How to douse the IRS dumpster fire

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The Internal Revenue Service (IRS) has long been criticized for its poor management, antiquated computer systems, and political bias. As this year's tax filing season begins, millions of individuals and businesses will also notice that its "customer services" are a dumpster fire.

That may sound harsh, but the IRS's own Taxpayer Advocate Service (TAS) laid out the damning facts in a recent report. IRS phone service is "the worst it has ever been" with the agency able to answer just 11 percent of taxpayer calls. And while it used to take the IRS 45 days to turn around taxpayer correspondence, it now often takes more than six months.

Mountains of unopened mail have been piling up at IRS facilities and leaving millions of taxpayers in financial limbo. The IRS ended the 2021 filing season with a backlog of more than 35 million tax returns, reports the TAS. Last year, "tens of millions of taxpayers were forced to wait extraordinarily long periods of time" for the IRS to process their returns and answer their mail.

The outlook for this year is "bleak," says the TAS. IRS service "could be as bad, and potentially worse" than last year.

What the heck is going on at the IRS?

First, the pandemic prompted the IRS to close or understaff numerous facilities. Tax returns and taxpayer correspondence have been going unaddressed for months. IRS computers are sending notices to taxpayers that they owe money or need to take actions, even though taxpayers have already responded and their letter sits in a heap of unopened mail.

Second, the IRS suffers from longstanding bureaucratic failings. The TAS reports, "The two IRS systems containing the official records of individual and business taxpayer accounts are the oldest major technology systems in the federal government." The agency has dozens of different computer systems that are not connected, which slows the whole bureaucracy.

Third, the IRS's inflation-adjusted budget has fallen 20 percent and staffing levels have fallen 17 percent over the past decade, according to the TAS. The IRS may need added funding to improve

basic administration, but it should also be innovating to do more with less as the private sector does. The private accounting and tax preparation industry has increased its productivity 1.7 percent annually over the past two decades.

Fourth, Congress has been passing huge, complicated tax breaks and subsidies. It authorized 478 million Economic Impact Payments in three rounds since 2020, and it expanded the child tax credit and allowed half of it to be paid monthly to 36 million households. Taxpayers and the IRS need to account for and reconcile these payments on annual tax returns.

Congress has expanded the earned income tax credit, which is one of the most error-ridden parts of the tax code. And Congress has changed the Child and Dependent Care Credit, the health care premium tax credit, and numerous other provisions.

For each change, the IRS must create or modify tax forms and guides, program its computers, communicate changes to the public, and take steps to prevent abuse. Each law change can prompt millions of queries from taxpayers, which in turn consumes more IRS resources in response.

The plethora of recent tax changes has generated an avalanche of queries. The TAS reports that from 2019 to 2021 the number of phone calls to the IRS jumped from 99 million to 282 million, while the number of page views on IRS.gov soared from 3.4 billion to 11.5 billion.

Today's high level of taxpayer confusion should be a wake-up call to stop the continual tax-code tinkering with new breaks and handouts. The Biden administration should fully bury its Build Back Better plan, which includes dozens of complex tax credits, tax hikes, and other provisions that would overwhelm taxpayers and the IRS.

As for Republicans, they need to put tax simplification back on their agenda. Getting rid of narrow breaks and moving toward a flat tax would douse the IRS dumpster fire and save individuals and businesses billions of hours in annual compliance time. In this election year, tax simplification would be a winning issue for the GOP.

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