
Why TIGTA Did This Audit

This audit was initiated to provide selected information related to the IRS’s 2020 Filing Season, including information related to the impact of the Coronavirus Disease 2019 (COVID-19). The overall objective of this review was to assess the IRS’s actions to address the backlog of unworked inventory affecting business taxpayers as a result of Tax Processing Center closures.

Impact on Taxpayers

In response to COVID-19, the IRS took unprecedented and drastic actions to protect the health and safety of its employees and the taxpaying public. These actions included closing its Tax Processing Centers nationwide as of April 6, 2020.

In addition, on April 9, 2020, the Department of the Treasury extended the Federal income tax filing due date for various tax filing and payment deadlines that occurred starting on April 1, 2020, to July 15, 2020. As a result, affected businesses had until July 15, 2020, to file returns and pay any taxes that were originally due during this period.

What TIGTA Found

The closure of Tax Processing Centers created a significant backlog of business tax returns, correspondence, and other types of business taxpayer-related work that needed to be processed. As of the week ending December 31, 2020, the IRS had more than 7.9 million paper-filed business returns that still needed to be processed. In comparison, the IRS had 239,285 paper-filed business returns that were in process as of December 31, 2019.

Some penalties were inappropriately assessed due to delays in processing payments or tax forms. For example, the IRS erroneously assessed 211 Failure to Pay penalties totaling $45,451 due to a programming error. The IRS also incorrectly assessed 1,256 estimated tax penalties from April 1, 2020, through December 31, 2020. The IRS submitted an information technology work request on July 15, 2020, to update penalty processing, but the programming was not implemented until January 2021. As a result, estimated tax penalties assessed for business taxpayers with tax years ending between April 2020 and December 2020 and filed before January 2021 had penalties calculated without considering the relief.

In addition, systemic payment processing limitations caused further delays in processing payments. The IRS’s system was limited to processing payments that were received within 30 days or less. However, upon the June 2020 reopening of the Tax Processing Centers, most payments exceeded this limit. The IRS did not revise the limit until October 1, 2020, because it was unaware that the programming could be changed.

Finally, redirecting more payments to the lockbox sites could facilitate reducing the backlog. While the majority of paper payments are directed to a lockbox location, more than 6.9 million payments totaling more than $37.6 billion were processed at the IRS’s Tax Processing Centers during Fiscal Year 2020. This includes more than 339,000 payments totaling $3.4 billion received by IRS field office employees.

What TIGTA Recommended

TIGTA recommended that the Commissioner, Wage and Investment Division, ensure that the incorrectly assessed estimated tax penalties are corrected, and evaluate the feasibility to direct additional types of payments from Tax Processing Centers to lockbox sites.

IRS management agreed with both recommendations. Corrections were made to the incorrectly assessed estimated penalties. The Lockbox Electronic Network Imaging Functional Specification Package has been updated to include processing capability for several additional notices. Analysis of the volumes of notices is being performed to determine if all notices can be directed to lockbox sites. However, management determined it was not feasible for payments received in field offices to be directed to lockbox sites.
September 2, 2021

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit


This report presents the results of our review to assess the Internal Revenue Service’s actions to address the backlog of unworked inventory affecting business taxpayers due to Tax Processing Center closures resulting from the COVID-19 pandemic. This review is part of our Fiscal Year 2021 Annual Audit Plan and addresses the major management and performance challenge of Responding to the COVID-19 Pandemic.

Management’s complete response to the draft report is included as Appendix III.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).
Table of Contents

Background ........................................................................................................................................Page 1

Results of Review ................................................................................................................................Page 3
  Processing Business Tax Returns .................................................................................................Page 6
  Recommendation 1: .................................................................................................................Page 12
  Case Inventories Continue to Grow as Backlogged and Current Year Business Returns Are Processed ..........................................................................................................................Page 12
  Systemic Payment Processing Limitations Caused Delays in Processing Remittances ........................................................................................................................................Page 13
  Recommendation 2: ................................................................................................................Page 14

Appendices
  Appendix I – Detailed Objective, Scope, and Methodology .................................................Page 16
  Appendix II – Outcome Measures ..............................................................................................Page 18
  Appendix III – Management’s Response to the Draft Report ..................................................Page 19
  Appendix IV – Abbreviations .......................................................................................................Page 23
Background

As we previously reported, the Internal Revenue Service (IRS) took unprecedented and drastic actions in response to the Coronavirus Disease 2019 (COVID-19) pandemic to protect the health and safety of its employees and the taxpaying public.\(^1\) This included closing its Tax Processing Centers, Taxpayer Assistance Centers, and other offices nationwide.\(^2\) The backlog of returns, correspondence, and other types of work resulting from the pandemic has and will continue to have a significant impact on the associated business taxpayers. Figure 1 provides a comparison of business tax return inventory levels in various stages of processing that the IRS normally carries into a new calendar year compared to inventory levels carried into Calendar Year 2021.

**Figure 1: Comparison of Business Return Inventory as of the End of Calendar Years 2019 and 2020**

<table>
<thead>
<tr>
<th>Type of Inventory</th>
<th>Calendar Year 2019</th>
<th>Calendar Year 2020</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unprocessed Paper Returns</td>
<td>239,285</td>
<td>7,967,182</td>
<td>3,230%</td>
</tr>
<tr>
<td>Error Resolution(^3)</td>
<td>6,867</td>
<td>34,303</td>
<td>400%</td>
</tr>
<tr>
<td>Rejects(^4)</td>
<td>31,052</td>
<td>82,476</td>
<td>166%</td>
</tr>
<tr>
<td>Unpostables(^5)</td>
<td>310,557</td>
<td>746,294</td>
<td>140%</td>
</tr>
<tr>
<td>Amended Returns(^6)</td>
<td>372,339</td>
<td>291,763</td>
<td>(22%)</td>
</tr>
</tbody>
</table>

Source: IRS Filing Season Statistics and IRS inventory numbers provided to the Treasury Inspector General for Tax Administration (TIGTA) for the end of Calendar Years 2019 and 2020.

The Department of the Treasury extended the income tax filing due date

To assist businesses impacted by COVID-19, the Department of the Treasury extended the Federal income tax filing due date and permitted taxpayers to defer Federal income tax

---


\(^2\) All IRS Taxpayer Assistance Centers were closed as of March 23, 2020, and all Tax Processing Centers were closed as of April 6, 2020. The Tax Processing Centers were re-opened in June 2020.

\(^3\) Tax returns identified with an error condition are suspended from processing and sent to a tax examiner for correction.

\(^4\) Tax returns that cannot be processed, usually due to missing or incomplete information. Tax examiners correspond with the taxpayer to clarify an entry on a return. When the taxpayer responds, the tax examiner will resolve the issue and the return will continue processing.

\(^5\) Transactions that will not post to the taxpayer’s account because they failed validity checks. The unpostable condition must be resolved in order to complete processing of the transaction.

\(^6\) Corrected tax returns filed that are either being worked by the Submission Processing or Accounts Management functions.
payments. On April 9, 2020, tax relief was granted that postponed various tax filing and payment deadlines that occurred starting on April 1, 2020. As a result, affected businesses had until July 15, 2020, to file returns and pay any taxes that were originally due during this period. This includes 2019 individual and business returns normally due on April 15, as well as various 2019 business returns due on or after April 1, 2020. Taxpayers were also permitted to defer Federal income tax payments due on April 15, 2020, to July 15, 2020, without penalties and interest.

In addition, the following legislation was enacted which included provisions to assist businesses:

- The *Families First Coronavirus Response Act*,7 enacted on March 18, 2020. This provides businesses with tax credits to cover certain costs of providing employees with paid sick leave and expanded family and medical leave for reasons related to COVID-19, from April 1, 2020, through December 31, 2020. Eligible employers can claim these credits on their Federal employment tax returns, e.g., Form 941, *Employer’s QUARTERLY Federal Tax Return*, or an employer can benefit more quickly by reducing its Federal employment tax deposits. For those employers for which there are insufficient Federal employment taxes to cover the amount of the employer’s credit, the employer may request an advance payment of the credits from the IRS by submitting Form 7200, *Advance Payment of Employer Credits Due to COVID-19*.

- The *Coronavirus Aid, Relief, and Economic Security Act*,8 enacted on March 27, 2020, included provisions: to encourage eligible employers to keep employees on their payroll with an employee retention tax credit; to allow employers to defer the deposit and payment of the employer share of Social Security taxes (Tier 1 employer tax for railroad employers); and that made modifications that temporarily repeal certain restrictions imposed by the *Tax Cuts and Jobs Act*9 affecting net operating losses.10

- The *Consolidated Appropriations Act, 2021*,11 signed into law on December 27, 2020, made changes to the new employer tax credits created in the *Families First Coronavirus Response Act* and the *Coronavirus Aid, Relief, and Economic Security Act* passed in March 2020. Employers are eligible to continue to claim the Sick and Family Leave Credit(s) through March 31, 2021, and the Employee Retention Credit through June 30, 2021.

---

10 A net operating loss is created when certain deductions exceed income from all sources. These deductions must relate to a trade or business, work as an employee, or casualty or theft losses. A net operating loss deduction can be applied, or “carried,” to offset taxable income in either preceding or later taxable years. A net operating loss may allow a refund for taxes already paid when carried back to an earlier year.
The American Rescue Plan Act of 2021\textsuperscript{12} was signed on March 11, 2021, further extending the Sick and Family Leave Credit to September 30, 2021, and the Employee Retention Credit to December 31, 2021.

TIGTA recently reported on the IRS’s efforts to ensure the validity and accuracy of tentative refund applications reporting a carryback loss,\textsuperscript{13} employer tax credit claims, and the accuracy of the employer reconciliations of advance payments.\textsuperscript{14}

\section*{Results of Review}

This report presents the results of our continued assessment of the IRS’s efforts to process business tax returns and provide quality customer service to business taxpayers. Similar to delays impacting individual taxpayers, the closure of Tax Processing Centers resulted in a significant backlog of unprocessed business tax returns and other types of business tax account work. While much of the IRS’s workforce continues to telework, the work performed at the IRS’s Tax Processing Centers is not conducive to a remote telework environment. This work includes the receiving, sorting, and distributing of mail and the processing of paper tax returns, which requires manually inputting information from the tax return into IRS systems, correcting errors, and corresponding with the taxpayer, if needed. Although the Tax Processing Centers are currently open, the IRS was not always able to operate at full capacity due to social distancing requirements. These requirements include limiting close contact with other employees and maintaining a physical distance of at least six feet. In addition, as we reported previously, a significant number of employees remained on weather and safety leave. However, beginning October 13, 2020, the IRS required medical documentation from those employees claiming high risk.

Unlike individual tax return filers, business taxpayers file various tax return types with different filing due dates. As a result, business tax returns continue to be filed further increasing backlogs. Figure 2 provides a summary of select business tax return types and their associated due dates. With the exception of those tax returns that are filed each quarter, the due dates are based on taxpayers that file a calendar year return.\textsuperscript{15}

\begin{itemize}
  \item The \textit{American Rescue Plan Act of 2021}\textsuperscript{12} was signed on March 11, 2021, further extending the Sick and Family Leave Credit to September 30, 2021, and the Employee Retention Credit to December 31, 2021.
  \item TIGTA, Report No. 2021-46-035, \textit{Assessment of Processes to Verify Tentative Carryback Refund Eligibility} (June 2021).
  \item A business taxpayer can elect to file returns based on a fiscal year basis.
\end{itemize}
Figure 2: Select Types of Business Tax Returns

<table>
<thead>
<tr>
<th>Tax Return Type</th>
<th>Filing Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form 940, Employer’s Annual Federal Unemployment (FUTA) Tax Return</td>
<td>January 31</td>
</tr>
<tr>
<td>Form 941, Employer’s QUARTERLY Federal Tax Return</td>
<td>April 30, July 31, October 31, January 31</td>
</tr>
<tr>
<td>Form 943, Employer’s Annual Federal Tax Return for Agricultural Employees</td>
<td>January 31</td>
</tr>
<tr>
<td>Form 944, Employer’s ANNUAL Federal Tax Return</td>
<td>January 31</td>
</tr>
<tr>
<td>Form 945, Annual Return of Withheld Federal Income Tax</td>
<td>January 31</td>
</tr>
<tr>
<td>Form 1065, U.S. Return of Partnership Income</td>
<td>March 15</td>
</tr>
<tr>
<td>Form 1120, U.S. Corporation Income Tax Return</td>
<td>April 15</td>
</tr>
<tr>
<td>Form 1120-S, U.S. Income Tax Return for an S Corporation</td>
<td>March 15</td>
</tr>
<tr>
<td>Form 720, Quarterly Federal Excise Tax Return</td>
<td>April 30, July 31, October 31, January 31</td>
</tr>
<tr>
<td>Form 2290, Heavy Highway Vehicle Use Tax Return</td>
<td>August 31</td>
</tr>
</tbody>
</table>

Source: TIGTA analysis of business tax return types.

As of the week ending December 31, 2020, the IRS had more than 7.9 million paper-filed business returns that still needed to be processed. This is in comparison to 239,285 paper-filed business returns that remained to be processed as of December 31, 2019. Figure 3 provides this comparison by unprocessed business return type.
Figure 3: Estimates of Paper-Filed Business Tax Returns Remaining to Be Processed

<table>
<thead>
<tr>
<th>Type of Tax Return</th>
<th>December 31, 2019</th>
<th>December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment, e.g., Form 94X</td>
<td>167,906</td>
<td>5,497,383</td>
</tr>
<tr>
<td>Partnership, e.g., Form 1065</td>
<td>3,846</td>
<td>321,858</td>
</tr>
<tr>
<td>Corporation, e.g., Form 1120</td>
<td>24,292</td>
<td>694,866</td>
</tr>
<tr>
<td>Excise, e.g., Form 720</td>
<td>1,079</td>
<td>6,953</td>
</tr>
<tr>
<td>Estate and Gift, e.g., Form 706</td>
<td>14,050</td>
<td>72,317</td>
</tr>
<tr>
<td>Fiduciary, e.g., Form 1041</td>
<td>7,042</td>
<td>234,567</td>
</tr>
<tr>
<td>Tax Exempt, e.g., Form 990</td>
<td>13,413</td>
<td>376,826</td>
</tr>
<tr>
<td>Extensions, e.g., Form 7004</td>
<td>7,009</td>
<td>732,070</td>
</tr>
<tr>
<td>Other, e.g., Form 1042</td>
<td>648</td>
<td>30,342</td>
</tr>
<tr>
<td><strong>Paper-Filed Tax Returns</strong></td>
<td><strong>239,285</strong></td>
<td><strong>7,967,182</strong></td>
</tr>
</tbody>
</table>

Source: IRS-provided carryover inventory as of December 31, 2019, and December 31, 2020.

In an effort to address inventory backlogs, the IRS increased employee telework capability, provided incentive pay for employees, and offered overtime. The IRS also transshipped unopened mail from the Kansas City, Missouri, and Ogden, Utah, Tax Processing Centers, to the Louisville, Kentucky, or Cincinnati, Ohio, lockbox sites. For example, from October 14, 2020, to December 14, 2020, the IRS transshipped more than 2 million pieces of unopened mail items to these lockbox sites. The lockbox sites sorted the mail and processed 103,173 payments totaling almost $328 million associated with this unopened mail. The IRS stated that it used this process to help it work through the backlog of unopened mail. Further, the IRS indicated that the mail returned from the lockbox sites was sent to the second sort function, thus bypassing the extraction and initial sort functions.

Further, as we have reported, the IRS continues to have difficulty hiring sufficient staff needed to continue to work backlog inventory and process Tax Year 2020 tax returns. The inability of the

---

16. Forms shown are examples of business tax return in the return type category and are not all-inclusive.
17. Form 706, United States Estate (and Generation-Skipping Transfer) Tax Return.
20. Form 7004, Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns.
22. An IRS lockbox is a facility operated by a Federally insured bank that the IRS has contracted for the purpose of, among other things, processing Federal tax remittances.
Effects of the COVID-19 Pandemic on Business Tax Return Processing Operations

IRS to hire sufficient staff will affect taxpayers awaiting refunds or that have claimed pandemic business credits. Figure 4 provides a summary of the hiring shortages as of early April 2021.

**Figure 4: Submission Processing Workforce and Hiring Status**

<table>
<thead>
<tr>
<th>Hiring</th>
<th>State of Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Hires Needed</td>
<td>5,473</td>
</tr>
<tr>
<td>New Hires Onboarded</td>
<td>2,883</td>
</tr>
<tr>
<td>Percentage of Hiring Goal Met</td>
<td>53%</td>
</tr>
<tr>
<td>Remaining to Be Hired</td>
<td>2,590</td>
</tr>
<tr>
<td>In-Process 25</td>
<td>650</td>
</tr>
</tbody>
</table>

*Source: TIGTA analysis of Submission Processing Hiring Metrics as of April 13, 2021, and Staffing Metrics as of April 9, 2021.*

Finally, tax examiners who had training in business tax returns did not return to work or those that returned to work did not have the necessary training to process these returns. For example, in the Code and Edit function at the Kansas City Tax Processing Center, only 41 of the 74 employees who were trained to process business tax returns returned to work as of June 15, 2020. However, the IRS stated that, as of February 19, 2021, there were 98 employees who are now trained to process business tax returns. We plan to continue to monitor the IRS’s efforts to address backlogs of work in its various Submission Processing functions and will provide further results in our 2021 Filing Season report.26

**Processing Business Tax Returns**

During Calendar Year 2020, the IRS received approximately 60.6 million business tax returns (22.3 million filed via paper and 38.4 million filed electronically).27 When the Tax Processing Centers closed, taxpayers still had the ability to continue to electronically file their tax returns. Nearly 5.7 million paper returns were processed as of the time Tax Processing Centers were closed. However, once closed, all processing of paper-filed tax returns was halted. The IRS reported that it had about 2.9 million paper-filed business tax returns on-site and unprocessed when operations were halted.

Once operations resumed, the IRS prioritized the processing of the backlog of business returns and payments by received date. For example, in June 2020, Submission Processing function management sent the Tax Processing Center staff a document outlining processing priorities for

---

24 Fiscal Year 2021 Hiring Projections.
25 In-process employees are defined as the number of candidates with a tentative job offer on an open announcement. Not all will be successfully onboarded.
27 Difference due to rounding.
Effects of the COVID-19 Pandemic on Business Tax Return Processing Operations

business tax returns. This document showed that the staff should focus on processing business refund returns and the Heavy Highway Vehicle Use tax return as the number one priority. The Heavy Highway Vehicle Use tax return is filed by owners of highway motor vehicles that are used on public highways. Owners of these vehicles are required to provide proof of payment before they can register these vehicles with their State’s Department of Motor Vehicles. The IRS issued five prioritization documents from June 22, 2020, through December 15, 2020. Figure 5 shows the various processing priorities.

**Figure 5: Business Tax Return Processing Priorities for June Through December 2020**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Refund Returns and Forms 2290</td>
<td>Refund Returns</td>
<td>Refund Returns/Taxpayer Advocate Service Requests</td>
</tr>
<tr>
<td>2</td>
<td>Forms 940</td>
<td>Forms 720/2290 and 706/709(^{28})</td>
<td>Forms 720/2290 and 706/709</td>
</tr>
<tr>
<td>3</td>
<td>Extension Requests</td>
<td>Extension Requests</td>
<td>Extension Requests</td>
</tr>
<tr>
<td>4</td>
<td>Forms 941</td>
<td>Forms 941</td>
<td>Forms 941</td>
</tr>
<tr>
<td>5</td>
<td>Other Business Tax Return Types</td>
<td>Other Business Tax Return Types</td>
<td>Other Business Tax Return Types</td>
</tr>
</tbody>
</table>


In August 2020, Submission Processing management issued an update to the prioritization document replacing Form 940 with Form 720. The excise taxes remitted with the Form 720 are deposited into one of many trust funds maintained by the Government. One such fund is the Highway Trust Fund, and monies deposited into this fund are used to invest in and maintain the Nation’s highways and bridges. According to IRS management, they were contacted by representatives from the Department of Transportation with an urgent concern regarding the Aviation and Highway Trust Funds. Because of delays processing Forms 720, excise taxes were not being credited to these trust funds, thus causing a potential insolvency situation. This in turn caused issues with availability of funding for certain construction projects around the country. The changes in processing priorities at times required staff to re-sort returns in the unopened mail, thus causing further delays processing business tax returns.

On February 4, 2021, IRS management stated that they would not be issuing prioritization documents for Filing Season 2021. Instead, they plan to follow processing priority guidelines that use the number of days the IRS expects to process a paper return once received. IRS management indicated that these guidelines are normal for a filing season and focus on processing refund returns and prioritizing employment tax returns, *e.g.*, Forms 941, based on tax quarter and received date.

However, on March 23, 2021, IRS management noted that some employment tax returns were being processed out of date order. Further evaluation of the concern identified that the

\(^{28}\) Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return.*
Kansas City Tax Processing Center had approximately 460,000 Forms 941 that were being held from processing. This often occurs when an employee is unable to complete processing a batch of tax returns prior to the end of their shift. This work should be re-assigned to the next shift before assigning them any new batches of tax returns to process. This did not occur. IRS management indicated that processing these batches and the backlog of Forms 941 are their priority. To facilitate completion of this work, management is exploring assigning some of this work to the Fresno, California, and Austin, Texas, Tax Processing Centers.

**Computer programming errors contributed to increasing inventories of tax documents that need to be processed**

The Tax Processing Centers identified a high volume of error cases involving Forms 1041 on January 28, 2021, and Forms 1065 on February 23, 2021. The IRS found that programming errors were incorrectly identifying all of these returns as having errors requiring manual review by the Error Resolution function. In response, Submission Processing management began holding Forms 1041 from data input on January 28, 2021, and Forms 1065 on February 24, 2021, to avoid sending additional work to the Error Resolution function and correct the programming error. IRS management stated that the issues had been fixed as of April 5, 2021, and April 8, 2021, respectively, and they subsequently released the hold on processing these forms. However, this temporary hold resulted in further increasing business tax return backlogs. Figure 6 provides a comparison of the IRS’s reported volumes of Forms 1065 and 1041 to be processed as of March 27, 2021, with inventory as of December 31, 2020.

**Figure 6: Estimates of Paper-Filed Business Tax Returns Remaining to Be Processed**

<table>
<thead>
<tr>
<th>Type of Tax Return</th>
<th>December 31, 2020</th>
<th>March 27, 2021</th>
<th>Increase In Unprocessed Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnership, e.g., Form 1065</td>
<td>321,858</td>
<td>328,000</td>
<td>6,142</td>
</tr>
<tr>
<td>Fiduciary, e.g., Form 1041</td>
<td>227,434</td>
<td>277,000</td>
<td>49,566</td>
</tr>
<tr>
<td>Totals</td>
<td>549,292</td>
<td>605,000</td>
<td>55,708</td>
</tr>
</tbody>
</table>

Source: IRS-provided carryover inventory as of December 31, 2020, and the IRS’s Filing Season Statistics Report for the week ending March 27, 2021.

**Due to backlogs, management decided to destroy information returns and delay processing others**

We continue to perform on-site walkthroughs at the Ogden Tax Processing Center and meet with staff to discuss challenges they are facing while addressing these ongoing backlogs of inventory. During our walkthrough of the Ogden Tax Processing Center, we learned that the IRS

---

20 The IRS’s Filing Season Statistics Report for the week ending March 27, 2021, is rounded to the nearest thousand.
destroyed paper-filed information return\textsuperscript{30} documents. Management subsequently stated they estimated that approximately 30 million documents were destroyed on or around March 19, 2021. These documents are used during post-processing compliance activities, such as the IRS’s Automated Underreporter Program.\textsuperscript{31} IRS management noted that once the tax year concludes, the information returns, \textit{e.g.}, Forms 1099, can no longer be processed through the Service Center Recognition Imaging Processing System. This is because the system is taken offline for programming updates in preparation for the next filing season. Also, the Service Center Recognition Imaging Processing System is used to scan and process Forms 941, which had a higher processing priority than information returns.

IRS management stated that the decision to destroy these information returns involved discussions with both the Wage and Investment and Small Business/Self-Employed Divisions. Although IRS management considered maintaining the documents in paper form, they decided against this because retrieval of the documents would be difficult. Further, management indicated that the vast majority of information returns are submitted electronically, and their priority was to process the backlog of individual and business tax returns. Small Business/Self-Employed Division management subsequently developed a risk assessment to evaluate the impact these missing information reporting documents would have on its post-processing compliance activities.

In addition, the IRS has placed the processing of prior and current year \textit{Affordable Care Act}\textsuperscript{32} information returns on hold since December 23, 2020. This includes, for example, Forms 1094-C, \textit{Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns}; Forms 1095-B, \textit{Health Coverage}; and Forms 1095-C, \textit{Employer-Provided Health Insurance Offer and Coverage}. The IRS uses these forms in its post-processing compliance activities. For example, the IRS uses information from Forms 1094-C and 1095-C to ensure compliance with the Employer Shared Responsibility Provision.\textsuperscript{33} IRS management indicated that the hold on the processing of these information returns is to allow testing of updates to its processing systems. The IRS estimated that 5 million prior year Affordable Care Act information returns were on hold. The IRS placed a similar hold on processing these information returns last year from December 16, 2019, through July 21, 2020. The IRS indicated that the closure of its Tax Processing Centers in response to COVID-19 prevented the processing of paper forms. Moreover, information returns were considered of lower importance compared with other priorities.

\textsuperscript{30} Any statement, return, form, or schedule that shows a payment of rent, salaries, wages, dividends, interest, or royalties made to another person.

\textsuperscript{31} A program that compares the income reported on a tax return with third-party information returns to verify the taxpayer reported all income, as required.


\textsuperscript{33} Internal Revenue Code § 4980H.
Updates to computer programming needed to implement legislation passed in December 2020 and March 2021 resulted in backlogs of Forms 7200

The IRS created Form 7200 to enable employers to request an advance payment of the employer tax credits, e.g., Sick and Family Leave Credits and Employee Retention Credit. As of December 30, 2020, the IRS reported having 3,079 Forms 7200 and other non-Form 7200 submissions in review. However, by April 6, 2021, this increased to 12,222 Forms 7200 and other non-Form 7200 submissions in review.34 The IRS published the Tax Year 2021 Form 7200 on February 4, 2021, and started reviewing Forms 7200 on March 25, 2021. The IRS began processing Tax Year 2021 Forms 7200 on April 13, 2021, two months after the release of the form.

When we discussed our concern with IRS management, they explained that Forms 7200 could not be processed during this period because the IRS had to update processes and procedures to incorporate legislative changes. The *Consolidated Appropriations Act, 2021*, signed on December 27, 2020, extended the Sick and Family Leave Credits to March 31, 2021, and the Employee Retention Credit to June 30, 2021. Additionally, this legislation updated the credit amount and requirements on the Employee Retention Credit. In some instances, an employer who received a Paycheck Protection Loan can also receive the Employee Retention Credit, whereas, previously they were not eligible. Further, the *American Rescue Plan Act of 2021* signed on March 11, 2021, further extended the Sick and Family Leave Credits to September 30, 2021, and the Employee Retention Credit to December 31, 2021.

These legislative changes required the Information Technology organization to update internal systems to allow for the processing and posting of these first quarter forms, but also necessitated updating the automated tool that the Form 7200 reviewers use to research accounts, identify if forms are/are not processable, and input the adjustments for the credits. When asked if IRS management notified taxpayers of this processing delay, management stated they did not.

Finally, IRS management noted that there was an increase of Tax Year 2020 Forms 7200 sent after December 2020. This occurred because of the retroactive change to the Employee Retention Credit. In instances in which an employer filed a Form 7200 for a prior quarter to request the Employee Retention Credit, their form was being rejected because the forms were filed after the deadline to file for the quarter. According to the IRS, these taxpayers would have received a rejection letter explaining this along with instructions on how to resolve. In January 2021, the IRS published an article on IRS.gov advising taxpayers that they could claim the retroactive Employee Retention Credit on their fourth quarter 2020 Form 941 (if they had not already submitted that for processing), or they could file a Form 941-X, *Adjusted Employer’s QUARTERLY Federal Tax Return or Claim for Refund*. In an effort to work through the backlog of Forms 7200, the Small Business/Self-Employed Division increased the number of reviewers and requested overtime.

34 This figure includes timely filed Tax Year 2021 and untimely filed Tax Year 2020 Form 7200 submissions. This could also include e-fax submissions that contained multiple Forms 7200, blank pages, and other non-Form 7200 submissions.
Balance due notices were issued because of the mail backlog

Our analysis identified that some penalties were erroneously assessed. For example:

- The IRS has assessed 2,545,120 Failure to Pay penalties from April 1, 2020, through December 31, 2020, totaling almost $1.4 billion. During this same time, the IRS has fully abated 24,926 of these Failure to Pay penalties totaling more than $738 million because the taxpayer in fact made a tax payment, but the payment was not processed timely. In addition, our review found that 3,378 of these penalties totaling more than $54 million were refunded to the taxpayer because the taxpayer paid the penalty assessed.

- The IRS has assessed 577,835 Failure to File penalties from April 1, 2020, through December 31, 2020, totaling almost $1.2 billion. During this same time, the IRS has fully abated 217,924 of these Failure to File penalties totaling about $475 million because the taxpayer filed a timely extension. In addition, our review found that 1,103 of these penalties totaling more than $13 million were refunded to the taxpayer because the taxpayer paid the penalty assessed.

Taxpayers receive notices for a balance due, late payments, and/or late returns. Although the Department of the Treasury extended the due date of payments and return filings, penalties were assessed when the extended dates or required payments were not met. IRS management indicated that notices are legally required when there is an unpaid balance due. However, the backlog of mail caused erroneous penalties and notices due to unprocessed tax forms, e.g., extensions of time to file a tax return or taxpayer payments. To mitigate burden to taxpayers, on May 9, 2020, the IRS implemented programming to pause balance due accounts from progressing to their next status if they remain unresolved. The pause expired in late October 2020.

Finally, the IRS erroneously assessed 211 Failure to Pay penalties totaling $45,451. When we advised the IRS of this issue on February 2, 2021, the IRS indicated that this occurred due to a programming error that did not recognize the grace period for the Failure to Pay penalty. The IRS indicated that it implemented a programming change on February 25, 2021, that will correct the error and adjust the accounts with the erroneous penalties we identified. However, our review of a judgmental sample of 25 of the 211 taxpayer accounts identified that not all penalties had been abated as of April 6, 2021. We followed up with management and they indicated that the Office of Servicewide Penalties anticipates the adjustments will be input the week of April 12, 2021. As of April 22, 2021, we confirmed that our sample of 25 taxpayer accounts had an abatement of the Failure to Pay penalty.

Some business taxpayers were assessed incorrect penalty amounts during the relief period

Our review identified that the IRS incorrectly assessed 1,256 estimated tax (ES) payment penalties totaling $876,121 from April 1, 2020, through December 31, 2020. Taxpayers can incur a penalty when one or more of the four estimated tax payments is paid late or underpaid.

---

35 A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.
i.e., not enough. The IRS may assess the penalty when the taxpayer does not self-assess the penalty or incorrectly calculates the penalty using Form 2220, *Underpayment of Estimated Tax by Corporations*.

The penalty is calculated based on, among other factors, the due date of the return and the number of days the ES payment is late. As discussed previously, the Department of the Treasury granted tax relief that postponed various tax payment deadlines that occurred starting on April 1, 2020. This allowed businesses until July 15, 2020, to pay any taxes that were originally due during this period including ES payments. While the IRS submitted an information technology work request to update penalty processing on July 15, 2020, to recognize the postponement of ES payment dates, the programming was not implemented until January 2021. The relief provided reduced the amount of the ES penalty, but did not eliminate it.

As a result, ES penalties assessed for business taxpayers, with tax years ending between April 2020 and December 2020 and that were filed before January 2021, had their penalties calculated without considering the relief, and generally were higher in amount than required. When we brought our concern to IRS management’s attention on September 3, 2020, the IRS indicated that there were not enough fiscal year filers to justify implementing the programming earlier. In addition, they planned to perform a review after the end of Processing Year 2020 to identify ES penalties assessed in error. On March 23, 2021, the IRS stated that they performed a review using data extracts to identify impacted taxpayers. Their analysis identified 1,295 business accounts with penalties totaling $934,148 that will be subject to the manual review process.36 The IRS anticipates making these corrections later in Fiscal Year 2021.

**Recommendation 1:** The Commissioner, Wage and Investment Division, should coordinate with the Office of Servicewide Penalties to ensure that the 1,295 taxpayer accounts with potential incorrect ES penalties are reviewed and corrected as necessary.

**Management’s Response:** The IRS agreed with this recommendation. The Office of Servicewide Penalties completed the review and correction of the 1,295 taxpayer accounts. The corrections were posted to accounts the week of April 15, 2021, and notices were generated to the taxpayers with a notice date of May 10, 2021.

**Case Inventories Continue to Grow as Backlogged and Current Year Business Returns Are Processed**

Both paper-filed and electronically filed tax returns identified with error(s) are sent to the IRS’s Error Resolution function for tax examiner review. When a tax return is identified with certain types of error conditions, the IRS suspends the tax return from processing and sends the tax return to a tax examiner to address the error. The IRS’s Error Resolution function is responsible for correcting these error conditions. Once corrected, the tax return will continue to be processed. Similarly, processing of the tax return and other forms can also be delayed due to

---

36 The IRS’s analysis was as of February 25, 2021, while our analysis was through December 31, 2020. As a result, the IRS identified additional penalties assessed.
other issues on the return or tax account. Other functions working these issues in the Tax Processing Centers include:

- Rejects – This work includes returns which cannot be processed, usually due to missing or incomplete information and in which a tax examiner needs to receive additional information from the taxpayer in order to continue processing the return.
- Unpostables – This work includes returns with a transaction that will not post to the taxpayer’s account because it failed validity checks.
- Entity – This work includes payments, returns, and forms that require research for Employer Identification Numbers37 or perfection of the business taxpayer’s account.

In addition to the Tax Processing Centers, the IRS works additional business account issues in its Accounts Management function.38 This work includes amended business tax returns, correspondence, and the issuance of Employer Identification Numbers. Figure 7 shows the case inventories for each of these functions continue to grow.

**Figure 7: Estimates of Business Tax Work Remaining to Be Processed**

<table>
<thead>
<tr>
<th>Function</th>
<th>Week Ending May 30, 2020</th>
<th>Week Ending December 26, 2020</th>
<th>Week Ending March 27, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Error Resolution</td>
<td>125,199</td>
<td>34,303</td>
<td>130,229</td>
</tr>
<tr>
<td>Rejects</td>
<td>192,805</td>
<td>82,476</td>
<td>182,616</td>
</tr>
<tr>
<td>Unpostables</td>
<td>577,539</td>
<td>746,294</td>
<td>998,456</td>
</tr>
<tr>
<td>Entity</td>
<td>255,148</td>
<td>493,334</td>
<td>859,266</td>
</tr>
<tr>
<td>Accounts Management – Business39</td>
<td>830,314</td>
<td>923,999</td>
<td>1,099,454</td>
</tr>
</tbody>
</table>

Source: Estimated volumes of paper tax returns received from the IRS’s Filing Season Statistics Reports for the weeks ending May 30, 2020, December 26, 2020, and March 27, 2021.

**Systemic Payment Processing Limitations Caused Delays in Processing Remittances**

Following the reopening of the Tax Processing Centers in June 2020, IRS systems did not allow for the automated processing of remittances it had received during the shutdown. The system used to scan and process remittances could not process remittances that were more than 30 days after the received date (essentially all remittances that were part of the backlogged

---

37 A unique, nine-digit number used to identify a taxpayer’s business account.
38 The Accounts Management function is responsible for assisting taxpayers with questions about the tax laws, their account, and the status of their refunds and adjusting their tax accounts when necessary.
39 This does not include cases that the Accounts Management classifies as both, i.e., either an individual and business case. This work includes refund inquiries and updates to the Centralized Authorization File. This inventory included 867,625 cases as of May 30, 2020; 1,475,942 cases as of December 26, 2020; and 1,795,103 cases as of March 27, 2021.
mail). As a result, management requested assistance from tax examiners in the Accounts Management function to manually process these remittances requiring additional time to process and causing further delays. The IRS could not provide an estimate of the number of payments that needed to be processed manually due to this limitation; however, we noted that almost 1.3 million payments totaling more than $14 billion were processed manually during June 2020 to October 2020 to prepare the payment for deposit.

In our discussions with IRS management, they stated that they were aware that the remittance processing system 30-day limitation has always been in place, but were unaware that the programming could be changed. However, as part of the process of installing a new payment processing system, they found that the number of days for the limitation could be changed. As a result, IRS management stated that they had the current payment processing system programming updated on October 1, 2020, to allow remittances dated up to 180 days from receipt to be processed systemically.

**Redirecting more payments to the lockboxes could facilitate reducing the backlog**

While the majority of paper payments made to the IRS are directed to a lockbox site, some payments continue to be required to be sent directly to a Tax Processing Center. For example, payments with a Form 1041 and Form 1065 are required to be sent to a Tax Processing Center. During Fiscal Year 2020, IRS reports show that more than 6.9 million payments totaling more than $37.6 billion were processed at the IRS’s Tax Processing Centers. More than 339,000 payments totaling $3.4 billion were received by the IRS’s own field office employees, i.e., employees who work in Examination, Collection, Appeals, etc. IRS guidelines require that the field offices send the payments to the Tax Processing Centers.

The lockbox network did not shutdown during the pandemic, whereas the Tax Processing Centers closed with no payments being processed. As such, lockbox sites continued to process payments received during this closure. On September 30, 2020, we asked management whether there were plans to continue to move payments to lockbox sites. Management stated that additional programming is required to allow processing of additional form types by the lockbox sites. Management noted that they would evaluate lockbox locations accepting additional payments at the conclusion of the 2021 Filing Season. As part of its evaluation, the IRS should consider remittances received by field office operations being sent for processing to the lockbox sites. As more payments are directed to the lockbox sites, IRS employees are available to process more complex payments, reducing payment processing backlogs should a similar situation arise again.

**Recommendation 2:** The Commissioner, Wage and Investment Division, should evaluate the feasibility to direct additional types of payments from Tax Processing Centers to lockbox sites. This evaluation should also assess the feasibility of directing payments received by field office employees to lockbox sites for processing.

**Management’s Response:** The IRS agreed with this recommendation. IRS management stated that the lockbox network has updated the Lockbox Electronic Network Imaging Functional Specification Package to include processing capability for 23 additional
Computer Paragraph notices. These additional Computer Paragraph notices are not currently directed to a lockbox site; however, should a site receive a notice, they will have the capability to process the remittance rather than being required to forward it to a Submission Processing Center. Management is analyzing the volumes associated with these notices and current lockbox site volumes to determine which notices, if not all, can be revised to have the remittance sent directly to a lockbox facility. Additionally, IRS management has evaluated the feasibility of directing payments received by field office employees to the lockbox sites and determined it was not feasible because lockbox sites do not have access to the IRS’s internal systems and processes needed for research and accountability.
Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the IRS's actions to address the backlog of unworked inventory affecting business taxpayers due to Tax Processing Center closures resulting from the COVID-19 pandemic. To accomplish our objective, we:

- Evaluated the IRS’s plans to address backlogs of business paper return filings once the Tax Processing Centers reopened.
- Monitored the IRS’s plan to increase hiring for Filing Season 2021 to determine how many employees are available to process the backlog of business tax returns as well as the current business tax returns.
- Identified sources, *i.e.*, inventory reports used, for tracking backlogs of business tax returns.
- Tracked and monitored the backlogs of business paper tax return filings.
- Identified the IRS’s plan to create and use priority documents to assist employees in processing of backlog business tax returns.
- Analyzed specific penalties to business return filers, resulting from the backlog of inventory, to determine if the IRS was correctly assessing penalties and abating them when necessary.
- Analyzed specific penalties related to business return filers, resulting from the relief period granted to filers, in which the IRS had incorrectly assessed penalties.
- Determined if the IRS is timely depositing remittances for current and prior year business tax returns that were not timely processed due to the pandemic.
- Obtained information from the Business Master File and identified 211 taxpayer accounts that were erroneously assessed Failure to Pay penalties during Filing Season 2020. We selected a judgmental sample of 25 taxpayer accounts to determine if the IRS abated the erroneous penalty. We used a judgmental sample because we did not plan to project the population.

Performance of This Review

This review was performed with information obtained from the Wage and Investment Division Headquarters in Atlanta, Georgia, and the Wage and Investment Division Submission Processing function offices in Kansas City, Missouri, and Ogden, Utah, during the period May 2020 through April 2021. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.
Major contributors to the report were Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services); Diana M. Tengesdal, Director; Darryl J. Roth, Audit Manager; Nikole L. Smith, Lead Auditor; Christopher W. Harding, Auditor; Lorenzo D. Moss, Auditor; and Cally M. Sessions, Auditor.

Validity and Reliability of Data From Computer-Based Systems

During this review, we obtained extracts from the Business Master File, which were available on TIGTA’s Data Center Warehouse. We selected judgmental samples of each extract and verified that the data in the extracts were the same as the data captured in the Integrated Data Retrieval System. We also performed analysis to ensure the validity and reasonableness of our data, such as ranges of dollar values and obvious invalid values. Based on the results of our tests, we believe that the data used in our review were reliable.

Internal Controls Methodology

Internal controls relate to management’s plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the process for planning, organizing, directing, and controlling program operations for the 2020 Filing Season. We evaluated these controls by meeting with IRS management, reviewing IRS procedures, and reviewing IRS reports.
Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Actual; 211 taxpayer accounts erroneously assessed Failure to Pay penalties totaling $45,451 (see page 6).

Methodology Used to Measure the Reported Benefit:

Our analysis of the Business Master File identified 211 taxpayer accounts erroneously assessed the Failure to Pay penalty totaling $45,451. This occurred due to a programming error that did not recognize the grace period for the payment due date. The IRS implemented a correction on February 25, 2021, to correct the programming error and adjust the accounts with the erroneous penalties we identified.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Actual; 1,256 taxpayer accounts incorrectly assessed $876,121 in ES penalties (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

Our analysis of the Business Master File identified 1,256 taxpayer accounts erroneously assessed $876,121 in ES penalties. This occurred due to a programming error that did not recognize the relief for tax payments due between April 1, 2020, and July 15, 2020. We identified that business taxpayers with tax years ending between April 2020 and December 2020 and filed before January 2021 had ES penalties calculated without considering the relief.
Appendix III

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30303

August 11, 2021

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin
Commissioner, Wage and Investment Division


Thank you for the opportunity to review and provide comments on the subject draft report. We appreciate your acknowledgement of the unprecedented amount of backlogged inventory carried over from the 2020 filing season due to the impact on our operations from the Coronavirus Disease 2019 (COVID-19) pandemic. We took, and continue to take, innovative actions to address the accumulation of inventory while simultaneously protecting the health and safety of our employees and the taxpaying public.

Initiatives that we developed to address similar challenges associated with processing payments, tax returns, and other documents submitted by individual taxpayers were applied to the processing lines dedicated to business accounts. Twelve functions were identified where the work could be performed remotely. We provided laptop computers and other peripheral equipment to employees so they could accomplish their tasks through telework. By taking the work that could be made portable and shifting it to a telework environment, the space at our processing centers previously occupied by those employees was used to expand the operations that can be performed only at the processing centers. This permitted us to recall more employees back to work while maintaining appropriate social distancing.

The expansion of telework opportunities permitted those employees in the COVID-19 high-risk categories to remain productive. As of February 2021, as many as 795 Submission Processing employees who had not done so previously, were teleworking. Employees continue to be trained across functions to assist in those areas with the highest inventories. Additionally, during the 2021 filing season, we have transshipped over 2.3 million returns, forms, and documents between processing centers to balance inventories and prevent bottlenecks from forming that would defeat our overall objective of processing on a first-in, first-out basis.
Additional staff was recruited to meet our goal of increasing our processing operations workforce by approximately 5,500 employees. As of July 2021, we have achieved 63 percent of that goal, bringing on approximately 3,500 new employees. Our recruitment efforts are continuing as we prepare for the upcoming 2022 filing season. We also began actively monitoring the inventory received during 2020 on February 19, 2021, one week after the beginning of the 2021 filing season. After completing data input of the remaining 2020 returns received from individuals during May 2021, we shifted a portion of those resources to begin working on the remaining unprocessed business returns. As of July 2021, the inventory of business returns yet to be processed has decreased to 291,000 from a beginning level of 5.5 million at February 19.

As reported, there were over 12,000 Forms 7200, Advance Payment of Employer Credits Due to COVID-19, and other non-Form 7200 submissions in review as of April 6, 2021. That number was significantly reduced due to the implementation of additional programming and training. As of June 13, 2021, the number of Forms 7200 and other non-Form 7200 submissions in review was approximately 5,600.

The Lockbox Electronic Network Imaging Functional Specification Package has been updated to include processing capability for several Computer Paragraph notices. Analysis of the volumes associated with these notices and current Lockbox site volumes is being performed to determine if all notices can be updated to have the remittance directed from a Submission Processing Center to a Lockbox facility. We have determined it is not feasible for payments received by field offices to be directed to lockbox bank operations because those facilities do not have access, and are not permitted to have access, to our internal systems needed to perform account research so that the payments may be processed correctly.

We concur with outcome measures as reported. We have worked diligently to update programming to provide taxpayers the relief from civil penalties that was granted by the postponement of filing/payment dates during the pandemic. When it was determined some taxpayers had not received the full benefit, immediate action was taken to correct those accounts.

Attached is a detailed response that provides our planned corrective actions to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Dietra Grant, Director, Customer Account Services, Wage and Investment Division, at 470-639-3504.

Attachment
Effects of the COVID-19 Pandemic on Business Tax Return Processing Operations

Recommendations

RECOMMENDATION 1
The Commissioner, Wage and Investment Division, should coordinate with the Office of Servicewide Penalties to ensure that the 1,295 taxpayer accounts with potential incorrect ES penalties are reviewed and corrected as necessary.

CORRECTIVE ACTION
The Office of Servicewide Penalties completed the review and correction of the 1,295 taxpayer accounts. The corrections were posted to accounts the week of April 15, 2021, and notices were generated to the taxpayers with a notice date of May 10, 2021.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIAL
Director, Business Support Office, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2
The Commissioner, Wage and Investment Division, should evaluate the feasibility to direct additional types of payments from Tax Processing Centers to lockbox sites. This evaluation should also assess the feasibility of directing payments received by field office employees to lockbox sites for processing.

CORRECTIVE ACTION
The Lockbox network has updated the Lockbox Electronic Network Imaging Functional Specification Package to include processing capability for 23 additional Computer Paragraph (CP) notices. These additional CP notices are not currently directed to a Lockbox site, however, should a site receive a notice, they will have the capability to process the remittance rather than being required to forward it to a Submission Processing Center (SPC). We are analyzing the volumes associated with these notices and current Lockbox site volumes to determine which notices, if not all, can be revised to have the remittance sent directly to a Lockbox facility.

Directing payments received by field office employees to the Lockbox sites has been evaluated. Lockbox sites do not have access to the IRS’s internal systems and processes needed for research and accountability. Therefore, it is not feasible to direct field office payments to Lockbox sites for processing.
IMPLEMENTATION DATE
January 15, 2023

RESPONSIBLE OFFICIAL
Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>COVID-19</td>
<td>Coronavirus Disease 2019</td>
</tr>
<tr>
<td>ES</td>
<td>Estimated Tax</td>
</tr>
<tr>
<td>IRS</td>
<td>Internal Revenue Service</td>
</tr>
<tr>
<td>TIGTA</td>
<td>Treasury Inspector General for Tax Administration</td>
</tr>
</tbody>
</table>
To report fraud, waste, or abuse, call our toll-free hotline at:

(800) 366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential, and you may remain anonymous.