

Decades of Neglect Leave I.R.S. in Tax Season 'Chaos'

A shortage of staff and equipment has stalled America's fiscal machinery.



By Alan Rappeport

March 4, 2022

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WASHINGTON — At the Internal Revenue Service's sprawling Kansas City, Mo., processing center, teams of clerks earning \$15 per hour work through the night, trying to help the agency clear a backlog of more than 20 million tax returns that are a year overdue.

The conditions are subpar: Scanners sputter, forcing workers to enter data by hand, staplers are scarce and piles of tax documents overflow from carts.

"The general theme for the time I've been there has been chaos," said Shawn Gunn, a clerk in the receipt and operations group at the I.R.S. who started working at the facility in Kansas City last June and is transitioning to become a tax examiner.

What's happening in Kansas City provides a window into the problems plaguing the I.R.S., which is mired in a political and logistical mess that has frustrated taxpayers, angered lawmakers and put a key source of funding for President Biden's economic agenda in jeopardy.

Officials have warned of another rocky tax filing season ahead, saying it could be a "very frustrating tax season for both tax payers and tax professionals." Democrats have pointed to the tumult as evidence that the agency needs more funding. Mr. Biden has called for investing \$80 billion in the agency over a decade to help crack down on tax cheats, estimating that would raise \$400 billion in tax revenue.

But tax-averse Republicans, who have spent years cutting the agency's budget, have seized on the I.R.S.'s problems as proof it should not be given more money or responsibility, with at least one lawmaker calling for the tax collector to be abolished.

Much of the agency's current woes can be traced to those budget cuts, which have eroded the agency's ability to function at a critical moment. Staffing shortages and antiquated technology have collided with a pandemic that kept much of the agency's work force at home while the I.R.S. was turned into an economic relief spigot responsible for churning out checks and other stimulus payments to millions of Americans.

The agency's work force of about 75,000 is the same size as it was in 1970. Its enforcement staff has fallen by over 30 percent since 2010, and audits of millionaires have declined by more than 70 percent. And its budget has declined by nearly 20 percent, when accounting for inflation, during the last decade.

At the same time, the tax code has become more byzantine, and the number of individuals filing tax returns has grown by about 7 percent, according to the Center on Budget and Policy Priorities, a left-leaning Washington research group. The federal government has had to wrestle with well-financed corporations using complex tax avoidance maneuvers and the rise of digital currencies, which have made transactions more opaque and harder to tax.

"It's clearly been starved," said John Koskinen, who was I.R.S. commissioner during the Obama and Trump administrations. "Now the chickens are coming home to roost."

The I.R.S. is now beginning to try to recruit new staff. It recently secured hiring authority from the United States Office of Personnel Management for 10,000 positions, according to a person familiar with the matter, as it works to clear the backlog of returns. The funding for the new hires, who will be brought on over two years, comes from the existing I.R.S. budget. The agency got a funding boost of more than \$1 billion to go toward improving taxpayer services as part of the pandemic relief legislation that Congress passed in 2021.

The I.R.S. expects to process 160 million 2021 tax returns this year. About 90 percent of those are filed electronically and flow relatively smoothly through its systems. But about 24 million paper tax returns, amended filings from previous years and other mail correspondence continue to clog its creaky systems and represent what the National Taxpayer Advocate, an independent watchdog within the I.R.S., describes as the agency's "kryptonite."

Much of that paper flows through Kansas City, which is the agency's primary paper processing center. Housed in the city's old post office building, the center is set up like a giant warehouse, with people working at long tables and in cubicles as shipments of filings are delivered. Machines slice open envelopes that then must be stamped by hand and recorded into the I.R.S.'s main database. The method for tracking down old filings is reminiscent of the Dewey Decimal System.

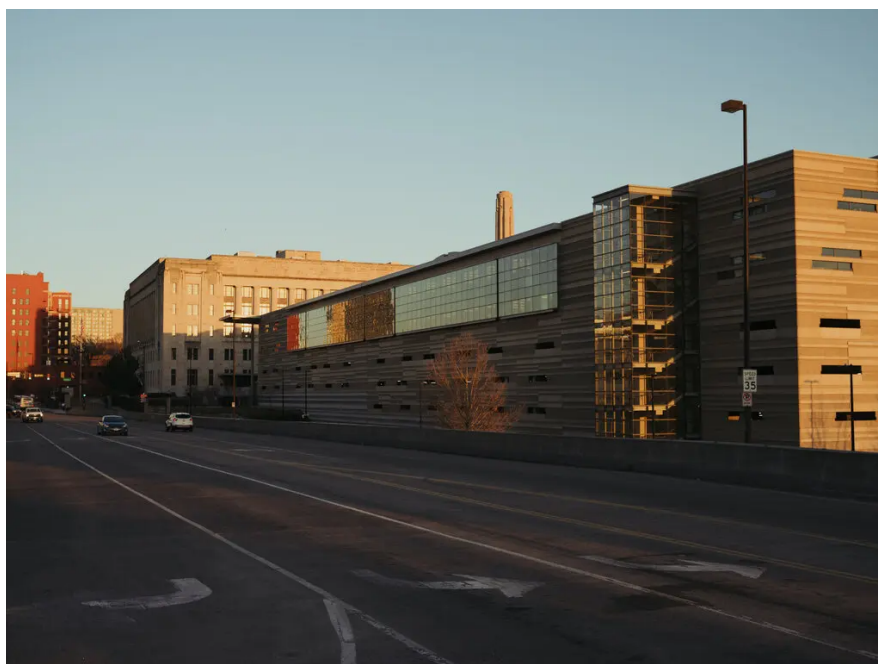
At a recent I.R.S. town hall attended by a senior Biden administration official, staff pleaded for new filing boxes, better staplers and more computers.

Mr. Gunn describes himself and his fellow clerks as foot soldiers of tax forms, opening upward of 500 envelopes per day to sort checks, letters and filings that must be funneled to the correct team of tax examiners. The job is often thankless and frustrating as a result of the lack of resources at the I.R.S.

"A surprisingly large amount of time has been used looking for carts to put files on and staplers for stapling files together," Mr. Gunn said in an interview.

The I.R.S. has tried to respond to some of its challenges. It has redeployed staff to areas of need and tried to adopt new technology. But that has also caused problems.

A new facial recognition system put in place last year to identify taxpayers trying to access their accounts — which the I.R.S. said was intended to address concerns about data security — wound up backfiring, with lawmakers and activists claiming it was an invasion of privacy. After spending \$86 million on the project, the I.R.S. came under pressure to abandon the program and develop an alternative in the middle of tax season.



The I.R.S.'s sprawling Kansas City processing center. Its budget has declined by nearly 20 percent during the last decade when accounting for inflation. Barrett Emke for The New York Times

The agency's problems are rippling across the country, as angry taxpayers experience long delays getting their refunds and calls to the I.R.S. go unanswered. According to the taxpayer advocate, just 11 percent of the 282 million calls to the I.R.S. reached a customer service agent last year.

Adding to the pain: A hodgepodge of data storage systems that do not communicate with each other has handicapped customer service workers at the I.R.S., who often cannot determine why a tax return has stalled in the process.

Jordan Stenger, a student at Upper Iowa State University, filed an amended tax return last spring when he realized that he was eligible for a \$2,600 tax credit to offset higher education expenses. He still has not received his refund and follows up with the I.R.S. by telephone every 30 days.

Sometimes Mr. Stenger meanders through a maze of automated prompts that eventually go silent. At times he has waited over an hour to finally reach a representative, only to be told about the backlog the agency is facing and to call again in another 30 days.

"It's unbelievably frustrating," said Mr. Stenger, 23, who hoped to put the refund toward a down payment on a home. "The reality is it's my money. They're always quick to take it, then when I want it back it's on their schedule."

The Biden administration insists that Republicans are to blame for the woes of the I.R.S. and the frustration gripping taxpayers.

"Over the past decade, the IRS budget has been decimated, resulting in an agency that every American relies on being starved," said Alexandra LaManna, a spokeswoman for the Treasury Department, which oversees the I.R.S. "Some members of Congress have politicized the issue and blocked common-sense advancements, like hiring more people to process tax returns and modernizing technology for partisan ideological reasons."

Legislation that would significantly boost I.R.S. funding remains stalled in the Senate, and Republicans have no intention of giving in.

At a hearing in February, Senator Mike Crapo, Republican of Idaho, argued that I.R.S. funding had generally kept pace with inflation and said that the agency's problems were mostly the result of the pandemic and its inability to update its technology, making it difficult to communicate with taxpayers. He criticized the Biden administration for seeking funding to hire an "army of new auditors."

Some Republicans want to further gut the I.R.S. Senator Rick Scott of Florida proposed cutting the agency's funding and work force by 50 percent in his new plan to "rescue America."

Mr. Koskinen, the former I.R.S. commissioner, argues that efforts to deplete the I.R.S. provides another opening for tax cheats. He lamented that Republicans have led the charge to block funding in the name of shrinking the government.

"You're basically saying you want to provide the government with fewer funds with which to operate," he said.

The deterioration of the I.R.S. poses deeper problem for the United States economy, says Erin Collins, the National Taxpayer Advocate, who argues that a reliable stream of funding and a technology overhaul should be priorities for an agency that is playing an increasing role as an organ of social welfare.

"It is a vital organization, and it performs a really important mission, not only in tax administration," Ms. Collins said.

The I.R.S. has been trying to address some of its problems, but it has been a struggle. In February, it reversed plans to shutter its processing center in Austin, Texas.

But the meager salaries and stressful working conditions can make it hard to attract talent, particularly when private-sector companies such as Amazon can offer more money.

A report released last month by the Treasury Inspector General for Tax Administration found that the I.R.S. was only able to hire two-thirds of the new employees it was trying to recruit last year. The report cited pay and the lengthy onboarding process for the shortfall. Low morale has also been a problem.

Deirdre Gamill-Hock quit her job as a tax examining technician in Kansas City in December 2020 after less than six months. She grew frustrated that her role, which was supposed to entail coding and processing tax forms, was consumed

by opening envelopes and sorting mail because of a shortage of labor. The final straw was when she was rushed back to work by her supervisor after her mother died from the coronavirus.

“They have good people there, but they treat them as if they’re expendable,” Ms. Gamill-Hock said.

Some I.R.S. staff that are in the midst of this daunting tax season feel a sense of guilt about the backlog that has left so many taxpayers waiting for over a year to get refunds.

“Seeing all these returns from last year, it’s disheartening and disappointing,” said Sean McCullagh, a data entry clerk in Kansas City.

Even Mr. McCullagh’s aunt has asked if he could do anything about her delinquent refund for a tax return she file last year. He was unable to help.

“I really can’t, because I’m just one person there,” he said.