cause a structured path back into compliance. A detailed proposal, that was presented to and discussed with the BOD, is included as Supplement A. A taxpayer-facing summary suitable for use on the IRS's website is included as Supplement B, and provided pursuant to requests from the IRS.
    b. Expand eligibility criteria across settlement programs to make them accessible to a broader group of taxpayers.
    c. Simplify participation requirements by reducing unnecessary complexity and burdensome filing obligations.
    d. Align penalty structures with compliance goals so that voluntary participants face modest, predictable, and proportionate penalties.
    e. Increase outreach and education efforts to raise awareness of settlement opportunities among taxpayers and practitioners.
    f. Improve transparency by collecting and publishing participation and outcome data for all settlement programs.
    g. Update Form 906, *Closing Agreement*, and related administrative tools and use them more widely to provide closure and certainty in settlement agreements.
    h. Clarify IRS guidance to distinguish acceptable use of qualified amended returns from impermissible "quiet disclosures."
    i. Clarify the meaning of non-willfulness in the Streamlined Filing Compliance Procedures to provide taxpayers and practitioners with greater certainty.
    j. Reform the Delinquent International Information Return Submission Procedures to ensure that taxpayers who certify non-willfulness and provide adequate reasonable cause statements are not subject to automatic penalties.

Supplement A: Proposal to the IRS for a Domestic Voluntary Disclosure Program for Non-Willful Taxpayers Without Reasonable Cause

Date: August 11, 2025 [as revised in response to comments received on August 12, 2025]

Re: Draft Proposal for VDP for Non-Willful Taxpayers with Domestic Tax Noncompliance

Proposed VDP for Non-Willful Taxpayers with Domestic Tax Noncompliance

This memorandum sets forth the terms of a proposed voluntary disclosure program ("VDP") that we would like the Internal Revenue Service ("IRS") to consider adopting for taxpayers who are noncompliant with U.S. federal tax laws but non-willful in their actions. The program targets those who are not eligible for the IRS's streamlined procedures for unreported foreign assets and income but need assistance in resolving noncompliance related to underpayment, non-filing, and/or underreporting. The program aims to bring these taxpayers into compliance in a transparent, fair, and efficient manner, helping to reduce the gross tax gap while addressing the IRS's need for more effective compliance strategies.

Program Overview

The VDP will provide a clear and structured path for non-willful taxpayers to voluntarily disclose their noncompliance, pay any taxes owed, and resolve outstanding issues without facing overly harsh penalties.[1] The program aligns with IRS Policy Statement 5-133, which provides guidance on the lookback period for enforcement actions and emphasizes proportionality in voluntary disclosures. This program also includes features designed to provide certainty, closure, and an incentive for taxpayers to come forward voluntarily. It is tailored to support the IRS's strategic goals of encouraging voluntary compliance and efficiently allocating limited enforcement resources.

Reasons Program Is Needed

Noncompliant taxpayers may be unwilling to cure tax noncompliance because the nature of their tax noncompliance makes them ineligible for existing IRS programs or

[1] These penalties are described as "harsh" not as a critique of Congress's intent to deter and penalize misconduct, but because of the way they are mechanically applied. In cases of a single, ongoing act of noncompliance, such as the failure to file or underpayment of taxes over multiple years, penalties are assessed separately for each affected year. This results in a cumulative penalty amount that can exceed the underlying tax liability (and, it is worth noting, may even discourage a taxpayer from coming into voluntary compliance). The magnitude of the penalties, therefore, is not necessarily proportionate to the taxpayer's conduct, but instead is amplified solely due to the multi-year duration of a single noncompliant action. We believe penalty mitigation is warranted under such cases, particularly where a taxpayer voluntarily self-identifies their noncompliance.

because the cost of such programs is prohibitive. For example, the IRS's updated voluntary disclosure practice is reserved for taxpayers who willfully violate tax laws. As another example, the streamlined filing compliance procedures are reserved for taxpayers who did not willfully violate tax laws but who have unreported foreign assets and income. As a third example, quiet disclosure, where taxpayers amend their returns without notifying the IRS through formal disclosure programs, also can be an unattractive option because it exposes taxpayers to substantial penalties, including the risk of facing a maximum penalty rate and the possibility of an unlimited lookback period, which could lead to unpredictable financial exposure. Additionally, taxpayers who have noncompliance issues that don't fall under the qualified amended return procedures of Treasury Regulations section 1.6664-2, such as non-filing or non-payment, are unable to resolve their issues through the standard amended return process, which is designed primarily for errors on previously filed returns. As a result, these taxpayers may find themselves in a situation where none of the existing IRS programs appropriately address their needs, leaving them without a clear, structured way to become compliant. Rather than subjecting themselves to unlimited penalties, many of these taxpayers instead assume the risk that the IRS will not enforce the internal revenue laws against them. This is a bad outcome for tax administration because it discourages tax compliance. For these reasons, a new VDP designed for non-willful taxpayers with domestic tax noncompliance issues is appropriate and necessary.

Alignment with State-Level Initiatives and Broader Compliance Impact

Similar voluntary disclosure programs already exist at the state level, including in jurisdictions such as New York and California, where non-willful taxpayers can come forward to resolve outstanding liabilities in exchange for reduced penalties and a defined lookback period. These state-level programs demonstrate the effectiveness of structured disclosure mechanisms in encouraging compliance. Adoption of a federal program by the IRS may also serve as a catalyst for more states to implement similar initiatives. A coordinated federal and state approach would allow many taxpayers to comprehensively resolve their tax obligations and increase the likelihood of future compliance at all levels of government.

The remainder of this memorandum discusses the terms of a new VDP program designed for non-willful taxpayers with domestic tax noncompliance issues. We would be pleased to discuss any questions you may have.

Eligibility Criteria

- Non-willful Noncompliance: Taxpayers must certify that their failure to comply was non-willful and not intentional.
- No Foreign Assets/Income: Taxpayers with unreported foreign income or assets are not eligible for this program, as they would qualify for the IRS's

streamlined filing procedures for foreign assets.

- Noncompliance Types: The program is applicable for taxpayers who are:
    - Underreporting Income: Taxpayers who have filed returns but underreported income.
    - Underpayment of Taxes: Taxpayers who owe taxes but have not paid in full.
    - Non-filing: Taxpayers who have failed to file returns altogether.
- Lack of Reasonable Cause: The program is specifically for taxpayers who do not have reasonable cause for their noncompliance.

Key Features of the Program

1. Limited Lookback Period:
    - 3 Years: For underreporting and underpayment of taxes.
    - 6 Years: For non-filing cases. This period aligns with IRS Policy Statement 5-133, which allows for a general 6-year lookback period. This period is designed to encourage taxpayers to come forward without fear of excessively long financial exposure.
2. Penalty Structure: For non-willful taxpayers entering the VDP, we would propose reducing these penalties significantly for the voluntary disclosure process, to incentivize compliance. For example:
    - Underreporting & Underpayment: Taxpayers who have underreported their income or underpaid their taxes will face a 10% penalty on the unpaid tax amount. This is lower than the typical penalties for failure to file and failure to pay (which can reach up to 30%), making it a more taxpayer-friendly option for those who come forward voluntarily.
    - Non-Filing: Taxpayers who have failed to file their returns will face a 10% penalty on the unpaid tax amount. This reduced penalty encourages taxpayers to file missing returns and resolve noncompliance.
    - Interest: Interest will accrue from the due date of the original tax filings.
3. Terms of Payment: To ensure that liabilities resolved under the program are conclusively closed, taxpayers would be required to make full payment

of all tax, interest, and reduced penalties at the time the closing agreement is executed. Payment would generally be due within 30 days of acceptance into the program, subject to limited extensions in cases of demonstrated hardship. This requirement balances fairness with administrative efficiency and avoids the creation of outstanding accounts receivable under the program. This approach does not condition tax compliance on ability to pay but instead reflects a careful balancing of administrability, fairness, and the need for finality in voluntary disclosure programs.

4. Certification of Non-willfulness:

   - Taxpayers must certify under penalties of perjury that their noncompliance was non-willful and not the result of negligence or intentional disregard.

   - False certifications will expose taxpayers to criminal prosecution and a 75% civil fraud penalty.

5. Audit Considerations: Acceptance into the program would not insulate taxpayers from future examinations respecting issues within or without the scope of the disclosure. This approach mirrors longstanding practice in other disclosure programs, providing taxpayers with certainty while preserving the government's enforcement authority.

6. Closing Agreement:

   - Closing Agreement Required: Taxpayers and the IRS will be required to complete a binding, non-negotiable agreement between the IRS and the taxpayer. This agreement will provide certainty by:

     - Limiting the lookback period;

     - Stipulating no reopening of the case unless fraud or misrepresentation is identified; and

     - Clearly stating that the IRS will not disclose information provided by the taxpayer to other agencies unless required by law.

7. Collateral Agreement on Future Compliance: As a condition of participation, taxpayers would be required to remain fully compliant (other than with respect to estimated tax payments) for a defined period (*e.g.*, five years) following resolution under the program. The failure to honor this collateral agreement during the defined period would result in the reinstatement of liabilities compromised under the program. This condition reinforces the program's purpose of restoring long-term voluntary compliance while deterring recidivism.

8. No Guarantee Against Criminal Prosecution: Participation in the VDP does not provide immunity from criminal prosecution. False certifications may result in criminal investigation and penalties.

Benefits for the IRS

- Efficient Compliance Path: By providing a structured compliance path, the program encourages voluntary disclosure, helping to close the gross tax gap.

- Resource Efficiency: As described in the Key Features section, *infra*, the use of a standardized lookback period and reduced penalty structure will allow the IRS to focus its limited resources on more complex compliance issues, as taxpayers voluntarily disclose their noncompliance.

- Enhanced Certainty: Taxpayers will benefit from clear terms that reduce ambiguity and provide a predictable outcome, increasing their confidence in coming forward.

- Reduction in Administrative Burden: The use of a closing agreement pursuant to section 7121 of the Internal Revenue Code of 1986, as amended ("Code") will streamline the process and reduce the need for individual audits and complex negotiations.

Benefits for Taxpayers

- Reduced Penalties: Taxpayers will benefit from a substantially reduced penalty structure, including a 10% penalty on underreporting and underpayment, and a 10% penalty on non-filing. This is significantly lower than typical IRS penalties, which can reach 30% or more.

- Limited Lookback Period: The 6-year lookback period for non-filers and 3 years for underreporting/underpayment offers taxpayers an opportunity to resolve their noncompliance without fear of extended financial liability, aligning with IRS Policy Statement 5-133.

- Certainty and Closure: Participation in the program provides certainty and closure, as taxpayers enter into a binding Closing Agreement with the IRS. This agreement defines the taxpayer's future obligations and ensures that the IRS will not reopen their case unless fraud or misrepresentation is discovered.

- Avoidance of Criminal Prosecution: Taxpayers who come forward under the VDP are less likely to face criminal prosecution as long as they certify non-willfulness and are actually non-willful. This creates an incentive for taxpayers to resolve their tax obligations voluntarily, as it provides a path to compliance without the threat of criminal charges, unless there is fraud.

- Streamlined Process: The VDP simplifies the process for taxpayers who have not filed returns or have underpaid taxes. By participating, they avoid complex audits and investigations, and instead work directly with the IRS to address their issues and settle their obligations quickly.

Program Administration

- Voluntary Disclosure Process: Taxpayers will be required to submit amended returns, pay taxes owed, and sign a certification of non-willfulness.

- Formal Resolution: Once a taxpayer enters the program, they will sign a Closing Agreement under Code section 7121, providing both parties with certainty and closure. This agreement will outline all future obligations and will not be open to revision.

Conclusion

The VDP for non-willful taxpayers with domestic tax noncompliance will allow the IRS to increase tax compliance, reduce the gross tax gap, and make the best use of its available resources. The program is structured to provide certainty, closure, and a predictable outcome for both taxpayers and the IRS, while aligning with IRS Policy Statement 5-133. By offering a limited lookback period, reduced penalties, and a binding closing agreement, the IRS can help taxpayers resolve their issues while maintaining the integrity of the tax system.

Supplement B: Proposed Website Summary of Domestic Voluntary Disclosure Program for Non-Willful Taxpayers Without Reasonable Cause

The following summary describes the proposed voluntary disclosure program in taxpayer-facing language, modeled on the style of the IRS's current streamlined filing compliance webpage, and is intended to provide the Service with a ready framework for public communication if such a program is adopted.

Overview

The Domestic Voluntary Disclosure Program provides taxpayers with an opportunity to resolve past domestic tax noncompliance where the conduct was non-willful, but the taxpayer cannot demonstrate reasonable cause. The program allows eligible taxpayers to file delinquent or amended returns, pay the tax owed with reduced penalties, and come back into compliance with certainty and finality.

Who Is Eligible?

- Certify that their noncompliance was non-willful.
- Have only domestic (U.S.-source) income or assets at issue.
- Not be under an IRS examination or criminal investigation.
- Not be eligible for another IRS settlement or disclosure program.

What Types of Noncompliance Are Covered?

- Underreporting of income on filed returns.
- Underpayment of taxes reported on filed returns.
- Non-filing of required returns.

The program does not apply to taxpayers whose conduct was willful or fraudulent.

What Is Required?

- File delinquent or amended returns for the program's lookback period.
- Pay the full amount of tax, interest, and reduced penalties within 30 days of acceptance into the program. Taxpayers who cannot meet these payment terms should use other options to resolve their tax obligations (*e.g.*, file original or amended returns, request penalty relief, or apply for a payment plan)
- Pay a reduced penalty as described below.
- Sign a standardized closing agreement with the IRS confirming resolution of the matter.

Lookback Period

- 3 years for underreporting or underpayment cases.
- 6 years for non-filing cases.

Penalty Structure

- 10% of unpaid tax for underreporting or underpayment cases.
- 10% of unpaid tax for non-filing cases.

No other accuracy-related, late-filing, or late-payment penalties will be imposed for years covered by the program.

Certification

Taxpayers must provide a signed statement, under penalties of perjury, that their noncompliance was non-willful. False statements may result in criminal prosecution and the imposition of fraud penalties.

Benefits of Participation

- Reduced penalties.
- Limited lookback period.
- Certainty and closure through a binding closing agreement.
- Protection from expanded examinations for years covered by the agreement.

Audit Consideration

Submissions made under this program are not automatically subject to audit. However, the IRS reserves the right to review submissions where appropriate.

Future Compliance (Condition of Participation)

Taxpayers must stay compliant for five years following participation in the program. If you fail to file or pay on time during this period, the IRS may reinstate the liabilities that were reduced under the program.

How to Apply

Applications will be submitted to the IRS using a designated form. Additional details on filing instructions, required documentation, and payment procedures will be published when the program is formally announced.

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April 3, 2026

Attn: U.S. Department of Treasury Office of Consumer Policy
Deputy Director Tanya McInnis & Senior Advisor Cheryl Cooper
U.S. Department of the Treasury
Washington, DC

Docket ID: TREAS-DO-2026-0001
Submitted electronically via: www.regulations.gov

Re: Request for Information Related to the FLEC Update to the U.S. National Strategy for Financial Literacy

Dear Deputy Director McInnis and Senior Advisor Cooper:

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide comments in response to the U.S. Department of Treasury (Treasury) and the Financial Literacy and Education Commission's (FLEC) request for information regarding priorities for the updated National Strategy on Financial Literacy (National Strategy).

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 37 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and public stakeholders. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax administration.

The IRSAC members work within five broad subject matter groups. These subgroups are Information Reporting, Large Business & International, Small Business/Self-Employed (SB/SE), Tax-Exempt/Government Entities, and Taxpayer Services (formerly Wage & Investment).

Our comments on the National Strategy are based on findings and recommendations prepared by the IRSAC SB/SE subgroup to expand and develop resources that increase tax literacy for small business taxpayers, as reflected in the IRSAC's January 2026 Report (pages 144 to 153).[1] IRSAC

[1] IRSAC January 2026 Annual Report, Publication 5316 (Rev. 1-2026) Catalog Number 71824A Department of the Treasury Internal Revenue Service (Jan. 14, 2026), *available at*: https://www.irs.gov/pub/irs-pdf/p5316.pdf.

developed this small business tax literacy analysis using information provided by IRS subject matter experts and following a comprehensive review of existing IRS resources for taxpayer education.

As set forth in the attached excerpt, IRSAC concluded that "there is no question that small business owners need essential financial and tax literacy to effectively run their businesses." However, tax education is not common in high school or post-secondary school, other than for accounting students. As a result, taxpayers struggle to comply with their tax filing obligations and take advantage of tax benefits targeted to small businesses.

Consistent with the IRS National Taxpayer Advocate's 2024 finding that tax and financial literacy pose a serious challenge for taxpayers,[2] IRSAC developed the following recommendations to improve tax literacy:

1. Developing a strategic tax literacy plan and creating tax education materials that states could integrate into financial literacy or civics curricula for middle and high school students, as well as age-appropriate materials for elementary and higher education students.
2. Partnering with other federal agencies to disseminate tax education resources alongside other financial literacy information provided to business owners at critical points in the business lifecycle (*e.g.*, when applying for grants or loans).
3. Creating and publishing user-friendly graphics on IRS.gov that explain the fundamentals of the U.S. tax system, clarify distinctions between income and employment taxes, and highlight the IRS's role in administering the tax system.

In addition to the foregoing, our report sets forth a comprehensive and targeted series of recommendations addressing the tax literacy and resource challenges faced by small business taxpayers, making it a critical submission in response to Treasury's request for input on "any matter that commentators believe is relevant to the FLEC's update to the National Strategy."[3]

We appreciate your consideration of these comments and recommendations. IRSAC members are available to discuss any of them further. You can reach us via the IRS Office of National Public Liaison at publicliaison@irs.gov.

Respectfully submitted,

Lucinda Weigel

Lucinda Weigel
2026 IRSAC Chair

cc: IRS CEO Frank Bisignano

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[2] IRS National Taxpayer Advocate, *2024 Annual Report to Congress* 104-05 (2024) (Most Serious Problem #8: Tax and Financial Literacy: Limited Tax and Financial Knowledge Is Causing Serious Consequences for Taxpayers), *available at*: https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress/full-report.

[3] U.S. Department of Treasury, Request for Information: 2026-02188 (91 FR 5036) (Feb. 3, 2026), available at: https://www.govinfo.gov/content/pkg/FR-2026-02-03/pdf/2026-02188.pdf.

ISSUE FIVE: Expanding and Developing Resources to Increase Tax Literacy for Small Business Owners

Executive Summary

The SB/SE Subgroup identified the issue of low tax literacy among small businesses as an issue during our January 2025 meeting. The SB/SE Division agreed to receive feedback about this issue and the SB/SE Subgroup met with IRS personnel from the SB/SE Division (Collections). During that meeting, the IRSAC learned that the IRS has some materials for new business owners (e.g., if a taxpayer searches IRS.gov for information on Form SS-4),[150] and that small business owners may receive alerts when a failure to make payroll deposits is detected. In addition, the IRSAC met with the National Taxpayer Advocate (NTA), who elevated tax and financial literacy to one of the most serious problems facing taxpayers in the 2024 NTA Annual Report to Congress (the "2024 NTA Report").[151] The NTA provided insight as to their recommendations for addressing small business tax literacy challenges. The IRSAC supports several of the recommendations included in the 2024 NTA Report to combat low tax literacy among small business owners including:

- **Developing a strategic tax literacy plan** and creating tax education materials that states could integrate into financial literacy or civics curricula for middle and high school students, as well as age-appropriate materials for elementary and higher education students.
- **Partnering with other federal agencies** to disseminate tax education resources alongside other financial literacy information provided to business owners at critical points in the business lifecycle (e.g., when applying for grants or loans).
- **Creating and publishing user-friendly graphics on IRS.gov** that explain the fundamentals of the U.S. tax system, clarify distinctions between income and employment taxes, and highlight the IRS's role in administering the tax system.

[150] IRS Publication 5868, Starting a New Business?; https://www.irs.gov/pub/irs-pdf/p5868.pdf.
[151] 2024 National Taxpayer Advocate Annual Report to Congress, p. 105; https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress.

Background

Need for Small Business Owners to Understand Tax Compliance

There is no question that small business owners need essential financial and tax literacy to effectively run their businesses. In fact, as the NTA noted in the 2024 NTA Report, "[t]ax literacy and financial literacy are fundamentally intertwined when it comes to everyday financial decision-making such as household spending, investing for retirement, paying for education, buying a house, or starting or growing a business."[152] In addition, misinformation and tax scams are on the rise, particularly on social media where taxpayers are exposed to inaccurate and misleading tax information.[153] At the same time, small business tax literacy is low—particularly among taxpayers forming a new business.

For example, a 2025 Intuit QuickBooks survey found that 42% of new small business owners had little to no financial literacy before starting their firms, and almost half (45%) reported losing out on $10,000 in profits as a result of low financial literacy.[154] Given the many tax benefits for small business owners contained in the Code, at least some of those lost profits could be attributable to a failure of small business owners to understand what tax benefits may be available and how and when to comply with filing requirements. Another 2024 survey of small business owners found that even though most relied on tax professionals, business owners still struggled with paperwork requirements and tax law complexity, and more than half were unaware of the 20% deduction on qualified business income for individuals with business income targeted to small businesses (Section 199A).[155]

Tax education is not common in high school or even in higher education—other than for students who study accounting. A 2023 survey of small business owners found that only 7.5% of respondents learned how to do taxes in high school and less than 15% learned in college.[156] At the same time, there is demand for financial literacy and tax

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[152] 2024 National Taxpayer Advocate Annual Report to Congress, p. 105; https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress.

[153] IR-2025-26 (Feb. 27, 2025); https://www.irs.gov/newsroom/dirty-dozen-tax-scams-for-2025-irs-warns-taxpayers-to-watch-out-for-dangerous-threats.

[154] Myranda Mondry, 20 Small Business Financial Literacy Statistics to Know in 2025, Intuit QuickBooks Blog (April 2, 2025); https://quickbooks.intuit.com/r/small-business-data/financial-literacy-statistics.

[155] 2024 NFIB Tax Survey, p. 2; https://www.nfib.com/wp-content/uploads/2024/10/2024-NFIB-Tax-Survey.pdf.

[156] 2024 National Taxpayer Advocate Annual Report to Congress, p. 113; https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress.

education as more states move to require high school students to complete a financial literacy course to graduate.[157] It appears there is both a need and demand for the IRS to build out its small business education efforts beyond its existing programs.

Existing Small Business Educational Tools

The IRS has various resources available for taxpayer education. In some cases, and as noted in prior IRSAC reports, "these efforts aim to enhance transparency, improve compliance, and foster a better understanding of the IRS's enforcement actions."[158] The IRS does not (and generally cannot) engage in marketing, but it does communicate information to the public through IRS.gov (i.e., the IRS website), social media, press releases, and public service announcements. As noted in the 2024 IRSAC Report, the IRS also holds meetings and workshops with professional organizations representing tax preparers through the National Public Liaison (NPL), Taxpayer Experience Office (TXO), Taxpayer Advocate Service (TAS) as well as financial literacy events conducted through the Stakeholder Partnerships, Education and Communication (SPEC) program administered by the IRS Taxpayer Services Division.

In FY2025, IRS engaged in approximately 800 small business events across the country, primarily through partnering with trade associations, industry organizations, small business development centers (SBDCs), and state and local partners. While the IRS estimates that it impacted approximately 250,000 businesses through this ad hoc outreach approach, there are no formal metrics for measuring either small business tax literacy or outreach impact.

More generally, IRS promotes financial literacy through its SPEC programming, and collaborates with approximately 3,300 organizations (e.g., corporations, faith-based and financial education groups, employee groups, and a range of financial institutions including banks and credit unions).

A prompt to a generative AI tool requesting a list of educational resources available to small business owners on IRS.gov (something some small business owners might do)

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[157] 2024 National Taxpayer Advocate Annual Report to Congress, p. 114; https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress.
[158] 2024 IRSAC Report, p. 185; https://www.irs.gov/pub/irs-prior/p5316--2024.pdf.

noted that the IRS provides a wide array of educational resources tailored to small business owners, including:

1. Small Business and Self-Employed Tax Center: This is the primary IRS.gov webpage for small business owners that lists tax forms, guidance, educational resources, and information for small businesses, independent contractors, and gig workers. It features extensive help for those with assets under $10 million.[159]
2. Small Business Online Learning Platforms: This webpage includes links to both static and interactive tools such as:
    - "Link and Learn" program, which is an e-learning program for Voluntary Income Tax Assistance (VITA) volunteers to complete for VITA certification;
    - A tax calendar, which includes the due dates for quarterly-estimated payments; and
    - A series of lesson plans (Understanding Taxes) allowing teachers and students to deepen their understanding of tax topics on their own schedule.[160] This tool includes more than 1,100 pages of information with separate information for teachers and students. These lessons are laid out clearly and are easy to follow. The site includes lessons on individual income tax formula elements, as well as on the "whys of taxes" that provide information on the history of taxation, taxpayer rights, how taxes affect the public, and tax terminology. The lessons on the income tax were updated in 2025 to address changes made by the Tax Cuts and Jobs Act of 2017 but have not yet been updated for P.L. 119-21 (One Big Beautiful Bill Act; July 4, 2025). Much of the obsolete content was removed during the update but there are some references to Form 1040EZ, a form which no longer exists. Also, the only content to help students learn about running their own business is a lesson on self-employment tax. Given the high possibility that many high school students will be self-employed at some early point in their life such as a gig worker or starting their own small business, learning about recordkeeping, types of business deductions, estimated taxes, and the need to learn about state and local taxes would be a helpful addition to the lessons. The Small Business Online Learning Platforms page also provides a link to the U.S. Small Business Administration's

[159] IRS, Small business and self-employed tax center; https://www.irs.gov/businesses/small-businesses-self-employed.
[160] IRS, Small business online learning; https://www.irs.gov/businesses/small-businesses-self-employed/small-business-online-learning.

website digital learning platform that has programs designed to educate small business owners on entrepreneurial best practices and available financing options but does not include information on taxes.

3. Small Business Virtual Tax Workshop: This webpage includes a series of interactive lessons specifically designed for new business owners to learn about their tax rights and responsibilities through self-guided online workshops.[161] This tool was unavailable as it was being updated, however, IRS intends to launch a new virtual small business workshop strategy by Oct. 1, 2025.

There are other IRS.gov resources available to small business owners, specifically, self-employed workers and gig workers. For example, the IRS has since 2016 maintained a "Gig Economy Tax Center" on IRS.gov, which is listed on the IRS.gov "Self-Employed Tax Center" page.[162] The information on this website is minimal and not designed to help someone in the process of starting a small business. For example, a gig worker would need guidance before starting to generate income on how to set up recordkeeping systems, establish a bank account, and manage cash flow to ensure timely estimated tax payments.

In addition to online tools, the IRS has a series of publications designated as recommended reading for small businesses (e.g., Publication 334, Tax Guide for Small Businesses; Publication 5801 Tools and Resources for Small Business) that are accessible via IRS.gov and intended to educate taxpayers about small business tax compliance.[163] While a business owner may eventually find these resources by searching IRS.gov or conducting a standard google search, asking a generative AI website to provide a list of small business resources on IRS.gov results in a far more efficient search. An IRS managed and maintained tool would more likely lead to reliable information and encourage small business owners and others to start their search for tax information at the IRS website.

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[161] IRS, Small business virtual tax workshop; https://www.irs.gov/businesses/small-businesses-self-employed/small-business-virtual-tax-workshop. As of Sept. 8, 2025, this webpage noted a "temporary outage" and that the IRS was updating the site. The page suggests visiting the IRS Video Portal but provided no link to that site.

[162] IRS, Self-employed individuals tax center; https://www.irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center.

[163] IRS, Recommended reading for small businesses; https://www.irs.gov/businesses/small-businesses-self-employed/recommended-reading-for-small-businesses.

The IRS also engages in outreach and small business education efforts such as through the following strategies:

1. Media Engagement:
   • Press releases and news articles
   • Social media campaigns
2. Partnerships with Community Organizations:
   - Collaborations with Non-profits and Advocacy Groups: The IRS partners with community organizations and programs, such as VITA, to offer education and assistance programs. These collaborations help reach underserved communities and provide localized support for resolving tax issues. The IRS Stakeholder Liaison unit has connections with many practitioner, industry and school groups.[164]
   - Taxpayer Assistance Centers (TACs): These centers offer face-to-face assistance for taxpayers dealing with collection and other tax issues.
   - Small Business Tax Workshops, Meetings and Seminars: The IRS maintains a webpage with links to various meetings and seminars on tax issues hosted by other organizations.[165] The webpage is organized by state and users can find information on events in their state. For example, a small business owner in Virginia could see tax-related events hosted by the Virginia SBDC. In reviewing this website, as well as the IRS Small Business Forum program, which the IRS intends to promote over the coming year, it became clear that these important resources are not effectively promoted nor are they necessarily identified in a web search engine or generative AI search of the IRS website for small business tax resources.
   - Training program for IRS Small Business Curriculum. The IRS is developing a training program to teach an IRS small business tax education curriculum. The IRS has targeted tax professionals, SBDC volunteers and college

[164] IRS, Stakeholder Liaison local contacts; https://www.irs.gov/businesses/small-businesses-self-employed/stakeholder-liaison-local-contacts.
[165] IRS, Small Business tax meetings, workshops and seminars; https://www.irs.gov/businesses/small-businesses-self-employed/small-business-tax-workshops-meetings-and-seminars.

students for the training program to make presentations to interested taxpayers.

Overall, IRS resources available to small business owners via IRS.gov can be hard to locate through traditional online searches and may be out of date. Small business owners may face persistent and significant challenges when attempting to navigate the IRS website and locate the information necessary to achieve and maintain tax compliance, particularly if they are not experienced small business taxpayers. The website's navigation is often unintuitive, requiring users to sift through numerous pages and links to find relevant guidance or resources. This difficulty is compounded by the ever-changing complexity of the tax law and low tax literacy, which makes it particularly hard for new business owners to interpret requirements and apply them correctly to their unique circumstances.

These challenges are even more acute for taxpayers with limited English proficiency or without consistent internet access. The IRS's current resources are often only available in English and require reliable broadband, leaving many taxpayers, including small business owners, underserved. Some small business taxpayers do not have foundational tax knowledge to know how to report business income and pay self-employment taxes; likely having no awareness of a Schedule C.

Moreover, IRS initiatives to promote tax education, such as the Understanding Taxes resources,[166] have not been consistently prioritized or sustained over time, resulting in gaps in educational outreach and resource development. Consequently, many small business owners struggle to understand essential obligations and risk costly errors or missed opportunities for compliance, underscoring the need for more strategic, accessible, and user-friendly IRS educational tools and web design improvements.

Notably, small business owners are often able to navigate IRS online resources more effectively by using generative AI platforms (e.g., ChatGPT, Microsoft Copilot, or Perplexity) than by relying solely on IRS.gov or traditional search engines. As U.S. students and future entrepreneurs increasingly shift from conventional search methods

[166] IRS, Understanding Taxes website with resources for teachers and students has a great deal of helpful information but has not been updated since at least enactment of the TCJA in December 2017 as lessons cover personal and dependency exemptions that were removed by the TCJA. See https://apps.irs.gov/app/understandingTaxes/teacher/index.jsp.

toward generative AI tools, it is important for the IRS to consider how best to adapt its small business educational resources to align with this trend.

Recommendations

The IRSAC recommends that the IRS take the following steps to address the tax literacy and resource challenges that small business taxpayers face, consistent with the NTA's 2024 Annual Report.

1. Develop a strategic plan to improve tax literacy among all types of small business taxpayers, which should include establishment of a task force with public and private stakeholders. The plan should include:
    - Developing standardized metrics for measuring tax literacy and regularly conducting and reviewing surveys to evaluate tax literacy among specific types of taxpayers.
    - Identifying metrics to gauge the success of tax literacy and small business education outreach efforts.
    - Identifying opportunities to seek input from stakeholders and the public regarding tax literacy.
    - Creating customized tax literacy outreach, including for platforms inside and outside IRS.gov, for specific types of small businesses and their individual circumstances.
    - Identifying and implementing strategies to partner with state agencies (including state departments of revenue, secretaries of state, state treasurers, and state education departments) to develop and provide accessible tax education for key moments during the lives of individuals and families and the lifecycles of businesses. Some states have online classes available to taxpayers based on particular circumstance or business.[167] The IRS should actively partner with state agencies where possible to include federal income

[167] California Department of Tax and Fee Administration, Tax Education; https://cdtfa.ca.gov/tax-education. The CDTFA serving thousands of business taxpayers is a good example of focused educational efforts consisting of not only information on the agency's website, but also the ability to attend live classes (virtually) to learn about filing obligations and ask questions.

and employment tax information as appropriate. The IRS should also plan and promote their own live webinars on helping emerging and new small businesses and post recordings on IRS.gov.

- Developing accessible tax education materials in consultation with tax preparer communities, including Enrolled Agents, VITA/TCE programs, and software providers, to integrate into their existing communications with taxpayers. In connection with this work, IRS should plan for annual updates for these materials.
- Creating tax education materials targeted to vulnerable populations including the elderly, immigrants, individuals with disabilities, and low-income taxpayers.

2. Annually update IRS tax education materials (such as at the Understanding Taxes webpages) so that states, public and private organizations, and others can incorporate them into education and outreach programs such as for high school financial literacy coursework and integrate into other types of courses, such as math and government or civics, at various educational levels, including elementary school, high school, and higher education. Include the basic tax rules relevant to someone starting a business as a sole proprietor.
3. Partner and post on IRS.gov links with federal agency partners (such as the Social Security Administration, Department of Education, Department of Labor, Department of Health and Human Services, and Small Business Administration) and with state agencies to deliver IRS tax education materials for key points in the lives of individuals, families and businesses. These partnerships should also incorporate tax literacy content into financial literacy programs across federal and state agencies.
4. Develop and post graphics on IRS.gov and develop and distribute other communications to provide basic information on the U.S. tax system's role in society, including where the money that funds the government comes from and how the government uses it.
5. Explore strategies to ensure IRS educational resources are accessible through emerging technologies. As more small business owners rely on generative AI platforms (e.g., ChatGPT, Microsoft Copilot, or Perplexity) rather than or in addition

to traditional search engines, the IRS should ensure its content is optimized for accurate retrieval and that taxpayers are directed to IRS.gov as the authoritative source.

6. Expand multilingual and plain-language resources to reach diverse small business communities.
7. Consider adding a QR code and instructions on the face of Forms 1099-NEC and 1099-K to direct recipients to information on reporting and compliance for non-employment income and related tax matters.
8. Reach out to cities, particularly those that impose a business license tax or similar tax to see if they will help share information about tax considerations of running a business targeted to small businesses.
9. Expand the certification options available through the Link & Learn curriculum to include a Financial and Tax Education training certificate (e.g., a “Tax Community Education Certificate” or “Taxpayer Education Certificate”). This could leverage the IRS’s existing education resources and would include lessons on the platform followed by a certification test. Such an addition would empower NGOs, teachers, and individuals to build their own capacity development plans.

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May 29, 2026

Internal Revenue Service
Attn: CC:PA:01:PR (Notice 2026-23) Room 5203
P.O. Box 7604
Ben Franklin Station
Washington, D.C. 20044

Submitted to www.regulations.gov (IRS-2026-0364)

Re: **Recommendations for the 2026-2027 Priority Guidance Plan Per Request in Notice 2026-23**

To Whom It May Concern:

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide recommendations for the 2026-2027 Priority Guidance Plan as requested by Notice 2026-23. These recommendations tie to our work going back to 2021.

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 37 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and representatives of the public. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax administration.

The IRSAC members work within five broad subject matter groups. These subgroups are Information Reporting, Large Business & International, Small Business/Self-Employed, Tax-Exempt/Government Entities, and Taxpayer Services.

The majority of the recommendations below were included in the 2021, 2022, 2023, 2024 and 2025 annual reports that the IRSAC provided to the IRS. Thus, most of these recommendations were previously made to the IRS but are submitted here formally to the PGP to ensure they are

also part of the formal process established by the Department of the Treasury and the IRS to identify topics for possible guidance.

The annual reports of the IRSAC also include non-guidance recommendations such as for tax forms, technology, and other IRS practices and procedures. Links to the annual reports are included in the description of each of our recommendations as these reports include further details to support the recommendations. The report links are:

- 2025 (dated January 2026) - https://www.irs.gov/pub/irs-pdf/p5316.pdf
- 2024 - https://www.irs.gov/pub/irs-prior/p5316--112024.pdf
- 2023 - https://www.irs.gov/pub/irs-prior/p5316--2023.pdf
- 2022 - https://www.irs.gov/pub/irs-prior/p5316--2022.pdf
- 2021 - https://www.irs.gov/pub/irs-prior/p5316--2021.pdf

We appreciate your consideration of these comments and IRSAC members are available to discuss any of them further. You can reach us via the IRS Office of National Public Liaison at publicliaison@irs.gov.

General

A. Circular 230 Revision

Recommendation from the 2021 IRSAC Report, pages 40 to 42:

Update Circular 230 for currency, relevancy, and readability.

Recommendations from the 2024 IRSAC Report, pages 83 to 89:

1. Modify Circular 230 to include a voluntary Filing Season Agent credential modeled off the Enrolled Agent credential, including minimum competency, continuing education, and ethical standard components. Filing Season Agents would be required to:
   a. Demonstrate competence by passing Parts 1 and 3 of the Enrolled Agent examination.
   b. Pass suitability checks and maintain a PTIN.
   c. Complete 60 hours of continuing education under a three-year renewal cycle with a minimum of 15 hours per year with two hours being ethics education.

Recommendations from the 2024 IRSAC Report, pages 90 to 91:

> Modify Sections 10.6(e)(2) and (f) of Circular 230 to allow up to four hours of practice management as an option within the 72 hours required to renew enrollment for Enrolled Agents. Practice management should be broadly defined as it is for CPAs to include business organization, communications, marketing, computer software and applications, information technology, elimination of bias, privacy laws, and personnel/human resources.

B. State Payments Taxability and Information Reporting

We recommend that guidance be issued to address comments received on Notice 2023-56. Guidance is needed to enable taxpayers, tax practitioners, state tax agencies and state lawmakers to have confidence in understanding the federal tax treatment of various types of payments made by state and local governments to taxpayers as well as the details concerning any required information reporting. See our comment letter on Notice 2023-56 dated September 3, 2024, available at pages 274 to 277 of the 2024 IRSAC Report.

C. Character and Source of Staking Income

Recommendations from the 2025 IRSAC Report (pages 67 to 71):

1. Issue binding guidance to clarify that the sourcing rules under Sections 861-865 apply to digital asset staking rewards.
2. Provide that income received by a taxpayer from a staking-as-a-service arrangement, or any similar arrangement where the taxpayer is acting as a passive capital provider, is sourced to the residence of the taxpayer receiving the rewards. The definition of residence should be consistent with that provided in Section 865(g).

D. Changes in Methods of Accounting

Recommendations from the 2025 IRSAC Report (pages 33 to 36) on change in accounting method procedures:

- Simplify the Form and Process for Small Taxpayers. Develop a simplified version of Form 3115 for common changes applicable to individuals and small businesses—such as switching from cash to accrual accounting. Alternatively, consider a de minimis exception allowing eligible taxpayers to submit a brief statement in lieu of the full form.
- Consolidate Overlapping Method Changes. Continue efforts to merge similar automatic method changes into single designated categories. Reducing fine distinctions can reduce complexity without sacrificing data quality, especially when key information is already included in attached statements.
- Expand Use of Automatic Procedures. Once electronic filing and data capture are in place, consider allowing all Form 3115 filings to follow the automatic procedure. With robust screening tools, the IRS could maintain compliance oversight while reducing the administrative burden for taxpayers and the IRS of nonautomatic filings.

E. Form 730, Monthly Tax Return for Wagers

Recommendation from the 2025 IRSAC report, pages 41 to 46 for penalty relief:

Allow all impacted Form 730 filers to repay any amounts transferred to other IRS modules/tax types that cannot be reversed or to state taxing authorities without applying any penalties or interest since such “underpayments” arose due to no fault of the taxpayers (thus also reducing the administrative burden associated with taxpayers filing and the IRS reviewing abatement reasonable cause claims).

F. Account Fraud Takeover

Recommendations from the 2025 IRSAC report, pages 53 to 61:

- Issue guidance clarifying that there is no reportable income nor any information reporting obligations associated with situations when an Account Takeover (ATO) fraud victim derives no income and suffered no loss because the account administrator reset the victim's account cash and/or asset balances to the levels that would have existed had there been no ATO fraud incident as required by law or contractual obligation.
- Issue guidance clarifying the information reporting obligations of account administrators (if any) in situations when an account administrator resets an ATO fraud victim's account cash and/or asset balances to the levels that would have existed had there been no ATO fraud incident at its own discretion despite having no legal or contractual obligation to do so.

Information Reporting

A. De minimis Threshold for Reconciling Form 1042 and Form 1042-S (Regulations under Sections 1461 and 1474)

Recommendation from the 2025 IRSAC report, pages 62 to 66:

Allow for a de minimis threshold of gross income amounts and total tax withheld reported on Forms 1042-S for unreconciled or unexplained differences (whether known or unknown by the withholding agent) such that as long as the unreconciled or unexplained differences are below such de minimis threshold, these amounts would not be questioned as part of a larger reconciliation inquiry, as well as not considered for the purposes of projection or penalties. This de minimis threshold may be a percentage of the withholding agent's or taxpayer's gross income amounts/total tax withheld as reported on its Form 1042. (Amounts taken into consideration for this de minimis threshold would not include reconciled or explained differences.)

B. Source of Income from Cloud Transactions

In April 2025, the IRSAC submitted comments on proposed regulations on source of income from cloud transactions (REG-107420-24) (see pages 212 to 213 of the 2025 IRSAC Report).

We recommend that the regulations or other guidance provide clarity by specifying that it is the responsibility of the payee to indicate to the payer the portion of any request for payment that should be treated as a payment sourced to the U.S. The guidance should indicate that the payer may rely on such statement by the payee to avoid the requirement under Treas. Reg. § 1.1441-3(d)(1) whereby withholding is required based on the entire amount paid when "the determination of the source of the income or the calculation of the amount of income subject to tax depends upon facts that are not known at the time of payment."

C. Section 6050W Guidance Needed for Filers of Form 1099-K

Recommendations 1 to 6 from the 2023 IRSAC Report, pages 25 to 31:

1. Clarify the definition of 'account' for purposes of section 6050W(d)(3)(A) and Treas. Reg. §1.6050W-1(a)(2).
2. Clarify the discrepancy between section 6050W(d)(3)(A) and Treas. Reg. §1.6050W-1(c)(3) with respect to the use of the term 'providers' versus 'persons'.
3. Define the term 'substantial' by providing a baseline number for purposes of Treas. Reg. §1.6050W-1(c)(3).
4. Define the meaning of 'guarantee' for purposes of section 6050W(d)(3)(c).
5. Add examples in the Treasury regulations to include scenarios of an arrangement that constitutes a guarantee for purposes of section 6050W.
6. Update the Treasury regulations with practical examples illustrating who is required to report when there are multiple PSEs obligated to report the same transaction.

D. Increase the Tax Reporting Threshold for Slot Machine Jackpot Winnings

Recommendations 1 and 2 from the 2025 IRSAC Report, page 227:

1. Increase the tax reporting threshold for slot machine jackpot winnings to $5,000 (modification to Treas. Reg. 1.6041-10).

2. For calendar years beginning after the first year of a $5,000 threshold, consider periodic increases to increase the threshold to a dollar amount multiplied by the cost-of-living adjustment.

E. **Section 302 Escrow and Certification Procedure**

Recommendations 1 to 8 from the 2023 IRSAC Report, pages 38 to 41:

1. The IRS should provide that withholding agents can *presume* that a public markets Section 302 transaction is an exchange (not subject to withholding tax) for U.S. tax purposes unless the withholding agent has actual knowledge otherwise.
2. If such a presumption is not provided, the IRS should address practical, operational, and interpretational issues with the 2007 Proposed Regulations.
3. Withholding should not be required on presumed foreign persons (that have not provided a Form W-8) that have provided a Section 302 certification certifying exchange treatment.
4. Reporting on Form 1042-S [Foreign Person's U.S. Source Income Subject to Withholding] should not be required if the non-US person provides a Section 302 certification certifying exchange treatment.
5. Qualified intermediaries should be permitted to act as withholding agents with respect to Section 302 transactions.
6. Guidance should be provided regarding whether a withholding agent may obtain a Section 302 certification from a non-withholding foreign partnership with respect to the non-withholding foreign partnership's holdings, or whether it is required to obtain individual certifications from the partners of the foreign partnership.
7. It should be made explicitly clear that a Section 302 certification signature under penalties of perjury may be provided electronically.
8. The IRS should consider developing a standard form or IRS approved certification and instructions document.

Guidance should be provided to withholding agents with respect to distributions paid in connection with stock that is not traded on an established financial market.

F. Guidance to Allow Issuers of Form 1099-DA to Furnish Forms Electronically

The IRSAC started working on this digital asset topic in 2024. On June 21, 2024, the IRSAC provided comments on the draft Form 1099-DA, Digital Asset Proceeds from Broker Transactions (see pages 261 to 267 of the 2024 IRSAC Report). We recommend that final regulations under Section 6045 allow brokers who facilitate trades of digital assets through a smartphone, tablet, computer, or similar technology be allowed to furnish written statements to a recipient electronically without requiring the recipient to first consent to receive the statement electronically (see IRSAC comment letter of October 11, 2024 on the draft filer instructions for Form 1099-DA at pages 287 to 291, as well as pages 129 to 131, of the 2024 IRSAC Report).

G. Payors of Income Related to Digital Assets Need Information Reporting & Withholding Guidance

Recommendations from the 2021 IRSAC Report, pages 48 to 56 (slightly modified in light of the issuance of final regulations in July 2024 (TD 10000)):

- Develop a strategic plan for analyzing and providing the industry with applicable withholding and information reporting guidance for other digital asset related transactions including income from staking, lending activities and NFT marketplaces.
- Update existing publications and Form 1099 Instructions with examples of digital asset transactions subject to the requirements. Leverage traditional communications like Internal Revenue Bulletins to articulate guidance for more specific application of details.

H. Extension of Transitional Relief Under Notice 2024-56 for Backup Withholding on Digital Assets by Brokers

In May 2025, the IRSAC provided comments in response to Notice 2024-56, Transitional Relief Under Sections 3403, 3406, 6721, 6722, 6651, and 6656 with Respect to the Reporting of Information and Backup Withholding on Digital Assets by Brokers under Section 6045 (see the 2025 IRSAC Report, pages 214 to 217).

We recommend that guidance be issued to address the following:

- Postpone backup withholding for digital asset sales to those effected during 2027 to allow sufficient time for development, testing, and safe deployment of mechanisms to identify and perform backup withholding on those sales.
- For sales in 2027, permit digital asset brokers to rely on Taxpayer Identification Numbers (TINs) in their account records— irrespective of the method by which they were obtained—if the TINs are not certified but have been validated via the IRS TIN Matching Program. Further, designate such accounts opened prior to 2028 as "preexisting accounts".
- Allow brokers to treat preexisting accounts of customers classified as non-U.S. persons as exempt foreign persons for sales in 2027 without requiring additional documentation, provided the residence address on file is outside the United States.

I. Comments on Notice 2024-55, Certain Exceptions to the 10 Percent Additional Tax Under Code Section 72(t)

Recommendations from the 2024 IRSAC Report, from a comment letter submitted on October 10, 2024, reproduced at pages 283 to 286:

- Confirm that the practical maximum that can be repaid for Emergency Personal Expense distributions is $4,000.
- For repayments of Emergency Personal Expense Distributions, Domestic Abuse Victim Distributions, and other distributions under Section 72(t) permitted within 3-years of distribution, a plan administrator should be able to rely on a statement by the taxpayer that the repayment is permitted.

- Provide model language for a statement upon which a plan administrator may rely to accept repayment of a distribution made under Section 72(t).
- Confirm that exemption from the 10% additional tax described by Section 72(t)(1) is not a prerequisite for a taxpayer to make a repayment of a distribution described by Section 72(t).
- Confirm that there is no annual limit to the amount that a taxpayer may take as a Domestic Abuse Victim Distribution or Repayment under Section 72(t)(2)(K).

J. **Negative Rates**

Recommendations 1 and 2 from the 2021 IRSAC Report, pages 72 to 75:

1. Publish guidance with respect to the source of a negative rate payment. Such guidance should be broad enough to cover payments on routine financial transactions such as deposits, collateral on derivatives, margin loans and repos.
2. If there are scenarios in which published guidance treats a negative rate payment as U.S. source fixed or determinable annual or periodical (FDAP) income, (i) such guidance should be effective only after an adequate transition period for withholding agents to modify systems to account for such guidance, and (ii) the IRS should not challenge taxpayers who have taken a reasonable position with respect to the tax characterization and source of a negative rate payment prior to the effective date of such guidance.

K. Guidance on Distribution Codes for Qualified Charitable Distributions (QCD)

The 2025 instructions for Forms 1099-R and 5498 contain a new distribution code to indicate a Qualified Charitable Distribution (QCD). IRS Notice 2007-7 allows an IRA trustee or custodian to forego withholding on a distribution indicated by the accountholder to be a QCD. See the 2025 IRSAC report (page 223) where we seek guidance:

- to confirm whether the same check-the-box designation made by an accountholder and allowed by IRS Notice 2007-7 can

now also be relied upon by the IRA trustee or custodian to apply the new distribution code Y to a distribution reported on Form 1099-R,

- to address whether there are situations where the IRA trustee or custodian should ignore the QCD designation by the accountholder and not treat the distribution as a QCD for information reporting on Form 1099-R, and
- to confirm that use of the new code Y is optional, including that an IRA trustee or custodian is not obligated to apply the QCD designation to a distribution if the accountholder did not inform the IRA trustee or custodian prior to the distribution that it is a QCD.

Large Business & International

A. **Accelerate Issuance of Section 174 Guidance**
Recommendations 1 to 3 from the 2023 IRSAC Report, pages 49 to 52:

1. Prioritize Section 174 guidance, in the form of binding guidance such as a relevant Notice, Revenue Ruling or Treasury Department issued regulation. In the interim, publicly available Questions & Answers (FAQs, ideally issued as a news release (IR)) would also provide clarity for taxpayers.
2. Include the following topics in the binding guidance (modifications made to our recommendations to reflect Notice 2023-63 and P.L. 119-21 that modified the R&D rules to only require foreign R&D be capitalized and amortized (Section 174)):
    a. Does Section 174 amortization apply to funded research and development in the context of software and non-software if (i) the taxpayer does not own or have rights to the intellectual property or (ii) if the taxpayer does not own the intellectual property but does have rights to the intellectual property?

    b. What documentation and/ or workpapers are taxpayers required to keep as part of Section 174 cost identification and analysis process?

c. In IRS issued guidance provide examples on "in carrying on" versus "in connection with" as used in Sections 162 and 174 such that taxpayers may appropriately utilize other IRC Sections when considering R&E in the ordinary course of carrying on their trade or business.

3. Consider the following Safe Harbors in guidance under the TCJA change to Section 174:

   a. Exclude funded research and funded software development from IRC Section 174 amortization.

   b. Include that taxpayers will not be subject to underpayment penalties on quarterly estimated payments if the add back is equal to prior year Qualified Research Expenses (QREs) (or 125%).

   c. Provide a safe harbor if estimated payments are based on the same as Accounting Standard Codification (ASC) 730 book research and development amounts.

B. Procedures For Partners that Receive Late Schedule K-1 Filings

Recommendation from the 2022 IRSAC Report, pages 52 to 55:

To eliminate the administrative burden to the IRS from processing amended returns and to large corporate taxpayers arising from receiving late Schedules K-1, a procedure should be adopted by which large corporate taxpayers are permitted to:

i. Use good faith estimates with respect to late received Schedules K-1 to timely file their Form 1120.

ii. Correct any such estimated amounts (to the extent necessary) on the subsequent tax year's Form 1120 (including the payment of any interest attributable to an increase in tax for the original reporting year resulting from such true-up and consent to extend the statute of limitations solely with respect to these corrected amounts).

iii. Include an attestation signed under penalty of perjury that the estimated amounts are good faith estimates to the best knowledge of the corporate taxpayer and the

Schedules K-1 were not received on or prior to September 15 and similar timing for fiscal year large corporate taxpayers.

Small Business / Self-Employed Taxpayers

A. Penalties, Defenses to Penalties, and Tools to Resolve Penalties

Recommendations from the 2024 IRSAC Report, pages 171 to 183 include:

- Issue proposed, interpretive regulations under Section 6651 and solicit comments from the public as to (among other things) the factors that should be evaluated in determining whether a taxpayer has reasonable cause to excuse a penalty on the ground of failure to timely file, pay, or deposit.
- Recognize a new reasonable cause exception in which reliance on a professional to perform the ministerial act of electronically filing a tax return that the taxpayer signed and authorized to be electronically filed, but which the taxpayer cannot electronically file, constitutes a reasonable cause to excuse the failure to timely file, pay, or deposit.

B. Disaster Assistance to Improve the Taxpayer Experience

Recommendations from the 2024 IRSAC Report, pages 194 to 201:

- While Rev. Proc. 2018-58 is helpful in listing all the postponed time-sensitive acts under Section 7508A, taxpayers and practitioners would greatly benefit in having a list of the acts that are not covered by the postponement.
- Issue a notice or regulations on the tax treatment of employers' leave-based donation programs that apply to all Federally declared disasters. The date for such donations to be made can be specified as the last day of the year following the disaster declaration.

C. Expand ADR and the Pool of Eligible Mediators

Recommendations from the 2025 IRSAC Report pages 131 to 139, include:

- Revise Revenue Procedure 2017-25 and, as necessary, Revenue Procedure 99-28, to eliminate the categorical exclusion of collection matters, expand eligibility to correspondence exams, and clarify that participation in FTS does not preclude Post-Appeals Mediation (PAM).
- Expand and simplify early referral procedures for SB/SE taxpayers by streamlining eligibility criteria, adapting the process beyond its current LB&I and employment tax focus, and piloting early referral in limited correspondence examination disputes.
- Expand eligibility for ADR to issues disproportionately affecting low-and middle-income (LMI) taxpayers, such as disputes over earned income tax credit eligibility, dependency exemptions, and head of household filing status, which typically arise in correspondence examinations currently excluded from ADR.

Tax-Exempt / Government Entities

A. Self-Correction Guidance for Employee Plans

Recommendations 1 to 10 from the 2023 IRSAC Report, pages 115 to 121:

1. Expand the Employee Plans Compliance Resolution System (EPCRS) (currently set out in Rev. Proc. 2021-30) to permit direct transfers between different types of plans maintained by the same employer when contributions have erroneously been made to one plan when they should have been made to another plan.
2. Expand EPCRS to allow plan sponsors to use the Department of Labor lost earnings calculator as a reasonable alternative method for calculating lost earnings when correcting failures.
3. Expand EPCRS to allow a retroactive amendment to correct an ADP/ACP testing error by changing testing methods if the amendment would have been permitted

under the Internal Revenue Code if timely adopted and it does not favor HCEs over non-HCEs.

4. Expand EPCRS to allow plan sponsors to self-correct failures to timely amend the plan for tax law changes.
5. Expand EPCRS to provide guidance on how to correct failures regarding both underpayments and excess mandatory employee contributions with respect to governmental plans.
6. Expand EPCRS to address corrections of missed RMDs due to vendor failures when a deselected vendor fails or refuses to make RMDs, and the plan sponsor has no control over the assets.
7. Update EPCRS to address statutory changes in Section 301 of the SECURE 2.0 Act with respect to correcting overpayment errors.
8. Reorganize the EPCRS to group together all correction methods related to a single type of failure to facilitate compliance.
9. Review the types of errors being filed under the VCP [Voluntary Correction Program] to determine additional guidance that may be needed under the EPCRS for plan sponsors to adequately self-correct for the same errors.
10. Continue to request comments from plan sponsors on the EPCRS updates to gather information on how employers are using the self-correction program (SCP).

B. Update Guidance on the Interpretation of "Essential Government Function" for Tribal Governments

Recommendations from the 2025 IRSAC Report pages 157 to 161:

Update the interpretation of "essential government function" under §7871 and issue guidance of the same.

Specifically, tribal governments should be afforded the same treatment under §7871 as states are under §115: if the revenue is used to fund government operations, the enterprise should not be excluded as "commercial." Guidance should establish a presumption that wholly-owned tribal entities whose profits flow exclusively to the tribe, and not to any private individual, are not "commercial activities" for purposes of §7871.172 This presumption would acknowledge that the purpose of such

entities is governmental revenue-raising, which is a quintessential government function. Consequently, tribes should be able to finance the development of these facilities through tax-exempt bonding, just as state and local governments are permitted. Additionally, the activities performed via these tribally owned businesses should enjoy the same excise tax exemptions as the tribal government.

Revising this definition would not only eliminate inequities but also strengthen tribal self-governance. Allowing tribes to use tax-exempt financing for government-owned enterprises would expand access to affordable capital, enabling the construction of revenue-generating projects that sustain essential services for their citizens. It would also eliminate the excise tax burden that states do not bear. This approach affirms the federal government's trust responsibility to support tribal self-determination and economic self-sufficiency.

C. Implementation of the Saver's Match (Section 6433)

Recommendations from the 2025 IRSAC Report, pages 164 to 168, to maximize the efficiency of the Saver's Match and minimize resource strain:

1. Encourage retirement plans and IRA providers to accept Saver's Match contributions by limiting burdens and maximizing flexibility through considering the following items:
    - Do not require retirement plan and IRA providers to claim the Saver's Match on behalf of taxpayers. Claiming the Saver's Match requires information that the plan/IRA provider does not have, such as filing status and adjusted gross income. Requiring plan/IRA providers to claim the contribution on behalf of the taxpayer will serve as a deterrent to accepting Saver's Match funds. Plans should be required to provide participants with the plan information necessary to have the Saver's Match delivered to the correct place (if the plan accepts Saver's Match contributions).
    - If retirement plan/IRA providers are permitted to claim the Saver's Match on behalf of taxpayers, it should be based on certifications provided by the participant regarding their eligibility. Guidance

should clearly specify that the plan/IRA provider is entitled to rely on that certification.

- The possibility of receiving Saver's Match funds that cannot be assigned to a specific participant account would discourage retirement plan administrators from accepting those contributions. Provide a mechanism for plans and IRAs to reject or otherwise not accept contributions, and to return contributions that should not have been accepted. Offer maximum flexibility to any plans that must correct mistakes.
- Confirm that retirement plans do not need to track earnings on Saver's Match contributions for purposes of hardship and unforeseeable emergency expense distributions. Clarify that the restrictions against the use of Saver's Match contributions for hardship and unforeseeable emergency expense distributions apply only to the funds contributed— and not to earnings on these funds.
- Many plan sponsors will be hesitant to accept Saver's Match contributions if doing so is likely to lead to an increase in the plan's number of small accounts. Exclude Saver's Match contributions for purposes of the mandatory cashout and automatic rollover IRA rules under Section 411(a)(11)(D).
- Provide a model plan document amendment for retirement plans to adopt permitting the acceptance of Saver's Match contributions.
- With regard to Pooled Employer Plans, allow the pooled plan provider to give adopting employers flexibility to choose (on an employer-by-employer basis) the ability to accept or not accept Saver's Match funds.

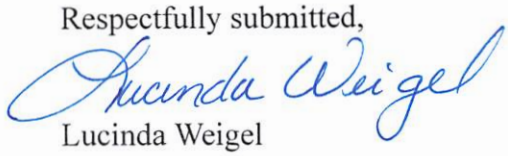
2. Look for specific actions that would incentivize retirement plan administrators to accept Saver's Match funds. For example, guidance could be issued allowing retirement plans to permit Saver's Match contributions – which will generally be allocated to non-highly compensated employees – to be treated as elective

deferrals for purposes of the actual deferral percentage test.

D. Defining Identical Terms Identically for Purposes of the Unrelated Business Income Tax (UBIT) and Real Estate Investment Trusts (REITs) to Avoid Confusion and Facilitate the Effective Administration of Tax Law

The 2025 IRSAC Report, pages 169 to 171, recommends reconciling the guidance explaining the legislative terms "rent from real property" so that their definitions are harmonized for purposes of the REIT and UBIT provisions of the Code. One option would be to take the comprehensive provisions recently promulgated in Treas. Reg. 1.856-10 for both the UBIT and REIT provisions. The IRSAC recognizes that there is not complete overlap between the two regimes, but the "inherently permanent structure" test could be an efficient starting option for one comprehensive set of rules.

Respectfully submitted,



Lucinda Weigel
2026 IRSAC Chair

Internal Revenue Service Advisory Council (IRSAC)

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September 11, 2026

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Submitted to www.regulations.gov (IRS-2026-15067)

Re: **Recommendations for the Employee Plans Compliance Resolution System (EPCRS): OMB Control No. 1545-1673**

Dear Mr. Garcia:

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide recommendations for the EPCRS as requested in the July 27, 2026 *Federal Register* (91 FR 47035). The IRSAC made a number of recommendations concerning this topic in our 2023 annual report.

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 37 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and representatives of the public. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax administration.

Our members work within five broad subject matter groups. These subgroups are Information Reporting, Large Business & International, Small Business/Self-Employed, Tax-Exempt/Government Entities, and Taxpayer Services.

The IRSAC believes the recommendations below are relevant to the present request for comments under the Paperwork Reduction Act because the administrative burden associated with EPCRS extends beyond the time required to complete particular forms or submissions. Clear safe harbors, streamlined correction methods, meaningful guidance, and appropriate opportunities for self-correction can reduce or eliminate the need for formal

submissions to the IRS, while providing plan sponsors greater certainty regarding acceptable correction methods. Accordingly, the recommendations made in 2023 would not only improve the effectiveness and accessibility of EPCRS, but would also directly further the goals of the Paperwork Reduction Act by reducing the time, cost, and administrative effort required of plan sponsors seeking to correct plan errors.

As noted above, the following recommendations were included in the 2023 IRSAC Annual Report,[1] along with background information and additional observations. Thus, each of these recommendations was previously made to the Commissioner of the IRS and is being submitted formally here to ensure that it is considered as the IRS works to restate the EPCRS program.

1. Expand EPCRS to permit direct transfers between different types of plans maintained by the same employer when contributions have been made to one plan when they should have been made to another plan.

2. Expand EPCRS to allow plan sponsors to use the Department of Labor lost earnings calculator as a reasonable alternative method for calculating lost earnings when correcting failures.

3. Expand EPCRS to allow a retroactive amendment to correct an ADP/ACP testing error by changing testing methods provided the amendment would have been permitted under the Internal Revenue Code if timely adopted and does not favor highly compensated employees over non-highly compensated employees.

4. Expand EPCRS to allow plan sponsors to self-correct failures to timely amend the plan for tax law changes.

5. Expand EPCRS to provide guidance on how to correct failures regarding both underpayments of and excess mandatory employee contributions with respect to governmental plans.

6. Expand EPCRS to address corrections of missed Required Minimum Distributions (RMDs) due to vendor failures when a deselected vendor fails or refuses to make RMDs, and the plan sponsor has no control over the assets.

[1] https://www.irs.gov/pub/irs-prior/p5316--2023.pdf

7. Update EPCRS to address statutory changes in Section 301 of SECURE 2.0 with respect to correcting overpayment errors. (This recommendation has been addressed in IRS Notice 2024-77.)

8. Reorganize the EPCRS to group together all correction methods related to a single type of failure to facilitate compliance.

9. Review the types of errors being filed under the VCP to determine additional guidance that may be needed under the EPCRS for plan sponsors to adequately self-correct for the same errors.

10. Continue to request comments from plan sponsors on the EPCRS updates to gather information on how employers are using the SCP.

We appreciate your consideration of these comments. IRSAC members are available to discuss any of them further if additional discussion or clarification is required. You can reach us via the IRS Office of National Public Liaison at publicliaison@irs.gov.

Respectfully submitted,

Lucinda Weigel

Lucinda Weigel
2026 IRSAC Chair

cc: IRS CEO Frank Bisignano

APPENDIX B:

IRSAC Member Biographies

Grace Allison – Ms. Allison is Staff Attorney and former Director at New Mexico Legal Aid LITC in Albuquerque, New Mexico; she previously served as Director of the LITC at the University of New Mexico School of Law. Through these LITCs, Ms. Allison has represented a diverse population: rural, urban, indigenous and immigrant. Her clients include members of underserved and remote pueblos and reservations, as well as members of the Hispanic community---from far Northern New Mexico to Las Cruces. In 2022, the City of Albuquerque asked her to help draft what became its Tax Preparers Ordinance, a first step in combatting uncredentialed tax preparation. She is a member of the American Bar Association and is former Chair of its Real Property, Trust and Estate Law Section Charitable Group. She currently serves as Treasurer of the Tax Section Board of the State Bar of New Mexico. Prior to her work with LITCs, Ms. Allison was, for 19 years, Tax Counsel for Northern Trust, the Fortune 500 wealth manager. (Taxpayer Services Subgroup)

Robert Barr – Mr. Barr has led digital transformations for both public and private sector organizations, including the South Carolina Department of Revenue, Intuit, Dell, Blockbuster and USAA. At the S.C. Department of Revenue, he enabled the Fed-State electronic filing program and pioneered the electronic payment of business taxes. At Intuit, he built the private sector platform to electronically file tax returns for TurboTax. He also served as the Internal Revenue Service Assistant Commissioner for Electronic Tax Administration where he branded IRS e-file and EFTPS, established the National Accounts Program, enabled credit card payment of taxes and digital signing, brokered the first free file programs by the private sector and introduced the IRS e-file provider program. Mr. Barr formerly served on the Commissioner's Advisory Group, the Information Reporting Program Advisory Committee, and the Electronic Tax Administration Advisory Committee. (Taxpayer Services Subgroup)

Joseph Bender – Mr. Bender is Partner with Difede Ramsdell Bender PLLC in Washington, DC. Bender has practiced federal tax law for nearly 30 years. Over the last
15 years, his practice has focused on investments by tax-exempt organizations, particularly leveraged and unleveraged investments, unrelated business income tax, unrelated debt-financed income, and real estate investment trusts (REIT). (Tax Exempt & Government Entities Subgroup)

Pablo Blank – Mr. Blank is Director of Immigration Integration at CASA, Inc., in Rockville, Maryland. Mr. Blank oversees CASA's VITA sites in Maryland, Virginia, and Pennsylvania. He works with Prince George's CASH Coalition, the CASH Campaign for Maryland and the Direct File coalition. He leads a team of four managers and 50 members in three states. The VITA sites he runs are designed to be inclusive, primarily serving immigrant taxpayers. The sites offer a

multicultural and multilingual approach, educating taxpayers also on US tax policy and helping them better prepare for future tax return filings. He is co-chair of the National Taxpayer Experience Coalition. Mr. Blank serves as the Chair of Montgomery County, Maryland's, Committee Against Hate/Violence, and as a member of the Maryland's Comptroller New Americans Advisory Council. He holds a BA in Management, a Master degree in Corporate Social Responsibility and Sustainability, and an Executive Master degree from Georgetown University in Leadership. A native of Argentina, he is bilingual in English and Spanish. Mr. Blank has been selected to represent VITA and non-English-speaking taxpayers. (Taxpayer Services Subgroup)

Andrew Bloom – Mr. Bloom is the Head of Tax at Golub Capital, a SEC-registered investment advisor and international asset manager. He advises on tax issues for investors, general partners, large partnerships, foreign corporations, and business development companies. He also manages substantive tax issues, including investment fund structuring, financial product planning, international tax planning, FDAP and FATCA withholding and tax treaty planning and compliance. Previously, he was a partner at Dechert LLP in New York. (Large Business and International Subgroup)

Selvan Boominathan – Mr. Boominathan is VP Global Head of Tax at Hackman Capital Partners, LLP, in Washington, DC. Mr. Boominathan is a former IRS Office of Chief Counsel attorney, where he provided technical expertise in timing of income and deductions, accounting methods, and employment taxes. He now manages the tax compliance team for a global real estate private equity group and portfolio company, including managing the federal, state, local, and foreign tax filings for approx. 300 entities. His current position focuses on international M&A planning, large fund structuring, tax financial modeling, partnership tax, and transfer pricing. He is a member of the American Bar Association and the National Asian Pacific Islander Bar Association. Mr. Boominathan has been selected to represent large, international businesses. (Large Business and International Subgroup)

Elizabeth Boonin – Ms. Boonin is a CPA and Managing Member at Sound Accounting in Hauppauge, New York, and co-founder of Halcyon Still Water LLC in Red Bank, New Jersey. In 2013, Ms. Boonin started a full-service public accounting firm offering individual and business tax services, representation in IRS matters, and business valuations for mergers and acquisitions. In 2020, she co-founded a technology-based company providing automated tax preparation and third-party income verification aimed at leveraging technology in such a way that safeguards client information and reduces manual data entry for tax professionals and lending institutions. Prior to these ventures, she served as a VP of Global Markets Financing & Services with Bank of America/Merrill Lynch specializing in equity derivatives. (Taxpayer Services Subgroup)

Caroline Bruckner – Prof. Bruckner is a Hurst Senior Professional Lecturer & the Managing Director of the Kogod Tax Policy Center at American University Kogod School of Business (KSB) in Washington, DC. Prof. Bruckner teaches undergraduate and graduate courses on fundamentals of federal income tax, business law, business ownership and business basics, and conducts research on tax literacy and compliance issues. She is also on the board of trustees of the American Tax Policy Institute, and the board of directors of Community Tax Aid D.C. (CTA), the largest provider of volunteer income tax assistance (VITA) sites in the DC metropolitan area. Since 2019, she has served as a VITA volunteer and the coordinator for the KSB VITA program. During tax season, she has helped prepare tax returns for low-income taxpayers and has gained insight into their tax challenges. She serves as faculty advisor to the Kogod VITA Volunteer Corps. She previously served as Chief Counsel to the U.S. Senate Committee on Small Business and Entrepreneurship, as well as Senior Counsel to the Committee on Energy and Natural Resources, where she advised the committee on tax, labor, and budget matters. Before public service, she was a tax attorney with Paul Hastings LLP and PwC in their national tax office. She is a member of the American Bar Association Tax Section and the National Academy of Social Insurance and is an American College of Tax Counsel fellow. Prof. Bruckner has been selected to represent academia and VITA. (Small Business/Self-Employed Subgroup)

Beatriz Castaneda – Ms. Castaneda previously served as the Director of Tax Information Reporting at Coinbase, with over 25 years of experience in U.S. and international information reporting and tax transparency. Her career encompasses both traditional financial services and the rapidly evolving digital assets sector. In her previous role, she provided strategic guidance on tax regulation compliance, assessed regulatory risks, and lead the development of comprehensive reporting policies and governance frameworks. She also oversaw the creation of internal protocols and client communications to ensure alignment with dynamic reporting requirements. From 2014 to 2016, Ms. Castaneda served on the IRS Information Reporting Program Advisory Committee (IRPAC) as a member of the Information Reporting Subgroup. She continues to play an active role in policy development, shaping emerging regulatory guidance, and fostering collaboration between tax authorities and industry stakeholders to advance global information reporting and tax transparency. (Information Reporting Subgroup)

Sam Cohen – Mr. Cohen is the Chief Government Officer-Chief Legal Officer of the Morongo Band of Mission Indians in Riverside County, California. Mr. Cohen has devoted his legal practice solely to Native American law and policy since 1997. He currently is the general counsel for a casino with 2,400 devices, two hotels and four restaurants. As a commercial lawyer and tax practitioner, he assists in working on tax parity issues (adoption and employment tax credits, tax exempt bonds and pension reform) at the Tribal level and at the individual Tribal member level. Mr. Cohen has been selected to represent underserved taxpayer communities, specifically Indian Tribal Governments. (Tax Exempt & Government Entities Subgroup)

Kendra Cooks – Ms. Cooks serves as the Chief Financial Officer and Treasurer of Wabash College in Crawfordsville, Indiana. Dr. Cooks has over 32 years of experience in financial and administration in higher education, including previous roles as Comptroller of Purdue University (West Lafayette, IN) and Controller at the University of North Carolina at Charlotte (Charlotte, NC). Dr. Cooks is originally from Crawfordsville, IN, and is blessed to serve at Wabash College, combining her love for higher education with love of her hometown. Dr. Cooks' educational background includes a Bachelor of Science degree in Financial Planning and Counseling, a Master of Science degree in Management, and a PhD in Higher Education Administration from Purdue University. Dr. Cooks holds a CPA license in Indiana and North Carolina and serves on the Tax Council of the National Association of College and University Business Officers and was past president and board member of the Indiana Association of College and University Business Officers. Ms. Cooks has been selected to represent college and university business officers. (Tax Exempt & Government Entities Subgroup)

Omeed Firouzi – Mr. Firouzi is Professor of Practice and Director at Temple University Beasley School of Law LITC in Philadelphia, Pennsylvania. Mr. Firouzi has practiced in a low-income taxpayer clinic, representing hundreds of taxpayers in various IRS controversies at Philadelphia Legal Assistance and at Temple Law School LITC. He has represented multiple individuals in EITC and CTC audits and has worked to raise awareness about the disparities low-income taxpayers face in the tax system and IRS processes. He previously volunteered with VITA. He is a member of the American Bar Association Tax Section, where he serves as vice chair of the Pro Bono & Tax Clinics Committee. Mr. Firouzi has been selected to represent LITC and underserved taxpayer communities. (Taxpayer Services Subgroup)

Christine Freeland – Ms. Freeland is President of Christine Z. Freeland, CPA PC, in Chandler, Arizona. Freeland has volunteered tax services at both the local and state levels. At the national level, she has served as president of the National Society of Accountants (NSA). Freeland was also the NSA presenter for the IRS Nationwide Tax Forum in 2020 and 2021. She also works with the Arizona Association of Accounting and Tax Professionals and has developed continuing education events for IRS Tax Security Awareness Week. Freeland also teaches Circular 230 Ethics annually and participates in roundtables. (Small Business/Self-Employed Subgroup)

David Gannaway – Mr. Gannaway is a Principal at Bederson LLP, Accountants & Advisors, in Fairfield, New Jersey. Mr. Gannaway is an Enrolled Agent (EA) and a former IRS employee who spent four years as a revenue agent followed by 16 years in Criminal Investigation as a special agent in the southeast and as Assistant Special Agent in Charge in the NY Field Office. In 2007, he went to work in the private sector where he represents individuals and small/midsize businesses in audit and collection matters before the IRS and state income tax agencies. He

specializes in forensic accounting, valuation, litigation support and tax controversy. He is an adjunct professor at Fordham University's Gabelli School of Business and Seton Hall University's Law School. He is a frequent speaker for the National Association of Enrolled Agents (NAEA), National Society of Accountants (NSA), and the Association of Business Trial Lawyers. He has also spoken about the field audit and appeals rights on "Tax Talk Today." He is a member of NAEA where he serves on the Board of Directors and the Government Relations Committee. Mr. Gannaway has been selected to represent small and midsize businesses and individual taxpayers. (Small Business/Self-Employed Subgroup)

Jared Goldberger – Mr. Goldberger is Partner at Mayer Brown LLP in New York, New York. Mr. Goldberger is an attorney who represents U.S. and non-U.S. financial institutions with respect to tax transparency and information reporting, such as FATCA, chapter 3 requirements and the QI regime, and chapter 61 information reporting requirements. He primarily provides tax advice to financial institutions, including banks, custodians, investment funds, and other financial intermediaries. He is the main contact at his global law firm for any information reporting issue that arises internally with respect to any corporate or finance transaction or litigation matter. Mr. Goldberger has been selected to represent information reporting. (Information Reporting Subgroup)

Steven Grieb - Mr. Grieb is the Senior Compliance Counsel at Arthur J. Gallagher & Co. in Rolling Meadows, Illinois. Mr. Grieb has 30-plus years of experience working directly with companies that sponsor qualified and non-qualified retirement plans. His work deals significantly with ERISA and fiduciary duties, as well as with helping plan sponsors and service providers understand and comply with the IRC requirements. He assists retirement plan clients with corrections under Rev. Proc. 2021-30 and elective deferral errors. More recently, he has daily helped clients navigate the rule changes from SECURE and SECURE 2.0, like the many optional provisions that require plan sponsors to think through the best plan design for their specific work force. (Tax Exempt & Government Entities Subgroup)

David Heywood - Mr. Heywood is a lawyer in solo practice in Gettysburg, Pennsylvania. Mr. Heywood is the former head of tax at Lockheed Martin and previously General Tax Counsel at Union Pacific. He has 38 years of corporate and law firm experience in structuring mergers and acquisitions, spin-offs, domestic and international tax planning, strategic transactions, IRS rulings and audits, tax litigation, compensation, and tax legislation. At Lockheed Martin he led a team of 85 tax lawyers and accountants with responsibility for structuring, analysis, reporting, and public disclosure of the tax implications related to business operations, corporate transactions, reorganizations, partnerships, financings, and like-kind exchanges. He also handled multiple large-case audits and CAP audits. Since retiring from Lockheed Martin, he has been in solo practice where he focuses on tax-exempt 501(c)(3) entities. Mr. Heywood earned a bachelor's degree in Classics from Dartmouth College and a J.D. from the University of Chicago Law School and clerked for the Tenth Circuit Court of Appeals. He is

admitted to the bar in Maryland, Pennsylvania, the U.S. Tax Court, and the U.S. Supreme Court. Mr. Heywood has been selected to represent large corporate taxpayers and tax-exempt entities. (Large Business and International Subgroup)

Manuela Markarian – Ms. Markarian is Senior Tax Advisor at Bank of America in Charlotte, North Carolina. A CPA and EA, Ms. Markarian is senior advisor for corporate tax information reporting and withholding. She manages the consumer line of business and institutional retirement function, serving as the subject matter expert. She monitors legislative, regulatory and industry developments related to tax information reporting. She also reviews regulatory updates and communicates tax technical practical recommendations to business lines and tax reporting departments. She has served as both a VITA volunteer and supervisor. Ms. Markarian has been selected to represent the banking industry. (Information Reporting Subgroup)

Charles Markham – Mr. Markham is an EA, CPA, and Principal of Markham & Company LLC in Gainesville, Virginia. Markham & Company is a 'client-centric' tax preparation and representation firm, preparing over 400 returns annually. He is admitted to practice before the United States Tax Court. He specializes in audits and collections issues and also has extensive experience dealing with stock options and related equity issues and R&D tax credits. Since 2009, Markham has worked with the IRS's Office of Professional Responsibility, and its test contractor, ProMetric, as a Subject Matter Expert developing scope and content for the IRS Enrolled Agent (EA) exam. Markham is a "non-public" arbitrator for FINRA, serving as a panel member that adjudicates securities disputes. Markham is an elected member of the National Board of Directors of NATP. He is a member of NAEA, where he previously served on the Bylaws and Government Relations Committees. He is a member of the American Society of Tax Problem Solvers. He is a consulting member of the Tax Defense Institute where he received the "Paul R. Tom Award" for outstanding contributions. Mr. Markham has been selected to represent individual taxpayers. (Small Business/Self-Employed Subgroup)

Anthony Massoud - Mr. Massoud is Vice President of Corporate Finance and Tax at Van Metre Companies in Fairfax, Virginia. He began his career at Van Metre as Tax Manager, where he was responsible for the tax compliance and planning for over 200 partnerships, as well as numerous trusts, foundations, and high-net-worth individuals. Over time, his role expanded to include oversight of the company's broader financial operations, strategic planning, and corporate finance initiatives. Mr. Massoud began his professional career in public accounting, working with high-net-worth individuals and international businesses on complex tax matters. He earned his Bachelor's degree from the University of Connecticut and a Master's degree from Boston University. In addition to his professional work, Mr. Massoud has served on the Board of the Parkinson's Foundation of the National Capital Area for six years, including as Chair in his final year, and on the Board of the Van Metre Companies Foundation for four years, an employee-managed charitable foundation that supports community-focused initiatives. Having lived in the

Democratic Republic of Congo, France, Saudi Arabia, and Bahrain, Mr. Massoud brings a global perspective to his work in taxation and finance (Large Business and International Subgroup)

Mark Matkovich – Mr. Matkovich is an attorney in Charleston, West Virginia, specializing as bond, underwriter's, lender's, and borrower's counsel in public and government financing. His practice focuses on tax-exempt bonds and economic development financings, with particular emphasis on projects in water, wastewater, public facilities, economic development, and affordable housing. He regularly advises on IRC Section 103 and Sections 141-150 to resolve tax issues for various entities, including municipal governments and tax-exempt organizations. He served as Commissioner of the West Virginia State Tax Department (2013-2017); as general counsel to the West Virginia Department of Revenue (2011-2013); and as staff attorney and general counsel for the West Virginia State Senate. Mr. Matkovich has been selected to represent tax-exempt bonds. (Tax Exempt & Government Entities Subgroup)

Susan Nakano – Ms. Nakano is Senior Manager in Compliance with Capital One Financial in Virginia and Illinois, providing operational tax advisory to the enterprise. Ms. Nakano came to Capital One through their recent acquisition of Discover Financial Services. She obtained a Masters Degree in Taxation from the University of Illinois and also has a Masters Degree in Information Technology. Ms. Nakano is experienced in operations, audit, risk, compliance, analytics, and information technology. She helps internal business partners develop tax-compliant systems and processes, and is an expert in federal and state tax codes, as well as the supporting regulations and guidance. Ms. Nakano advises on information reporting, focused on reporting for bank depository, lending including auto lending, credit card settlements and accounts payable vendor reporting. (Information Reporting Subgroup)

Sarah Narkiewicz – Ms. Narkiewicz is LITC Director at Washington University School of Law in St. Louis, Missouri. Ms. Narkiewicz co-founded the Washington University School of Law LITC in 2014 and has directed it independently since 2019. She supervises the staff attorney and students and manages all clinic work from intake to case execution. She is also the Associate Dean of the Clinical Education Program, Assistant Professor of Practice, and Director of the Tax LL. M. Program at Washington University School of Law. Prior to teaching, she practiced corporate law for seven years. She is a member of the American Bar Association Tax Section. Ms. Narkiewicz has been selected to represent LITC and underserved taxpayer communities. (Taxpayer Services Subgroup)

Annette Nellen – Ms. Nellen is Professor of Accounting and Taxation and MST Program Director at San Jose State University. Nellen is a CPA and attorney and is active in the tax sections of the AICPA (including former chair of the Tax Executive Committee), ABA (past chair of the Tax Policy & Simplification Committee, current Council Director), and California Lawyers Association. She is

the recipient of the 2013 Arthur J. Dixon Memorial Award given by the Tax Division of the AICPA, the highest award given by the accounting profession in the area of taxation. Nellen has written numerous tax articles and is a co-author/co-editor of four tax textbooks. She is a frequent speaker at conferences and education programs for tax professionals focusing on tax developments, property transactions, digital assets, tax research, ethics, tax reform, and tax policy and has testified several times before various legislative committees and tax reform commissions on tax policy and reform. Prior to joining SJSU in 1990, she worked at the IRS (revenue agent and lead instructor) and a Big 4 CPA firm. Ms. Nellen served as chair of IRSAC in 2024. (Small Business/Self-Employed Subgroup)

Adam Robbins - Mr. Robbins is Senior Vice President – Tax & Tax Counsel at bet365 in Denver, CO. Prior to his current role, Mr. Robbins served as US Tax Vice President at FanDuel Group, Inc. for nearly 7 years during which time he and his team pioneered a customer-centric, data and automation driven approach to integrating decades-old information reporting and withholding laws into the technologically complex and rapidly growing US online gaming industry. Their efforts ensured the market leader appropriately applied product-line specific Forms 1099, 1042, and W-2G rules to billions of dollars of transactions per year. Prior to FanDuel, Mr. Robbins oversaw all information reporting and withholding obligations for a music technology company that tracked and paid music royalties to millions of domestic and foreign recipients annually. Mr. Robbins began his career at KPMG and PwC where his work focused on the taxation of REITs and other real estate investment funds. Mr. Robbins has been selected to represent information reporting. (Information Reporting Subgroup)

Brayan Rosa-Rodriguez – Mr. Rosa-Rodriguez is an independent policy and government relations consultant whose work focuses on tax and fiscal policy, public benefits, and economic security for Puerto Rico and Latino communities across the United States. He provides policy analysis, research, and strategic support to nonprofit organizations working on public finance transparency, health policy, and economic democracy. He is also a research fellow at Boston University's Institute for Equity in Child Opportunity and Healthy Development. As a Senior Policy Analyst at UnidosUS, he led a multi-state campaign for Latino taxpayers in California, Arizona, Texas, Florida, and Puerto Rico built on the American Rescue Plan expansions of the Child Tax Credit and Earned Income Tax Credit. He previously served as Executive Director of the Instituto del Desarrollo de la Juventud (Youth Development Institute) in San Juan. He holds a Master of Public Administration from New York University's Robert F. Wagner Graduate School of Public Service and a Master of Education from Teachers College, Columbia University. (Taxpayer Services Subgroup)

Lawrence A. Sannicandro – Mr. Sannicandro is a Partner at Pillsbury Winthrop Shaw Pittman LLP in New York, New York. Mr. Sannicandro has significant experience representing small businesses and self-employed taxpayers in audits, administrative appeals, investigations, collection matters, and litigation in federal

trial and appellate courts. He was co-counsel to the taxpayers in a case concerning the procedural requirements of section 6751(b)(1) that affected the IRS's approach to assessing penalties. He is a principal draftsperson of written comments from the ABA Tax Section to the IRS on issues, including changes to Schedule UTP, the closure of the IRS's voluntary disclosure program, and the proposed elimination of attorney positions from OPR. He has been nationally recognized for co-founding the Exonerees' Tax Assistance Network, which provides tax-related assistance that he and others provided to wrongfully incarcerated individuals. (Small Business/Self-Employed Subgroup)

Tralynna Scott – Ms. Scott is the Chief Economist at Cherokee Nation Businesses, LLC, in Catoosa, Oklahoma. Ms. Scott conducts research on economic policy and economic events to assess and project the impact on Cherokee Nation Businesses. She leads bi-annual studies of the economic impact of the Cherokee Nation. Since 2021, she has served as Special Envoy and Cherokee Nation's representative to the U.S. Department of the Treasury. She previously served as Treasurer of the Cherokee Nation; she was responsible for the investment, deposit and cash flow management of all Cherokee Nation funds as well as the acceptance and oversight of all sources of available monies including $2 billion in COVID-19 federal relief funding. Ms. Scott has been selected to represent Indian Tribal Governments. (Tax Exempt & Government Entities Subgroup)

Peter Smith – Mr. Smith is the Head of Investment Tax at Artisan Partners Limited Partnership in Milwaukee, Wisconsin. Mr. Smith is a tax specialist with 20 years of financial services industry experience in both public accounting and in-house tax practices focusing on tax compliance and the application of U.S. and international tax law for portfolio managers, investment funds, and investors. He has a broad range of expertise on tax issues that impact the investment fund community and has worked extensively in both the research and compliance of tax law for U.S. and non-U.S. regulated and non-regulated funds, securities, and investors. Mr. Smith’s firm provides multiple investment strategies across a wide variety of investment vehicle types. (Information Reporting Subgroup)

Cory Steinmetz – Mr. Steinmetz is an IRS Compliance Officer and Section Counsel in the Office of the Ohio Attorney General in Columbus, Ohio. Mr. Steinmetz has worked in government taxation for the last 12 years and is the Office of the Ohio Attorney General's main contact with the IRS. Prior to 2020 he was an attorney with the Ohio Department of Taxation. He manages IRS compliance for the Office and litigates tax issues in state and bankruptcy courts across the country, representing governmental creditors in consumer and corporate bankruptcy cases. Mr. Steinmetz also serves as subject matter expert for individual and business tax issues. He is often consulted on state legislation where federal law intersects and ensures current policies and procedures are in alignment with legal requirements related to federal tax or bankruptcy code. (Tax Exempt & Government Entities Subgroup)

Hussein Tarraf – Mr. Tarraf is President of Tarraf & Associates, PC, in Dearborn, Michigan. He has more than 25 years of experience in public accounting, providing tax advisory and assurance services primarily to small and medium-sized businesses and high-net-worth individuals. His work has also included accounting, auditing, consulting, business planning, and taxation at several firms. A Certified Public Accountant (CPA) and Certified Fraud Examiner (CFE), Mr. Tarraf is an active member of the American Institute of Certified Public Accountants (AICPA), the Michigan Association of Certified Public Accountants (MICPA), the Association of Certified Fraud Examiners (ACFE), and the National Association of Tax Professionals (NATP). Mr. Tarraf has extensive experience with U.S. international tax reporting and compliance, including the preparation of federal Forms 5471, 5472, 8865, 8992, 1116, 1040-NR, 2555, and 8938, and FinCEN Form 114. He has guided hundreds of clients on offshore asset, FBAR, and FATCA reporting obligations. Mr. Tarraf currently serves as a tax advisor to Lebanon's Minister of Finance. He also has years of experience teaching accounting and finance at various universities. He holds a Doctor of Business Administration from Lawrence Technological University, an MBA from Wayne State University, and a B.A. in Accounting from Lebanese University. (Taxpayer Services Subgroup)

Kristofer Thiessen is the Senior Partner, Tax and Advisory, at Block Advisors in New York, New York. Mr. Thiessen is an EA who works with families and business owners to offer solutions for their complex tax matters, including tax compliance, controversy, and planning. His small business and self-employed specialties include capital assets, digital assets, passthrough entities, trusts and estates, international information return, and FATCA compliance, and working with resident and nonresident aliens. He has taught continuing education courses on fiduciary tax, passthrough entities, capital assets, and tax planning. He is a member of NAEA, the NY State Society of EAs, the NY State Society of CPAs, and the Association of International Certified Professional Accountants. He holds a Bachelor of Arts in economics from Harvard College and a Master's of Science in Taxation from Baruch College Zicklin School of Business. Mr. Thiessen has been selected to represent small businesses and individual and self-employed taxpayers. (IRSAC Vice Chair and Small Business/Self-Employed Subgroup)

Rolanda Watson – Ms. Watson is Owner of Empower 2 Impact (DBA Rolanda's Tax & Professional Service) in Houston, Texas. Ms. Watson is an EA who operates her own practice providing tax advocacy and compliance services to a diverse range of clients. She has over 25 years of experience preparing tax returns and offering planning and resolution services to businesses and nonprofits. Her practice frequently conducts tax literacy workshops tailored to a variety of professional groups, including realtors, truck drivers, and small business owners. She also volunteers her time mentoring new tax professionals, emphasizing the importance of ethical practice and continuing education. She is a member of NAEA and NATP. Ms. Watson has been selected to represent individual taxpayers and small business owners. (Taxpayer Services Subgroup)

Lucinda Weigel – Ms. Weigel is a CPA, EA, and Owner of Weigel Tax & Accounting Services LLC in Vienna, Virginia. Ms. Weigel recently served on the Taxpayer Advocacy Panel where she was a subgroup chair on its Tax Forms and Publications Committee. She owns and manages a small tax accounting firm specializing in helping elderly and disabled clients manage their tax matters and financial affairs. She primarily focuses on individual and fiduciary (estate and trust) returns, though has some business clients and clients with information reporting requirements. She also represents clients before the IRS and state tax authorities to help resolve issues. (IRSAC Chair and Taxpayer Services Subgroup)

Thomas Wheadon – Mr. Wheadon is currently the Head of International Tax and Transfer Pricing at MAHLE, a German-owned manufacturing company, in Farmington Hills, Michigan. In this role, he is responsible for international tax calculations, modeling, and reporting related to BEAT and GILTI, as well as managing transfer pricing in accordance with OECD guidelines. Previously, he worked in a large public accounting firm as an International Tax Manager. He has extensive experience with a diverse range of clients, from individuals involved with PFICs to multinational corporations with numerous foreign subsidiaries. His expertise includes managing international compliance projects, calculating GILTI, foreign tax credits, and FDII, and providing strategic advice on cross-border transactions and structuring. Mr. Wheadon is an attorney admitted in Michigan, and a member of the Tax Executives Institute. (Large Business and International Subgroup)

Brian Yacker – Mr. Yacker is Principal (Nonprofit Tax) at Baker Tilly Advisory Group in Orange County, California. Yacker's career has focused on exclusively working with nonprofits and he currently serves over 1,000 different nonprofits, including public charities, private foundations, hospitals, higher education institutions, religious organizations, social clubs, business organizations, and labor organizations. He has authored numerous publications re the effective/efficient preparation of many nonprofit tax returns and over the years has presented various nonprofit tax/legal issues in 36 different states. (Tax Exempt & Government Entities Subgroup)

Nicholas Yannaci – Mr. Yannaci is an Executive Director in Group Tax at UBS in Stamford, Connecticut. Mr. Yannaci is responsible for IRS correspondence (IRS audits, abatement requests, liens, and notices of default). He works closely with Operations to ensure accurate reporting and withholding. He is a valued member of the QI periodic review team as the liaison between the external reviewer and UBS. He advises on all manners of U.S. reporting and withholding along with OECD's Common Reporting Standards. His role also includes review and completion of Forms 945, 1042, 1099, 1042-S, W-8, and W-9. (Information Reporting Subgroup)