

2022 Tax Filing Season: Nine Things You Need to Know

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The 2022 tax season is upon us. With what promises to be an unusual tax filing season, below are nine updates and tips to keep in mind.

1. Tax Returns are Lagging. On January 12, the National Taxpayer Advocate issued its 2021 report to Congress. The report highlights how the IRS is substantially behind in processing returns, the breakdown of the IRS call center, delays in processing responses to IRS notices sent to taxpayers, and a myriad of other issues. The money quote? "The IRS is in crisis." Read the full report here.

2. The IRS is Ramping Up Enforcement Efforts. New enforcement agents (read: auditors) that were brought on as part of the IRS's 2021 hiring spree will finish their training this month and be released to the field. It won't stop there, because on Monday, January 24, the IRS posted job openings to hire 200 more tax attorneys in 2022. A 2022 goal of reporting and recordkeeping compliance is a must for small, medium, and growing businesses.

3. Taxpayers Should File Early and Electronically. In IR-2022-08, the IRS encouraged early return filing as soon as possible and to file electronically to help minimize the effects of potential tax season problems. Doing this has set the table to place responsibility for filing acknowledgment and refund delays on the shoulders of taxpayers by giving fair warning of significant potential difficulties. In other words, if taxpayers run into a filing problem this year, the IRS can claim that "We told you to file earlier!"

Further, the IRS protected its flank by releasing IR-2022-18 on the first day of filing season (Monday, January 24) "urg[ing] extra caution for taxpayers to file accurate tax returns electronically to speed refunds, avoid delays."

There's an adage that you can only have two out of the "fast, cheap, and accurate" categories. The IRS wants fast and accurate, pushing cost onto the taxpayer. It may be a little more expensive, but using a professional is worth saving the hassle.

4. Slightly Longer Filing Deadline. The non-extended filing deadline for individuals this year is April 18. This is because the regular deadline of April 15 falls on Washington, DC's Emancipation Day, a recognized holiday for the District. Taxpayers in Maine and Massachusetts get one more day, however. They celebrate Patriots' Day on April 18, so they have a one-day reprieve and must file by April 19.

5. Child Tax Credit. Individuals who have received letters from the IRS regarding the Child Tax Credit have been reporting that they are inaccurate. This is the tip of the iceberg, as the information in the form is what the IRS has in its system, even if it's inaccurate. Taxpayers who report different but accurate information on their returns will receive further correspondence from the IRS to sort out the discrepancies.

6. Relief has been Requested of the IRS. A coalition that included the American Institute of CPAs (AICPA) sent a formal letter to the IRS requesting relief for taxpayers for the 2022 filing season. It requests that the IRS:

- Discontinue any automated compliance action until the Service can devote necessary resources to properly and timely resolve a matter. National Taxpayer Advocate Erin M. Collins made a similar point in her Annual Report to Congress, listing as No. 1 of the 10 most serious problems taxpayers face that excessive processing and refund delays are harming taxpayers.

- Align requests for account holds with the time it takes the IRS to process any penalty abatement requests.
- Offer a reasonable cause penalty waiver, similar to the procedures of a first-time abatement (FTA) administrative waiver, without affecting the taxpayer's eligibility for FTA in future tax years.
- Provide taxpayers with targeted relief from both the underpayment of estimated tax penalty and the late-payment penalty for the 2020 and 2021 tax year.

The full letter is here. The IRS has not yet responded.

7. Photo ID is Available for Taxpayer Security. The IRS is implementing ID.me, which utilizes facial recognition software for a taxpayer to log in to their account. In order to log in to their IRS account, the taxpayer will have to take a selfie and upload a photo of their driver's license or passport to verify their identity.

Give in to the machines if you like, but luddites will continue to exist for a long time, and the IRS will have to be able to service everyone. So, if you're skeptical about uploading a picture, use the call center, but be prepared for its long wait times. Even better, delegate the hassle to a professional.

8. Enforcement Resources Focus on Small Businesses and Self-Employed. As a reminder, OPI (Office of Promoter Investigations – think return preparers) was formed in 2021 and OFE (Office of Fraud Enforcement) was moved from LB&I (Large Business and International), both now housed in the SB/SE (Small Business/Self-Employed) Division. This provides insight on where enforcement efforts are focused.

9. Grievances Were Communicated to the IRS. Finally, the National Taxpayer Advocate Erin Collins hosted a conference on January 20. Ms. Collins reviewed the report to Congress mentioned above, highlighting the most serious problems and data behind the expected 2022 filing problems. The most serious problems currently are:

- Processing and Refund Delays: Excessive processing and refund delays harm taxpayers
- IRS Recruitment, Hiring, and Training: The lack of sufficient and highly trained employees impedes effective tax administration (notice that the IRS has focused on hiring enforcement agents and attorneys, but not customer service representatives)
- Telephone and In-Person Service: Taxpayers face significant challenges reaching IRS representatives due to longstanding deficiencies and pandemic complications
- Transparency and Clarity: The IRS lacks proactive transparency and fails to provide timely, accurate, and clear information
- Filing Season Delays: Millions of taxpayers experienced difficulties and challenges in the 2021 filing season
- Online Accounts: IRS online accounts do not have sufficient functionality and integration with existing tools to meet the needs of taxpayers and practitioners
- Digital Communications: Digital communication tools are too limited, making communication with the IRS unnecessarily difficult
- E-Filing Barriers: Electronic filing barriers increase taxpayer burden, cause processing delays, and waste IRS resources
- Correspondence Audits: Low-income taxpayers encounter communication barriers that hinder audit resolution, leading to increased burdens and downstream consequences for taxpayers, the IRS, TAS, and the Tax Court
- Collection: IRS collection policies and procedures negatively impact low-income taxpayers

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To illustrate just how behind the IRS is, the Taxpayer Advocate recently published the below figures, outlining the work the organization had ahead of it as of late last year.

- 9 million unprocessed individual returns (Form 1040)
- 4 million unprocessed (Form 941) business returns
- 7 million unprocessed amended individual returns (Form 1040-X)
- 402,000 unprocessed amended (Form 941-X) business returns; and
- Approximately 5 million pieces of unprocessed general taxpayer Correspondence

If you have questions or would like further information, please contact Jared Johnson (johnsonj@whiteandwilliams.com; 215.864.6290).

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