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Six Reason the IRS is Struggling and How This Will Affect You

The IRS is struggling to complete basic tasks in the COVID-19 world. There are 24 million **2019** returns that have been received but not yet processed as I type this sentence. These unprocessed returns are causing various problems at corporations. For example, we have seen the IRS refuse to process forms and issue certificates needed for foreign tax purposes because a company had not filed its 2019 Form 1120, even though it had been timely filed months ago but not yet processed by the IRS.

We interact with the IRS with respect to a variety of issues in serving our corporate clients. Based on personal observations and discussions with various IRS personnel, we see them struggling for the following reasons:

1. Retirements

IRS personnel retired in high numbers in 2020 in a key unit that processes interest refund claims that we file for our clients. Accordingly, not only did COVID shutdowns cause the unit to fall behind, by year end it had been cut in half by retirements. As a result, processing of our refund claims is expected to now take a year or more, whereas in 2019 our average turnaround time was 120 days. We suspect that there was an organization-wide surge in retirements because of the difficulties employees faced in 2020.

2. Duty Rotations

Experienced IRS employees are often “detailed out” to perform tasks in which they are not fully trained. One example is rotating staff on a Practitioner’s Hotline (toll free number for practitioners only). Not only do these rotations cause a degradation in quality at the Hotline, but they also disrupt continuity in the units from which staff is detailed.

3. Remote Work with Lagging Technology

Many IRS employees are working remotely for the first time. Their remote work is most difficult considering the paper-intensive environment in which they are accustomed to operating. Additionally, the technology available to many of them is antiquated. After they sent most employees home last year, we noticed that it was about three months before they were able to call from home to check voice messages on their IRS office telephones. Thus, if you were attempting to reach a specific employee, unless you had the employee’s email address or fax number, you were not going to reach them.

4. Stimulus Checks Responsibility

The IRS has had to expend significant resources in being charged with distributing stimulus checks. They are also the designated agency for frustrated citizens to contact when they are not happy with their check amount, or have not yet received it, etc.

5. Retroactive Tax Law Changes Midway Through a Filing Season

Congress recently retroactively made a portion of unemployment benefits nontaxable at the federal level. Millions of Americans had certainly already filed Form 1040 when the law was changed. The IRS will now need to change Form 1040 and related Instructions. It will also have thousands of amended returns to contend with, as many early filers will most likely need to file them, assuming the IRS cannot reprogram its processing systems to analyze original returns, make the adjustments, and issue any related refund. Either way, the IRS has been given an additional task with which to contend.

6. IRS Computer System Crashes and Mistakes Seem to Be Increasing

We are not certain as to the cause of these issues, but we suspect it is the cumulative effect of the other five issues we discuss herein. As an example of what we are seeing at the practitioner level, on March 16 and 17 we attempted to access a practitioner portal which allows us to retrieve account transcripts from the IRS online for our clients on March 16 and 17. While we eventually prevailed, over that two-day period we were unable to complete requests on three different occasions... for three different reasons!

Conclusion

As is typical of most large government agencies, the IRS is a rigid organization that does not adapt to changing procedures as efficiently as a private company might. At the same time, they have managed to process tens of millions of checks, direct deposits and carryback refund claims with a diminishing work force. So, who is responsible for multiple hastily passed laws and a shrinking workforce resulting significantly from an ever-challenged budget? **You** know the answer to that question!

Who We Are

Interest & Penalty Recovery Group ("IPRG") remains the leading independent provider of tax recovery services, specializing in federal and state interest netting recoveries for Fortune 1000 and other companies. We also offer audit payment strategies, interest budgeting/estimating, FIN 48 accruals and penalty abatement services.

Please reach out to us whenever you may need any of our services. Simply pick up the phone or send a message. We have recovered **nearly \$400 million** in interest and penalties for our clients, and we are the best at what we do.

