



# TAX ADMINISTRATION

# IRS Needs to Take Additional Actions to Prepare for New Information Reporting Requirements

Report to Congressional Requesters

September 2024

GAO-24-107028

United States Government Accountability Office

Accessible Version

# GAO Highlights

View [GAO-24-107028](#). For more information, contact James R. McTigue, Jr. at (202) 512-6806 or [McTigueJ@gao.gov](mailto:McTigueJ@gao.gov).  
Highlights of [GAO-24-107028](#), a report to congressional requesters

September 2024

## TAX ADMINISTRATION

### IRS Needs to Take Additional Actions to Prepare for New Information Reporting Requirements

#### Why GAO Did This Study

IRS uses information returns—forms filed by third parties that provide information about reportable transactions—to help ensure tax compliance. IRS is working to implement two new information reporting requirements: (1) change of existing reporting requirements for payments made through TPSOs and (2) new reporting requirements for digital asset transactions.

GAO was asked to review the information reporting IRS receives and how IRS uses it. This report (1) evaluates the extent that IRS is prepared for additional information reporting and (2) describes the benefits and burdens of information returns. For both objectives, GAO interviewed relevant stakeholders, including outside organizations that interact with IRS and those affected by information reporting; analyzed IRS documentation; and interviewed IRS officials. To describe the benefits and burdens of information returns, GAO reviewed 13 studies from peer reviewed journals and policy organizations.

#### What GAO Recommends

GAO is making four recommendations to IRS, including updating its policies and procedures to require documentation of risk; incorporating lessons learned into its Form 1099-DA communication strategy; and evaluating its outreach and education efforts. IRS agreed with and intends to implement all four recommendations.

#### What GAO Found

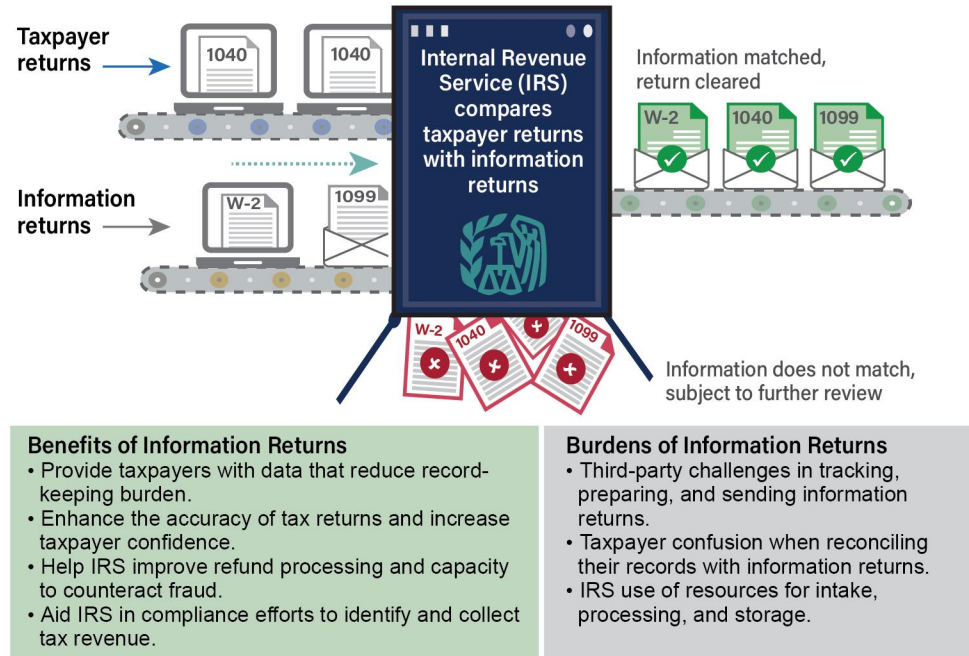
The Internal Revenue Service (IRS) has taken steps to implement information reporting changes, but GAO identified actions for IRS to be more prepared.

**Lowered Form 1099-K Reporting Threshold.** The American Rescue Plan Act of 2021 changed reporting requirements for Third-Party Settlement Organizations (TPSO), such as some online marketplaces that connect users to goods and services. Previously, TPSOs were not required to report payments on Form 1099-K unless they exceeded \$20,000 and an aggregate of 200 transactions. As amended, TPSOs must report payments that exceed \$600 annually. IRS decided to delay full implementation for 2 years and did not consistently document risks for its decisions. Documenting risks will help ensure IRS has a sound rationale for decisions and is prepared for the reporting threshold change.

**Form 1099-DA.** IRS has begun planning its outreach and education efforts for new digital asset (e.g., cryptocurrency) reporting in its communication strategy, but IRS is missing an opportunity to apply lessons learned from its Form 1099-K implementation efforts, such as what did and did not work well. IRS also did not have plans to evaluate its communication efforts. Incorporating lessons learned and evaluating outreach and education efforts could help IRS more effectively prepare for the new reporting and adjust communication efforts, if needed.

Information returns provide benefits, but also create burden. For example, the Joint Committee on Taxation estimated that digital asset reporting will increase revenue by \$28 billion over 10 years after implementation. However, third-party filers can face costs and challenges in tracking information for reporting.

### Reported Benefits and Burdens of Information Returns



Source: GAO analysis of IRS information, relevant literature, and stakeholder interviews. GAO illustration. | GAO-24-107028

### Accessible Text for Reported Benefits and Burdens of Information Returns

#### Benefits of Information Returns

- Provide taxpayers with data that reduce recordkeeping burden.
- Enhance the accuracy of tax returns and increase taxpayer confidence.
- Help IRS improve refund processing and capacity to counteract fraud.
- Aid IRS in compliance efforts to identify and collect tax revenue.

#### Burdens of Information Returns

- Third-party challenges in tracking, preparing, and sending information returns.
- Taxpayer confusion when reconciling their records with information returns.
- IRS use of resources for intake, processing, and storage.

Source : GAO analysis of IRS information, relevant literature, and stakeholder interviews; GAO illustration. | GAO-24-107028

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**Abbreviations**

e-filing	electronically filing
IRS	Internal Revenue Service
IT	information technology
JCT	Joint Committee on Taxation
RRP	Return Review Program
TPSO	Third-Party Settlement Organization
W-2	<i>Form W-2, Wage and Tax Statement</i>

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September 19, 2024

The Honorable Jason Smith  
Chairman  
Committee on Ways and Means  
House of Representatives

The Honorable David Schweikert  
Chairman  
Subcommittee on Oversight  
Committee on Ways and Means  
House of Representatives

The Internal Revenue Service (IRS) uses information returns as an important resource to help ensure tax compliance. Information returns are forms filed by third parties, such as employers, businesses, and financial institutions, to provide information to IRS and taxpayers about reportable transactions. Information returns serve purposes such as reporting on wages earned or amounts paid that qualify for a tax credit or deduction. For example, for taxpayers who are wage earners, employers send Form W-2, *Wage and Tax Statement (W-2)* to them. Employers also send W-2s to the Social Security Administration that then sends the W-2 information to IRS. IRS receives more than 5 billion information returns annually.

Information returns provide benefits but can also create burden. Taxpayers use the information on the forms to complete their tax returns, and IRS uses the forms to verify information reported by taxpayers on their tax returns and identify potential fraud and noncompliance. On one hand, according to IRS research, taxpayers are more likely to misreport income when little or no third-party information reporting exists than when substantial reporting exists. On the other hand, these returns can create burdens for taxpayers and third parties to report that information, such as the need to track and reconcile information.

IRS is working to implement two new information reporting requirements that could more than double the amount of information returns IRS receives each year. First, the Infrastructure Investment and Jobs Act required information reporting on the sale and exchange of digital assets by brokers.<sup>1</sup> IRS's final rule requires brokers to begin reporting information for certain sale and exchange transactions that take place beginning in 2025.<sup>2</sup> Second, the American Rescue Plan Act of 2021 revised the existing reporting requirements for payments made through Third-Party Settlement Organizations (TPSO) such as some online marketplaces that connect users to goods and services (e.g., Amazon, Uber, and Venmo).<sup>3</sup> These new reporting requirements are expected to generate billions of new information returns and result in over \$35 billion in additional revenue remitted to IRS in the first 10 years after implementation. The American Rescue Plan Act of 2021 required that the new information reporting threshold was to be effective for tax year 2022. However, in December 2022 and again in November 2023, IRS delayed full implementation of the revised TPSO reporting requirements. IRS's

<sup>1</sup>Pub. L. No. 117-58, § 80603, 135 Stat. 429, 1339-1341 (2021), codified at 26 U.S.C. §§ 6045, 6045A.

<sup>2</sup>89 Fed. Reg. 56480 (July 9, 2024).

<sup>3</sup>Pub. L. No. 117-2, § 9674, 135 Stat. 4, 185 (2021), codified at 26 U.S.C. § 6050W(e).

November 2023 announcement stated the agency plans to phase in implementation beginning in tax year 2024—a full 2 years after the date specified in the law.

You asked us to review the information reporting IRS receives and how IRS uses the information. In response, in November 2023, we issued an overview of third-party information reporting that summarized recommendations for how IRS can use this reporting.<sup>4</sup> This report (1) evaluates the extent that IRS is prepared for additional information reporting and (2) describes the benefits and burdens of information returns.

To address our objectives, we reviewed applicable federal statutes, regulations, and agency guidance. We interviewed seven selected stakeholders including outside organizations that interact with IRS and parties affected by information reporting, such as the American Institute of Certified Public Accountants and Freelancers Union. We asked for their perspectives on (1) the effect of IRS's decision to delay implementation of the \$600 threshold for Form 1099-K reporting and IRS's use of a phased approach on taxpayers and information return filers; (2) whether IRS's outreach efforts and guidance have resolved prior confusion related to the \$600 reporting threshold; and (3) benefits and burdens of information return reporting for third-party return filers, IRS, and taxpayers. We identified stakeholders based on our past work and IRS documentation. These selected stakeholders provide a cross section of the various affected parties. However, their views are not generalizable to the broader population of stakeholder organizations.

To evaluate the extent to which IRS is prepared for additional information reporting, we analyzed IRS documentation and interviewed IRS officials. We focused our work on IRS's actions to implement (1) the lowered filing threshold for Form 1099-K enacted in the American Rescue Plan Act of 2021 and (2) the new digital asset reporting requirements in the Infrastructure Investment and Jobs Act.<sup>5</sup> We compared IRS's actions to selected principles related to design control activities, risk assessment, and communication and information in *Standards for Internal Control in the Federal Government*, IRS's *Inflation Reduction Act Strategic Operating Plan*, IRS's *Internal Revenue Manual*, and our guide on evidence-based policymaking.<sup>6</sup>

To describe the benefits and burdens of information returns, we analyzed 13 studies published in peer-reviewed journals, research produced by experts working for policy organizations, as well as IRS documentation. To determine the methodology of the studies, we reviewed the studies' objectives, limitations, and data sources. We also interviewed IRS officials. We identified research primarily through a literature review of various databases (e.g., Scopus, ProQuest Sociology Collection). Our analysis of these studies identified common themes related to the burdens and benefit of information returns. We interviewed IRS officials and reviewed documents on IRS initiatives to identify, measure, and reduce burden associated with information returns and enhance their benefits.

A more detailed discussion of our objectives, scope, and methodology is included in appendix I.

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<sup>4</sup>GAO, *Tax Enforcement: IRS Can Improve Use of Information Returns to Enhance Compliance*, [GAO-24-107095](#) (Washington, D.C.: Nov. 15, 2023).

<sup>5</sup>Pub. L. No. 117-2, § 9674; Pub. L. No. 117-58, § 80603.

<sup>6</sup>Internal Revenue Service, *Inflation Reduction Act Strategic Operating Plan*, Publication 3744 (April 2023), and *Internal Revenue Manual* § 1.4.60.3 Enterprise Risk Assessment Process (Feb. 24, 2021); and GAO, *Evidence-Based Policymaking: Practices to Help Manage and Assess the Results of Federal Efforts*, [GAO-23-105460](#) (Washington, D.C.: July 12, 2023), and *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

We conducted this performance audit from August 2023 to September 2024 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### Information Returns and Reporting Requirements

Information returns are filed by third parties (e.g., employers, businesses, banks) to provide information to taxpayers and IRS about reportable transactions. Examples include

- W-2 for employee wages,
- 1099-NEC for nonemployee compensation (such as gig economy work),<sup>7</sup> and
- 1099-K for payments from payment cards and TPSOs—intermediaries between buyers and sellers of goods or services (e.g., Uber, Venmo, and Amazon).

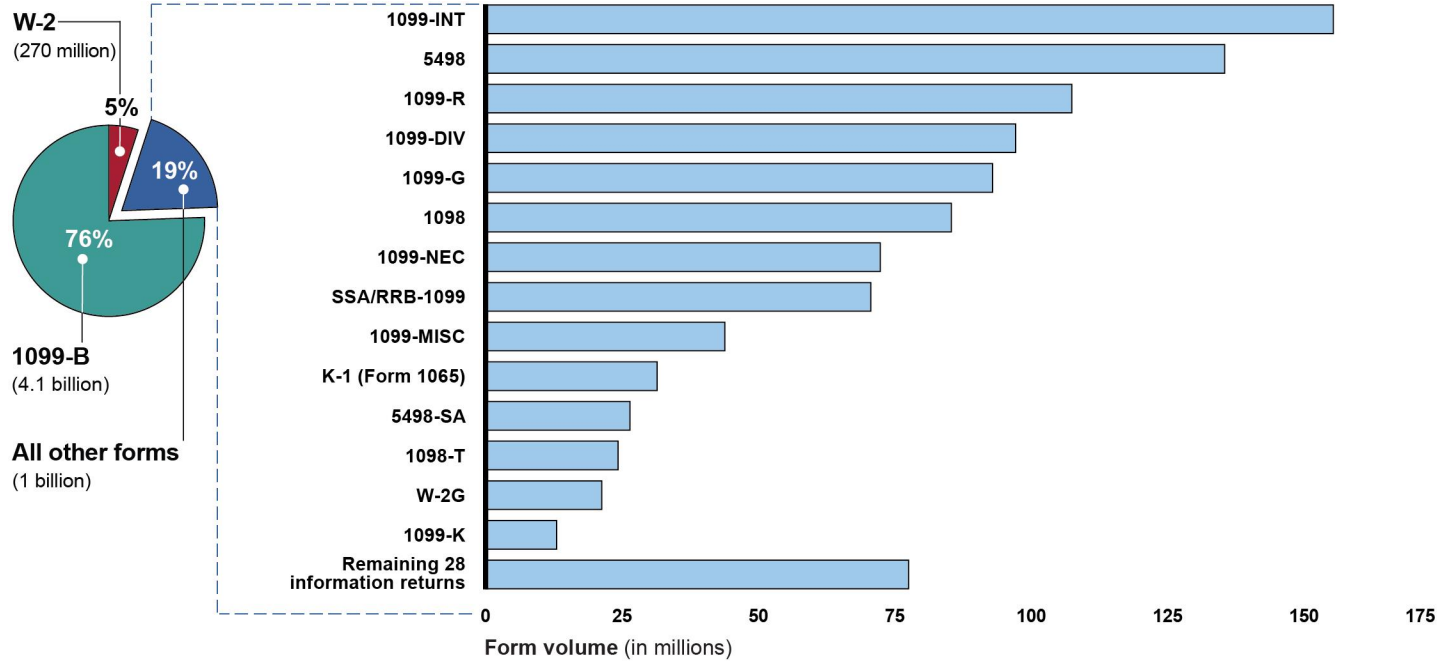
In 2022, IRS received more than 5.4 billion information returns. Figure 1 illustrates the types and volumes of information returns IRS received in 2022.

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<sup>7</sup>Gig work is generally defined as activity where income is earned providing on-demand work, services, or goods, which can be part time, temporary, or contracted. Examples of gig work include selling goods online, driving a car for booked rides, and running errands. Gig work can be done through digital platforms—businesses that match workers' services or goods with customers via apps or websites. Internal Revenue Service, "Gig economy tax center," accessed June 13, 2024, <https://www.irs.gov/businesses/gig-economy-tax-center>.



**Figure 1: Volume of Information Returns Reported to IRS, 2022**



Source: GAO analysis of Internal Revenue Service (IRS) Publication 6961 data. | GAO-24-107028

**Accessible Data for Figure 1: Volume of Information Returns Reported to IRS, 2022**

Form	Volume	Percent
W-2	270 million	5%
1099-B	4.1 billion	76%
All Other Forms	1 billion	19%

All Other Forms	Volume (in millions)
1099-INT	155,365
5498	135,439
1099-R	107,421
1099-DIV	97,122
1099-G	92,912
1098	85,339
1099-NEC	72,311
SSA/RRB-1099	70,562
1099-MISC	43,810
K-1(Form 1065)	31,400
5498-SA	26,431
1098-T	24,243
W-2G	21,268
1099-K	12,980

All Other Forms	Volume (in millions)
Remaining 28 information returns	77,510

Source: GAO analysis of Internal Revenue Service (IRS) Publication 6961 data. | GAO-24-107028

Note: A broker or barter exchange must file Form 1099-B, *Proceeds from Broker and Barter Exchange Transactions*, to report sales or redemptions of securities, futures transactions, commodities, and barter exchange transactions. For more information on these forms, see GAO, *Tax Administration: Better Coordination Could Improve IRS’s Use of Third-Party Information Reporting to Help Reduce the Tax Gap*, GAO-21-102 (Washington, D.C.: Dec. 15, 2020), appendix II.

Information reporting requirements are established by the Internal Revenue Code and associated regulations from IRS. These requirements have been revised over time, often by legislative amendments. For example, the Current Tax Payment Act of 1943 established automatic withholding by employers and required employers to report wages paid and amounts withheld.<sup>8</sup> The Tax Equity and Fiscal Responsibility Act of 1982 expanded information reporting in several areas and increased penalties on third parties for failing to file certain information returns and furnish taxpayer identification numbers.<sup>9</sup>

## Recent Changes to Information Reporting

Since 2019, legislation has established or amended several information reporting requirements. For example:

- The Taxpayer First Act.** This 2019 act lowered the threshold for electronic filing (e-filing) of certain returns. Third parties were required to file information returns electronically if they filed 10 or more returns in a calendar year.<sup>10</sup> For several years, IRS has encouraged e-filing as the most secure, accurate method to file returns that can save time for IRS and filers.
- American Rescue Plan Act of 2021.** This law amended the existing reporting requirements for payments made through TPSOs.<sup>11</sup> Previously, TPSOs were not required to report payment information unless annual payments to a single entity exceeded \$20,000 and an aggregate of 200 transactions. As amended, TPSOs must file Form 1099-K to report payments made through their payment networks that exceed \$600 annually, regardless of the number of transactions. This reporting threshold is the same as the threshold for nonemployee compensation payments made by other businesses that are not made through a TPSO. The law provided that the new requirements were to be effective at the beginning of 2022; however, IRS has twice delayed implementation—once in December 2022 and then in November 2023.<sup>12</sup> According to IRS’s November 2023 announcement, the agency plans for this requirement to be effective for tax year 2024 using an interim filing threshold of \$5,000, as will be discussed below. Prior to

<sup>8</sup>Pub. L. No. 78-68, § 2, 57 Stat. 126, 128–137 (1943).

<sup>9</sup>Pub. L. No. 97–248, §§ 301–319, 96 Stat. 324, 576–611 (1982).

<sup>10</sup>Pub. L. No. 116-25, § 2301, 133 Stat. 981, 1012–1013 (2019).

<sup>11</sup>A TPSO is a central organization that has the contractual obligation to make payments to participating payees of third-party network transactions. 26 U.S.C. § 6050W(b)(3). A third-party network is any agreement that involves the establishment of accounts with a TPSO by a substantial number of persons who (1) are unrelated to the TPSO, (2) provide goods or services, and (3) settle transactions for providing the goods or services pursuant to the agreement. The agreement must provide standards and mechanisms for settling the transactions, and guarantee that the people providing the goods and services will be paid. 26 U.S.C. § 6050W(d)(3).

<sup>12</sup>Notice 2023-10, *Revised Timeline Regarding Implementation of Amended Section 6050W(e)*, Internal Revenue Bulletin No. 2023-3 (Jan. 17, 2023); and Notice 2023-74, *Revised Timeline Regarding Implementation of Amended Section 6050W(e)*, Internal Revenue Bulletin No. 2023-51 (Dec. 18, 2023).

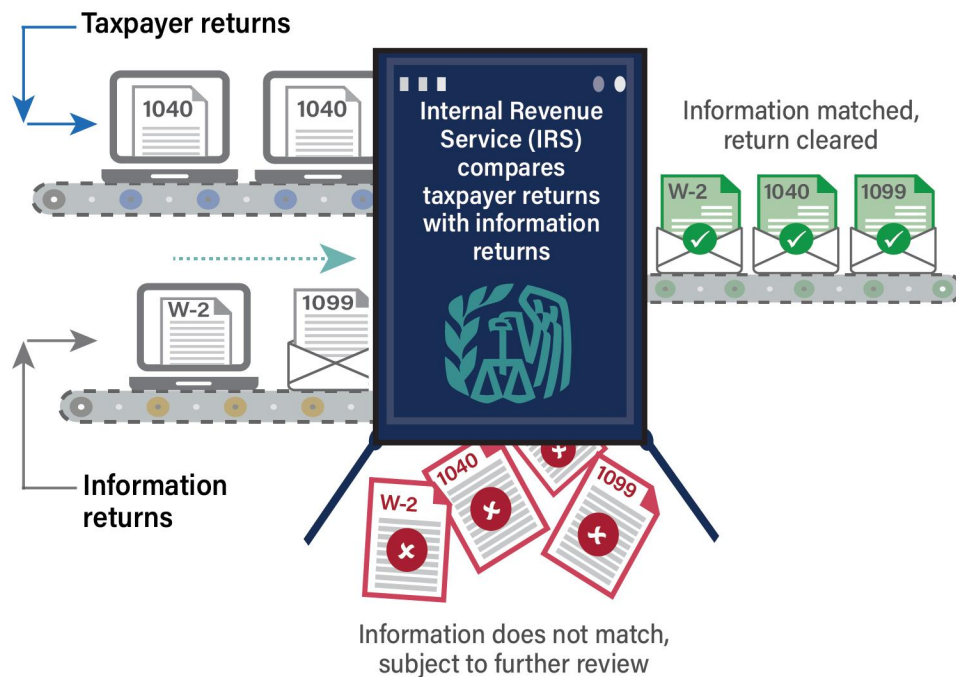
the second delay announced in November 2023, IRS expected to receive about 44 million Forms 1099-K in 2024—an increase of about 30 million information returns.

- **Infrastructure Investment and Jobs Act.** This 2021 law required information reporting on the sale and exchange of digital assets (e.g., cryptocurrency and non-fungible tokens) by brokers.<sup>13</sup> IRS’s final rule requires brokers to provide a new information return (Form 1099-DA) to help taxpayers determine if they owe taxes based on income from gains and losses.<sup>14</sup> According to IRS, the requirement will be effective for transactions starting on January 1, 2025, and thereafter. The Form 1099-DA would not be provided to taxpayers and IRS until early 2026. According to IRS, its research has indicated that most of the capital gains from cryptocurrency trading—one type of digital asset—are not being properly reported.<sup>15</sup>

## How IRS Uses Information Returns

IRS can use automated processes to analyze information return data to (1) identify cases of potential noncompliance and fraud, (2) select cases from this pool to be addressed by a compliance program, and (3) determine accurate tax liability (see fig. 2).

Figure 2: Overview of IRS Process for Matching Information Returns



Source: GAO analysis of IRS information; GAO illustration. | GAO-24-107028

<sup>13</sup>Pub. L. No. 117-58, § 80603. A digital asset is a digital representation of value recorded on a cryptographically secured distributed ledger or similar technology. 26 U.S.C. § 6045(g)(3)(D).

<sup>14</sup>89 Fed. Reg. 56480 (July 9, 2024).

<sup>15</sup>Internal Revenue Service, *Return on Investment: Re-Examining Revenue Estimates for IRS Funding*, Publication 5901 (February 2024).

Two of the many compliance programs that use information reporting are the Return Review Program (RRP) and the Automated Underreporter Program. Both programs match data from information returns submitted by third parties against income reported by taxpayers on their tax returns.

- **RRP.** RRP is IRS’s primary detection system for prerefund fraud, including identity theft refund fraud and improper payments. RRP uses multiple analytic techniques and filters to detect suspicious returns before refunds are issued. RRP has a systemic verification feature that compares wage and nonemployee compensation reported on information returns to a taxpayer’s tax return to detect potentially suspicious cases.
- **Automated Underreporter Program.** This program also compares information reported by taxpayers against information returns but identifies mismatch cases well after the tax returns were filed and refunds issued. The program determines if taxpayers have underreported either mistakenly or intentionally. Because the Automated Underreporter Program operates after the filing season, it has a wider variety of information returns available for these checks.

IRS also has programs that use information returns to identify nonfilers—taxpayers who fail to file tax returns but should have. These programs calculate the tax due for these taxpayers based on the income reported on the information returns. These programs focus primarily on income to determine if the taxpayer had a significant income tax liability. One such program, the Automated Substitute for Return, uses information returns reporting income such as Form 1099, rather than forms reporting deductions such as Form 1098. In fiscal year 2023, this program closed approximately 250,000 cases resulting in approximately \$1.1 billion in additional assessments.

IRS also uses information returns during its enforcement activities, such as taxpayer audits, to help identify issues to review on the taxpayer’s return.

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## Limitations of Information Reporting and Our Prior Recommendations for Improvements

We have previously reported on gaps in third-party information reporting in several areas. These gaps limited IRS’s ability to detect noncompliance such as underreporting of income.

- **Digital assets.** In February 2020, we reported that third parties, such as financial institutions, provide limited information reporting on virtual currency, making it difficult for taxpayers to comply and for IRS to address tax compliance risks.<sup>16</sup> We found that many virtual currency transactions likely go unreported to IRS, due in part to unclear requirements and reporting thresholds that limit the number of virtual currency users subject to third-party reporting. We recommended IRS take steps to increase third-party reporting on taxable transactions involving virtual currency. The Infrastructure Investment and Jobs Act addressed this recommendation by establishing information reporting on the sale and exchange of digital assets by brokers. This increased third-party reporting could improve tax compliance by providing IRS with better

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<sup>16</sup>Virtual currencies are one type of digital assets. IRS defines a digital asset as digital representation of value recorded on a cryptographically secured distributed ledger or similar technology. For more information on digital assets, see Internal Revenue Service, “Digital Assets,” accessed June 6, 2024, <https://www.irs.gov/businesses/small-businesses-self-employed/digital-assets>. To see more information on virtual currency and our findings, see GAO, *Virtual Currencies: Additional Information Reporting and Clarified Guidance Could Improve Tax Compliance*, [GAO-20-188](https://www.gao.gov/products/GAO-20-188) (Washington, D.C.: Feb. 12, 2020).

information about virtual currency transactions, making it easier for certain taxpayers to complete tax returns.

- **Platform economy.**<sup>17</sup> In May 2020 we reported that platform workers may not receive information on their incomes, creating compliance challenges for the workers and enforcement challenges for IRS.<sup>18</sup> For example, some platform companies only reported total annual payments for workers if they exceeded \$20,000 and 200 transactions—an amount that exceeds the average gross pay from a single company for many platform workers.

We recommended that IRS determine what thresholds would be the most appropriate for payment information reporting and, if warranted, recommend that Congress adjust the reporting thresholds. IRS did not agree with the recommendation.<sup>19</sup> However, the American Rescue Plan Act of 2021 lowered this threshold to \$600 beginning in 2022.<sup>20</sup> This threshold change gives IRS the opportunity to analyze the amount and quality of information received before and after enactment of the law, which could help inform what the appropriate reporting requirements should be in today's economy. As of February 2024, IRS officials said IRS had not discussed the need to analyze current thresholds with the Department of the Treasury.

- **Sole proprietors.**<sup>21</sup> In December 2020 we reported that IRS is not researching ways to increase information reporting that could reduce sole proprietor noncompliance.<sup>22</sup> Without such research, IRS is missing an opportunity to address a significant part of the tax gap (the difference between federal taxes owed and the amount paid). In 2022, IRS estimated the tax gap was \$428 billion for tax years 2014-2016.<sup>23</sup>

We recommended that IRS research, evaluate, and develop potential recommendations to expand third-party information reporting to include more information on sole proprietor's income and expenses and consider this a

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<sup>17</sup>We refer to the term platform economy to generally describe business activity conducted through platform companies. These companies generally facilitate the match, transaction, and payment between those seeking goods or services online and those providing them. Examples of platform companies include companies like Uber, Etsy, and Airbnb. As previously noted, gig work can be done through platform companies. For more information, see GAO, *Taxpayer Compliance: More Income Reporting Needed for Taxpayers Working through Online Platforms*, [GAO-20-366](#) (Washington, D.C.: May 28, 2020); and Internal Revenue Service, "Manage Taxes for a Digital Platform," accessed June 3, 2024, <https://www.irs.gov/businesses/small-businesses-self-employed/manage-taxes-for-a-digital-platform>.

<sup>18</sup>[GAO-20-366](#).

<sup>19</sup>In response to our recommendation, IRS said it cannot commit to implementation dates because of higher-priority guidance projects, especially in light of the many new tax provisions enacted into law.

<sup>20</sup>IRS has delayed implementation of the lowered threshold.

<sup>21</sup>A sole proprietorship is an unincorporated business with one owner. A sole proprietorship does not require legal action to form and generally exists when an individual earns income by providing goods or services with the intention of seeking a profit. Because no legal action is required, some taxpayers may not realize they are sole proprietors. Sole proprietors are self-employed individuals and should file a Schedule C with their individual tax returns to report profits and losses from their business. Sole proprietors include those who provide services, such as doctors or accountants; produce goods, such as manufacturers; and sell goods, such as car dealers and grocers.

<sup>22</sup>GAO, *Tax Administration: Better Coordination Could Improve IRS's Use of Third-Party Information Reporting to Help Reduce the Tax Gap*, [GAO-21-102](#) (Washington, D.C.: Dec. 15, 2020).

<sup>23</sup>Internal Revenue Service, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2014-2016*, Publication 1415 (October 2022).

high-priority recommendation for IRS to implement.<sup>24</sup> IRS did not agree or disagree with this recommendation. As of February 2024, IRS reported that it continues to conduct research on selected types of information reporting and is evaluating selected expansions of information reporting such as Schedule K-1 reporting.<sup>25</sup>

In October 2023, while reviewing IRS's efforts to improve sole proprietor compliance, we found that IRS is expected to receive millions more Forms 1099-K than for prior years because of the Form 1099-K reporting threshold change.<sup>26</sup> At that time, IRS did not have a plan to analyze the higher volume of Form 1099-K data, which could provide insights on taxpayer burden and compliance and help inform IRS enforcement priorities for sole proprietors, the largest part of the individual income tax underreporting gap.

We recommended IRS conduct such analyses and consider this a high-priority recommendation for IRS to implement.<sup>27</sup> IRS agreed and reported it is focused on (1) using resources to improve compliance by selecting compliance cases based on highest risk of noncompliance using data and analytics, and (2) continuing engagement with small businesses, including sole proprietors. As of May 2024, the agency reported it plans to analyze Form 1099-K data to inform decisions about compliance and outreach when the new filing threshold data are available. In addition, IRS reported that it plans to prepare a summary document for IRS senior leadership that identifies knowledge gaps and areas for further analysis by October 2024.

Further, in December 2020, we reported that better coordination could improve IRS's use of third-party information reporting.<sup>28</sup> At the time, IRS had not undertaken a broad review of individual information returns to determine if reporting thresholds, deadlines, or other characteristics of the returns continue to meet the needs of the agency. These changes could help IRS achieve administrative efficiencies and improve tax compliance. In addition, IRS did not have a coordinated approach to information returns with cross-agency leadership. Such an approach could help provide strategic oversight of information returns and help IRS identify opportunities to improve the effectiveness of its development, intake, processing, and use of information returns.

We recommended that IRS develop a process to coordinate among internal stakeholders and improve outreach to external stakeholders. We also recommended that IRS systematically evaluate information returns to improve compliance and reduce fraud and reporting burden. IRS neither agreed nor disagreed with these recommendations. We consider both of these recommendations high-priority recommendations for IRS to implement.<sup>29</sup> However, as of February 2024, officials reported that they are analyzing information return data and plan to consider changes to certain information return reporting requirements. As of March 2024, IRS reported that it is (1) continuing to improve coordination and collaboration across the agency, and (2) revising

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<sup>24</sup>For more on this recommendation and others we consider to be a high priority for IRS to implement, see GAO, *Priority Open Recommendations: Internal Revenue Service*, [GAO-24-107356](#) (Washington, D.C.: June 25, 2024).

<sup>25</sup>Partnerships use Schedule K-1 to report their share of a partnership's income, deductions, and credits.

<sup>26</sup>GAO, *Sole Proprietor Compliance: Treasury and IRS Have Opportunities to Reduce the Tax Gap*, [GAO-24-105281](#) (Washington, D.C.: Oct. 19, 2023).

<sup>27</sup>[GAO-24-107356](#).

<sup>28</sup>[GAO-21-102](#).

<sup>29</sup>[GAO-24-107356](#).



its organizational structure and will have one official with primary responsibility regarding use of data to inform return selection, including information return data.

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## IRS Could Better Prepare for Information Return Changes

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### IRS Documentation Describes Efforts to Balance Stakeholder Concerns with IRS's Information Needs

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While implementing the lowered Form 1099-K reporting threshold, IRS considered ways to balance taxpayer burden concerns with potential benefits of information reporting, according to IRS documentation. IRS also considered the agency's ability to use the data for compliance purposes. As part of its deliberations on implementing the lowered Form 1099-K filing threshold, IRS held internal meetings with officials from its different business units—including compliance, communications, and research units—and developed documentation, such as a summary of research on how Third-Party Settlement Organizations (TPSO) treat certain types of transactions and a decision memorandum related to Form 1040 revisions. IRS considered the accuracy of information provided to IRS, taxpayer burden, and IRS's audit selection.

IRS documented that third-party filers and taxpayers had concerns and confusion about Form 1099-K and developed and documented potential options to address these concerns.<sup>30</sup> For example, IRS identified a gap in existing guidance for how to report losses for sales of personal items reported on a Form 1099-K and taxpayer concerns related to this circumstance. According to IRS's documentation, the agency has worked to determine what guidance is appropriate to address this concern. IRS documentation shows the agency considered how to communicate with taxpayers more effectively on what the new 1099-K reporting threshold means and how they can comply.

IRS documentation also shows the agency considered taxpayer burden when deciding how to implement the lowered Form 1099-K reporting threshold for some implementation decisions. For example, IRS considered filing options for taxpayers who receive Forms 1099-K for a nondeductible loss due to the sale of a personal item. IRS identified that one of the options would require those taxpayers to potentially file a more complex tax return. IRS documentation acknowledges this option would increase the taxpayer's burden.

IRS documentation shows the agency considered how to balance third-party filer and taxpayer concerns with efforts to ensure information reporting would be useful to the agency. IRS officials considered the agency's capacity and whether it was prepared to accept and process the additional volume of forms. As documented by IRS, the agency's plans for updating the Form 1040 and associated schedules will simplify the filing process by providing taxpayers with a simplified way to report nontaxable payments on Form 1099-K. The documentation also states that this option will provide the agency with information to identify potential noncompliance. It also

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<sup>30</sup>In October 2023 we reported that IRS does not have a coordinated communications plan focused on informing the wide variety of sole proprietors about their tax and reporting responsibilities. This may cause taxpayers to have difficulty meeting their tax and reporting obligations, particularly when tax law or IRS guidance changes. As a result, we recommended that IRS develop and implement a communications plan focused on outreach and education to improve sole proprietor compliance, particularly when tax laws or IRS guidance change. This should include mechanisms to ensure IRS communicates relevant information to sole proprietors in a timely manner and engages stakeholders, as appropriate. IRS disagreed with this recommendation. [GAO-24-105281](#).

identifies the risk for potential for taxpayer abuse of this change and states that IRS will develop a compliance plan to mitigate this risk.

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## IRS Did Not Consistently Document Risks and Alternatives to Its Decisions to Delay Implementation of the Change in the Form 1099-K Reporting Threshold

In December 2022 and in November 2023, IRS announced it was delaying implementation of the lowered Form 1099-K filing threshold to smooth the transition and ensure clarity for taxpayers, tax professionals, and industry. IRS's announcement of the December 2022 delay stressed the importance of the threshold change for compliance efforts.

As part of the November 2023 announcement, IRS stated it planned to phase in implementation to the lower \$600 threshold. This announcement also said IRS planned to use an interim \$5,000 filing threshold for tax year 2024 and solicited feedback on the planned threshold.

According to IRS officials, the Internal Revenue Code gives the IRS Commissioner authority to delay and phase in implementation of the revised reporting requirements. IRS cited its authority to administer the tax law and noted that the Commissioner has discretion to “administer, manage, conduct, direct, and supervise the execution and application of the internal revenue laws...”<sup>31</sup> Officials compared the decision to delay implementation of the Form 1099-K reporting threshold change to previous delays in implementing legislation including certain provisions of the Affordable Care Act.<sup>32</sup> Officials stated that they consider the planned \$5,000 reporting threshold to be a phased implementation of the \$600 threshold.

Representatives from stakeholder organizations we interviewed had mixed views of the delay and phased-in approach. Some organizations viewed the delay as helpful, while other organizations said the delay created burdens for taxpayers, third-party filers, and others. For example, one stakeholder said that by phasing in the lowered reporting threshold, IRS is balancing the benefit of receiving information on higher dollar transactions against the potential increased volume of taxpayers calls to IRS. Another organization publicly expressed gratitude for IRS's delay on the lowered Form 1099-K threshold implementation. However, representatives from a different organization stated it is difficult for taxpayers to understand the tax system and last-minute changes disrupt their ability to understand and comply with tax rules and can undermine taxpayers' confidence in the tax system.

For both delays, IRS issued notices formalizing the delay and documented internal review and approval of these notices.<sup>33</sup> Specifically, IRS documented that its Chief Counsel and Commissioner offices reviewed and

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<sup>31</sup>26 U.S.C. § 7803(a)(2)(A).

<sup>32</sup>IRS officials cited the agency's delayed implementation of the Affordable Care Act's employer shared responsibility provision. This provision required that employers averaging at least 50 full-time employees provide their employees with health insurance coverage that meets certain requirements. If employers fail to do so, they are required to make an employer shared responsibility payment to IRS. Generally referred to as the employer shared responsibility provisions, these requirements were to become effective in 2015, but IRS provided transition relief in 2015 and 2016. 26 U.S.C. § 4980H.

<sup>33</sup>Notice 2023-10, *Revised Timeline Regarding Implementation of Amended Section 6050W(e)*, Internal Revenue Bulletin No. 2023-3 (Jan. 17, 2023), and Notice 2023-74, *Revised Timeline Regarding Implementation of Amended Section 6050W(e)*, Internal Revenue Bulletin No. 2023-51 (Dec. 18, 2023).



approved both notices. IRS then provided the guidance to Treasury for review and approval, and its Office of Tax Policy reviewed and approved the guidance as well.

IRS documentation, described above, shows that, at times, the agency considered alternatives, costs, benefits, risks, and burden when making some decisions related to Form 1099-K implementation, however it did not show that IRS consistently considered all of these factors. Related to the decisions to delay implementation, IRS documentation shows officials considered stakeholder feedback on confusion. The documentation also shows that for the December 2022 delay, IRS considered a risk that, despite the delay, third-party filers would send out Forms 1099-K using the lowered reporting threshold given the late announcement. IRS documentation shows officials considered internal resources and capability for making changes to forms and stakeholder concerns in summer 2023 when making implementation decisions. However, the documentation neither includes consideration of alternatives for either delay, nor consideration of risks for the November 2023 delay.

Similarly, IRS did not provide any documentation for how the agency selected the planned \$5,000 interim reporting threshold or whether it considered alternative thresholds. IRS documentation shows the agency consulted with TPSOs and external stakeholders that expressed concern with the statutory \$600 threshold. According to IRS officials, these organizations raised concerns about the increased burden on TPSOs and third-party filers. They also said taxpayers did not understand Form 1099-K and would be confused and could make errors on their tax returns.

According to IRS officials, they did not analyze IRS or external data identifying potential population sizes of taxpayers affected at different filing thresholds. Officials said the agency's Office of Chief Counsel discussed the decision internally, but IRS did not provide documentation of its legal analysis on its authority or how it made its decision to delay and use an interim threshold to phase in implementation. According to IRS, some TPSOs shared that their internal data analytics indicate approximately 97 percent of reportable payments are identified using a filing threshold of \$5,000 in payments; however, according to IRS officials, TPSOs did not provide documentation of these analytics.

The *Internal Revenue Manual*, the official compilation of IRS policies, procedures, and guidelines, does not require officials to complete a *Risk Acceptance Form and Tool*. However, while the *Internal Revenue Manual* does not require IRS officials to complete a *Risk Acceptance Form and Tool*, it does state that risk identification and analysis is the responsibility of employees and managers.<sup>34</sup> Further, according to IRS's *Risk Acceptance Form and Tool*, it is recommended that officials use this form in certain circumstances, such as when a decision could affect a large number of taxpayers or when decisions could generate congressional or

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<sup>34</sup>Internal Revenue Service, *Internal Revenue Manual* § 1.4.60.4 Enterprise Risk Management Program Roles and Responsibilities (Aug. 1, 2019).

oversight scrutiny, and at least one IRS office requires a *Risk Acceptance Form and Tool* to be completed in these circumstances.<sup>35</sup>

Documenting the decision-making process for substantive decisions—such as those that could affect a large number of taxpayers and those that generate congressional or oversight scrutiny—including identifying and responding to risks, is consistent with federal internal control standards. *Standards for Internal Control in the Federal Government* states that agencies should design control activities to achieve objectives and respond to risks. One way to do this is to clearly document all significant events and have that documentation readily available for examination.<sup>36</sup> It also states that management should identify, analyze, and respond to risks related to achieving objectives, which can include using risk assessments as the basis for developing appropriate risk responses.

Additionally, documenting the decision-making process, including consideration of benefits, burden, and alternatives, is consistent with leading practices and IRS's *Inflation Reduction Act Strategic Operating Plan*.<sup>37</sup> The plan states that IRS plans to make data-driven decision-making the core of the agency's approach to how it manages operations and delivers services to taxpayers.<sup>38</sup>

Identifying and analyzing risks and alternatives and documenting agency decisions and their rationales would help ensure IRS is prepared to implement the lowered Form 1099-K reporting threshold. Documenting and communicating the decision and rationale would help internal and external stakeholders understand IRS's decisions. It also would promote oversight, accountability, and transparency and help IRS ensure it has a sound rationale for its decisions. This is especially important because, as of January 2024, IRS had not ruled out further delays or changes to its implementation plan, according to officials. Further, IRS documentation from April 2024 indicates that IRS has not finalized the \$5,000 interim threshold.

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## IRS Did Not Comprehensively and Systematically Track External Feedback

After its December 2022 decision to delay implementation, IRS took actions to try to increase taxpayer and tax preparer understanding of the lowered reporting threshold and address questions and confusion. For example, IRS offered a seminar on Form 1099-K reporting requirement changes at its 2023 Nationwide Tax Forums and

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<sup>35</sup>IRS's *Risk Acceptance Form and Tool* provides the following examples when a risk acceptance form and tool is recommended: (1) decisions to discontinue or change service delivery, or close or consolidate offices or operations; (2) decisions on responses to audit recommendations that are expected to be controversial; (3) decisions to complete a major reorganization; (4) decisions to make significant changes to compliance and/or treatment approaches; (5) decisions that are likely to generate congressional/oversight interest or scrutiny; (6) decisions counter to Chief Counsel guidance or that are likely to result in litigation; and (7) decisions that key external stakeholders have expressed interest in and are likely to disagree with, or that could affect a large number of taxpayers. IRS's IT office requires a risk acceptance form and tool to be completed in these circumstances for decisions related to system and software development projects. Internal Revenue Service, *Internal Revenue Manual* § 2.5.4.13 Risk Acceptance Form and Tool (Dec. 17, 2021).

<sup>36</sup>GAO-14-704G.

<sup>37</sup>See for example, GAO, *Identity Theft: IRS Needs to Strengthen Taxpayer Authentication Efforts*, GAO-18-418 (Washington, D.C.: June 22, 2018); *Amphibious Combat Vehicle: Some Acquisition Activities Demonstrate Best Practices; Attainment of Amphibious Capability to be Determined*, GAO-16-22 (Washington, D.C.: Oct. 28, 2015); *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, GAO-09-3SP (Washington, D.C.: March 2009); and *Information Technology Investment Management: A Framework for Assessing and Improving Process Maturity*, GAO-04-394G (Washington, D.C.: March 2004).

<sup>38</sup>Internal Revenue Service, *Inflation Reduction Act Strategic Operating Plan*, Publication 3744 (April 2023).

then provided the content—a 50-minute video and PowerPoint presentation—online. IRS has also created an “Understanding your Form 1099-K” page on its website that includes a link to frequently asked questions. It has also posted information on its social media regarding the lowered reporting threshold.

When IRS announced it was delaying implementation of the lowered Form 1099-K reporting threshold in November 2023, it cited feedback from taxpayers, tax professionals, and payment processors as a reason for the delay. The announcement further stated the agency had spent many months gathering feedback from third-party groups and others, and it became increasingly clear to IRS that additional time was needed to raise awareness and understanding of the revised threshold. As part of this announcement IRS solicited feedback about using a \$5,000 threshold for tax year 2024 and other elements of the reporting requirement, including how best to focus reporting on taxable transactions.

However, IRS was unable to provide comprehensive and systematic documentation of stakeholder feedback related to Form 1099-K implementation. For example, IRS had some documentation from focus groups, outreach to states, and other feedback, but did not have complete documentation of feedback from other external stakeholders or the events it held. For example, IRS officials said they considered additional feedback received from affected parties in the fall of 2023 in deciding to delay implementation of the lowered Form 1099-K reporting threshold but did not provide documentation of this feedback.

IRS documented some of its stakeholder coordination and feedback. For example, IRS captured and categorized participants’ feedback and questions from an IRS Form 1099-K webinar in a standalone document. IRS also documented taxpayer comments from phone calls that the agency could use to identify trends and common themes related to the lowered filing threshold for Form 1099-K. IRS officials told us they used the webinar feedback and taxpayer call content to inform their Form 1099-K outreach strategy and communications.

Consulting with stakeholders and collecting their feedback, as IRS has done, is consistent with IRS’s *Inflation Reduction Act Strategic Operating Plan*. The plan acknowledges that IRS cannot achieve effective tax administration alone and benefits from collaboration with a broad ecosystem of stakeholders in its tax administration activities.<sup>39</sup> The plan states that IRS’s success in achieving its goals will rely on partnership with and continuous feedback from all those affected.

Tracking this feedback comprehensively and systematically and using it to inform decision-making is consistent with federal internal control standards and our guide on evidence-based policymaking. Federal internal control standards state that management should use quality information to achieve the entity’s objectives.<sup>40</sup> As part of this effort, management obtains relevant data from reliable internal and external sources in a timely manner and processes the data into quality information and then evaluates their characteristics, such as completeness. To be quality information, it needs to be appropriate, current, complete, accurate, and accessible. Our work on evidence-based policymaking and internal control standards found that management should review its

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<sup>39</sup>Internal Revenue Service, *Inflation Reduction Act Strategic Operating Plan*, Publication 3744 (April 2023).

<sup>40</sup>[GAO-14-704G](#).

feedback and other evidence to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks.<sup>41</sup>

IRS does not have a process that comprehensively and systematically tracks stakeholder organization feedback related to Form 1099-K implementation. IRS used a spreadsheet to track communication and outreach (e.g., stakeholder meetings, external events, webinars, YouTube videos, and articles) related to lowering the Form 1099-K reporting threshold. This spreadsheet included information such as target audience, potential reach, and status, but it did not systematically or comprehensively capture feedback, nor key themes related to implementation raised at these events. For example, IRS's spreadsheet does not have a designated way to capture and document stakeholder feedback from communications and outreach events that could be later analyzed to evaluate when making tax administration decisions.

Having a process that comprehensively and systematically tracks stakeholder feedback, such as a designated place for such feedback, will help IRS ensure it is prepared and well positioned to implement changes to the Internal Revenue Code and make tax administration decisions. For example, organizing and documenting key themes raised at outreach events systematically and comprehensively would provide IRS with more complete information on stakeholder feedback to consider as an input to tax administration decisions. Further, a process that comprehensively and systematically tracks stakeholder feedback could help the agency avoid risks and plan for future events.

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## IRS Is Missing an Opportunity to Prepare for New Digital Asset Reporting by Not Applying Lessons Learned from Its Form 1099-K Implementation Efforts

IRS has taken steps to implement new digital asset reporting requirements and communicate information to taxpayers and third-party filers. However, as of the time of our audit work, IRS had not applied lessons learned from other recent information return communication and outreach efforts and did not have plans to evaluate its communication strategy to determine if the agency's efforts are increasing understanding of the new requirements.

Some steps IRS has taken include identifying needed IT improvements and beginning communication of the new requirements. For example, officials said IRS plans to transition to cloud-based storage so it can manage billions of new information returns. As of April 2024, IRS officials said the agency is on track to begin using cloud-based storage by January 2026. Officials said business units are collaborating internally and sharing information to implement digital asset information reporting and manage deadlines and risks. They also said IRS's IT office is working closely with IRS's digital asset team to stay informed of the rules and regulations.

To be able to comply with the new reporting and tax obligations, third-party filers need to understand their responsibilities and requirements to collect information and file new digital asset information reporting forms. For example, third-party filers need to understand the definition of a broker to know whether they are to collect

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<sup>41</sup>[GAO-23-105460](#) and [GAO-14-704G](#).

and file Forms 1099-DA.<sup>42</sup> Similarly, taxpayers need to know they may receive a new form and how to use the information to complete their tax returns.

IRS has begun communicating about this new information reporting with taxpayers, tax preparers, and others in the tax ecosystem. For example, in August 2023, IRS, in conjunction with Treasury, issued a notice of proposed rulemaking that communicated proposed definitions and rules regarding tax reporting of information by brokers for digital assets.<sup>43</sup> In January 2024, IRS also issued a news release providing some information about how to report income and losses from digital asset transactions for the 2024 filing season.<sup>44</sup> In April 2024, IRS released a draft Form 1099-DA with instructions.<sup>45</sup> IRS also requested comments on the draft form and information collected on the form.<sup>46</sup>

Most of the stakeholder organizations we spoke with agreed that additional IRS outreach and education related to the new digital asset reporting requirements would be helpful. Representatives from multiple stakeholder organizations said that IRS should provide answers to frequently asked questions related to digital asset information reporting. Representatives from one organization further said that IRS should have these ready “more so” than it did for the Form 1099-K reporting threshold change. Representatives from a different organization stressed that IRS should write communications so that taxpayers can comprehend the technical information.

IRS officials said they had not assessed if there is confusion related to digital asset reporting requirements because they have not finalized the Form 1099-DA. However, representatives from multiple stakeholder organizations said that IRS has a deeper understanding of digital assets and reporting than affected parties. Representatives from one organization further said that there will be a learning curve as IRS tries to communicate information to tax organizations and practitioners. According to IRS’s final rule, brokers are required to begin reporting on certain sales or exchanges of digital assets that take place on or after January 1, 2025.<sup>47</sup>

In May 2024, IRS provided us a draft communications strategy to support outreach to help tax professionals, industry, and taxpayers understand how Form 1099-DA will report gains and losses from digital assets. IRS’s Communication and Liaison Office and the Office of Digital Asset Initiative are both responsible for this strategy. The document lists activities with milestones for IRS to complete as it reviewed input from the public and key stakeholders. Officials explained the communications strategy will be continually updated.

IRS officials told us their approach to communications and outreach related to digital asset information reporting had not drawn on lessons learned from experience implementing other recent information reporting

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<sup>42</sup>The Infrastructure Investment and Jobs Act defines a broker required to file digital asset information reporting to include any person who is responsible for regularly providing any service effectuating transfers of digital assets on behalf of another person. Pub. L. No. 117-58, § 80603(a). According to IRS’s final rule, these brokers include digital asset trading platforms, certain processors of digital asset payments, and certain digital asset hosted wallets. 89 Fed. Reg. 56480 (July 9, 2024).

<sup>43</sup>88 Fed. Reg. 59576 (Aug. 29, 2023).

<sup>44</sup>Internal Revenue Service, *Taxpayers should continue to report all cryptocurrency, digital asset income*, IR-2024-18 (Jan. 22, 2024).

<sup>45</sup>Internal Revenue Service, *Form 1099-DA Draft* (Apr. 2024), accessed April 25, 2024, <https://www.irs.gov/pub/irs-dft>.

<sup>46</sup>89 Fed. Reg. 29433 (Apr. 22, 2024).

<sup>47</sup>89 Fed. Reg. 56480 (July 9, 2024).

changes, including recent experience with the change to the Form 1099-K reporting threshold. IRS officials stated that its Office of Digital Assets Initiative worked with several IRS groups when drafting the Form 1099-DA, but that this office did not specifically solicit the experiences of past teams in charge of implementing information returns changes to inform their outreach plans. In August 2024, IRS officials responded to our draft report stating that at the time of our audit work IRS had not finalized digital asset reporting regulations or Form 1099-DA.

Considering potential lessons learned from the education and outreach related to the Form 1099-K changes—both education strategies that have not worked well and those that are effective—is consistent with IRS’s *Inflation Reduction Act Strategic Operating Plan* and our guide for evidence-based policymaking. The *Inflation Reduction Act Strategic Operating Plan* highlights the importance of collaborating across the organization to achieve results.<sup>48</sup> We have previously reported that the use of lessons learned is a principal component of an organizational culture committed to continuous improvement. Specifically, lessons learned serve to leverage acquired knowledge and experience to ensure that beneficial information is factored into planning, work processes, and other activities as outlined in our guide for evidence-based policy making.<sup>49</sup> Evidence and learning can inform a range of decisions, such as changes to existing strategies to achieve better results.

While IRS notes that its draft communication strategy will be continually updated, it does not include efforts to evaluate its communication and outreach efforts to determine if they are meeting IRS’s goals as of May 2024. Such an evaluation would be consistent with *Standards for Internal Control in the Federal Government*. The standards state that agency managers should communicate externally the necessary quality information to achieve the agency’s objectives. As part of this, agencies select appropriate methods of communication and periodically evaluate these methods to ensure they have the appropriate tools to communicate quality information externally. For example, agencies can consider whether the information is meeting the needs of the audience, such as if the information is timely, understandable, readily available, and accessible to that audience.

According to IRS officials, implementation of the lowered Form 1099-K reporting threshold and Form 1099-DA implementation are not analogous because the forms collect information on different types of transactions. However, officials said that the digital asset implementation team has been in communication with the Form 1099-K implementation team.

However, we found, and IRS officials acknowledged, there could be some overlap in communication strategies for the two efforts. For example, both information reporting changes involve introducing new information reporting to taxpayers who may be unfamiliar with the forms such as platform workers who previously were below the \$20,000 payment and 200 aggregate transactions reporting threshold and users of cryptocurrency. There could also be overlap in the third-party filer population for Forms 1099-K and 1099-DA.<sup>50</sup> For example, some Third-Party Settlement Organizations also accept cryptocurrency as payment or are beginning to facilitate cryptocurrency sales.

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<sup>48</sup>Internal Revenue Service, *Inflation Reduction Act Strategic Operating Plan*, Publication 3744 (April 2023).

<sup>49</sup>[GAO-23-105460](#) and GAO, *Army Ammunition: Actions Needed to Improve Management of Procurement and Production Practices*, [GAO-23-105352](#) (Washington, D.C.: Oct. 13, 2022).

<sup>50</sup>Potential overlap in third-party filers for Forms 1099-K and 1099-DA is not unique to these two forms. For example, financial institutions may file Forms 1099-INT (interest income) and 1098 (mortgage interest income), as well as Form W-2 (wages).



In December 2020, we reported IRS did not have a coordinated approach to information returns with cross-agency leadership. A coordinated approach could help IRS provide strategic oversight of information returns and identify opportunities to improve the effectiveness of its development and use of information returns.<sup>51</sup> We recommended that IRS develop a process to coordinate among internal stakeholders and improve outreach to external stakeholders and consider this a high-priority recommendation for IRS to implement.<sup>52</sup> IRS neither agreed nor disagreed with this recommendation and as of March 2024, IRS reported that the agency is (1) continuing to improve coordination and collaboration across the agency and (2) revising its organizational structure and will have one official with primary responsibility regarding use of data to inform return selection, including information return data.

Without applying lessons learned from prior experience, such as Form 1099-K implementation, evaluating progress, and adjusting as needed, IRS is missing opportunities to prepare for, plan, and execute its implementation of the new digital asset reporting requirements more effectively. In response to our draft report, IRS stated it intends to incorporate lessons learned and evaluate their digital asset reporting communication efforts.

Attending more closely to lessons learned from prior experience could help the agency's efforts to educate and communicate with taxpayers and tax preparers. IRS's Communication and Liaison Office and the Office of Digital Asset Initiative could gain insights on strategies that did and did not work well implementing the lowered Form 1099-K filing threshold. These insights could help officials target communication and education efforts. Tax preparers, taxpayers, and others would be more prepared for the new requirements, thus facilitating IRS's implementation and avoiding potential delays due to confusion over the changes.

Periodically evaluating its communication approach to providing information to tax professionals, industry, and taxpayers can help IRS ensure it is well positioned for the new reporting to begin. It would help IRS know if its outreach and education efforts are timely, understandable, readily available, and accessible to its audience so IRS can make adjustments to address confusion, if needed. Well-targeted communications can help address potential confusion and lack of knowledge among taxpayers and industry professionals, positioning them to be able to meet their filing requirements accurately. The communications could also reduce the risk of (1) a decision to delay implementation of the digital asset reporting requirements due to confusion and (2) inaccurately filed returns that will create burden for IRS to process and treat.

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## Information Returns Can Increase Tax Compliance but Can Also Increase Burden on Third-Party Reporting Entities and Others

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### Information Return Benefits Include Increased Accuracy of Tax Returns

Our review of published studies, stakeholder interviews, and IRS documentation found that information returns provide multiple benefits to taxpayers and IRS, including (1) reducing recordkeeping burden, (2) enhancing the

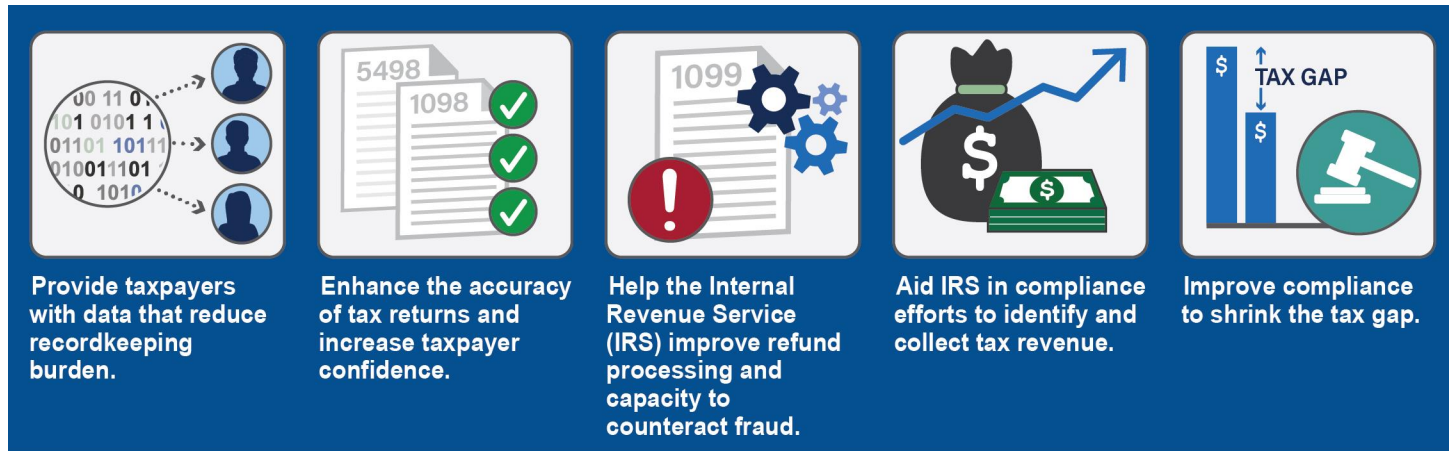
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<sup>51</sup>[GAO-21-102](#).

<sup>52</sup>[GAO-24-107356](#).

accuracy of tax returns and increasing taxpayer confidence, (3) helping IRS improve tax processing, (4) aiding IRS compliance efforts, and (5) shrinking the tax gap (see fig. 3).

**Figure 3: Reported Benefits of Information Returns by IRS, Stakeholders, and Relevant Literature**



Source: GAO analysis of IRS information, relevant literature, and stakeholder interviews; GAO illustrations. | GAO-24-107028

**Accessible Text for Figure 3: Reported Benefits of Information Returns by IRS, Stakeholders, and Relevant Literature**

- Provide taxpayers with data that reduce recordkeeping burden.
- Enhance the accuracy of tax returns and increase taxpayer confidence.
- Help the Internal Revenue Service (IRS) improve refund processing and capacity to counteract fraud.
- Aid IRS in compliance efforts to identify and collect tax revenue.
- Improve compliance to shrink the tax gap.

Source: GAO analysis of IRS information, relevant literature, and stakeholder interviews; GAO illustrations. | GAO-24-107028

**Reducing recordkeeping burden.** Information returns provide taxpayers with useful information to help them prepare their tax returns, according to some of the stakeholders we interviewed.<sup>53</sup> Without information returns, taxpayers would need to keep detailed records and calculate taxable income. For example, if a taxpayer did not receive an information return from his or her financial institution on interest income earned, the taxpayer might need to aggregate interest earning across multiple bank statements throughout the year to identify interest income earned to report on his or her tax return.

**Enhancing the accuracy of tax returns and increasing taxpayer confidence.** As we have previously reported, information reporting increases taxpayers’ incentive to comply with tax obligations because they know that IRS has the information.<sup>54</sup> According to IRS research, the misreporting rate for income subject to third-party reporting is as low as 1 percent, but it increases to 55 percent for income that is subject to little or no

<sup>53</sup>Under 26 U.S.C. § 6001, taxpayers are responsible for maintaining books and records regarding their tax liability. Such records can assist taxpayers in substantiating tax liability calculations on their tax returns. Generally, income is taxable unless it is specifically exempted by law. 26 U.S.C. § 1. For more information, see Internal Revenue Service, *Taxable and Nontaxable Income*, Publication 525 (Jan. 16, 2024).

<sup>54</sup>GAO-21-102.



third-party reporting.<sup>55</sup> Similarly, our review of scholarly research and research by experts working in policy generally found that information reporting bolsters tax compliance because transactions are visible to IRS.

Information returns may also make information more transparent to taxpayers and remind them of transactions from the tax year. Some of the stakeholders we interviewed stated that information returns increase taxpayers' ability to accurately file their taxes. Interviewees also said that taxpayers generally want to pay their "fair share" in taxes and information returns play a pivotal role in helping them do so.

**Helping IRS improve tax processing.** Information returns help IRS improve refund processing for taxpayers while improving IRS's capacity to identify and counteract fraud. IRS uses data from information returns in multiple ways in filtering and fraud detection systems.

For example, IRS's fraud detection systems use data on the current year information returns and historical information return behavior on the taxpayer account to detect patterns that might indicate identity theft. We previously reported that, because of our work, Congress provided IRS earlier access to Form W-2, *Wage and Tax Statement* (W-2) information. This change helped IRS verify return information against employer-provided information on W-2s before issuing refunds to combat fraud and noncompliance.<sup>56</sup> We found that this change enabled IRS to protect more than \$7 billion from tax years 2017-2021 from being issued in fraudulent refunds.<sup>57</sup> The availability of W-2 data from information returns provides IRS with information to compare to taxpayer returns to identify discrepancies and potentially fraudulent returns.

IRS can also reduce taxpayer burden by using information returns to exclude tax returns from review, such as verifying a taxpayer's identity through information returns while processing tax returns. This reduces or eliminates work and reduces taxpayer burden by not delaying legitimate taxpayers' returns.

**Aiding in IRS compliance efforts.** The billions of information returns IRS receives feed its compliance programs. Each year, IRS receives and processes billions of information returns that it uses to conduct compliance checks on more than 150 million individual income tax returns. IRS uses these information returns for its compliance efforts to identify and collect tax revenue. For example, IRS uses information returns after the tax filing season to determine if taxpayers may have underreported income or may have claimed unwarranted credits or deductions.<sup>58</sup> In fiscal year 2023, IRS's Automated Underreporter Program identified potential underreported income and unwarranted deductions in more than 1 million closed cases totaling about \$6.6 billion.

**Shrinking the tax gap.** Increased information reporting can help improve compliance among groups that tend to underreport their taxes—especially sole proprietors who continue to represent the largest share of the

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<sup>55</sup>IRS, Research, Applied Analytics & Statistics, *Federal Tax Compliance Research: Tax Gap Projections for Tax Years 2020 & 2021* (Washington, D.C.: October 2023).

<sup>56</sup>GAO, *2018 Tax Filing: IRS Managed Processing Challenges and Enhanced Its Management of Tax Law Changes*, [GAO-18-471](#) (Washington, D.C.: Sept. 10, 2018).

<sup>57</sup>The Administration's *General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals* includes a proposal for information returns to be filed earlier starting in 2025.

<sup>58</sup>[GAO-21-102](#).

individual underreporting tax gap.<sup>59</sup> Much of the research we reviewed acknowledged that information reporting can play a substantial role in reducing underreporting and addressing the tax gap. Consistent with this research, the Joint Committee on Taxation (JCT) estimated in 2021 that lowering the reporting threshold for Form 1099-K to \$600 could increase revenue by \$8.4 billion in the first 10 years after implementation.<sup>60</sup>

Similarly, JCT forecast that reporting for digital assets would increase revenue by approximately \$28 billion in the first 10 years after implementation.<sup>61</sup> In 2023, an internal IRS study estimated the potential for a 75 percent noncompliance rate among taxpayers with digital assets. IRS's final rule for digital asset information reporting states that this third-party information reporting could help IRS more easily identify taxpayers with digital asset transactions that would help close the tax gap.<sup>62</sup>

Some research studies noted that information reporting is not a panacea: it has its benefits but is not equally effective in all situations. One study suggested that information reporting has been recommended for too broad an array of transactions. As such, the study emphasized that the costs of information reporting need to be compared with the benefits of additional reporting.

According to our review of published studies and stakeholder interviews, and our analysis of IRS documentation, information returns' benefits can be limited by several factors:

- **Taxpayer behavior changes.** Several research studies noted that the effectiveness of information returns can be limited by taxpayers who alter their behavior to avoid information reporting. For example, according to one study, higher-income taxpayers may be better able to avoid some types of information reporting by establishing offshore bank accounts and by earning income directly through self-owned or self-managed businesses. One stakeholder we interviewed stated that they expected some taxpayers investing in and using digital assets to change their behaviors once digital asset information reporting is implemented.
- **Format of information provided.** Information reporting can be an efficient means of improving the tax filing process because third parties that compile and send information returns often already have accounting infrastructures in place. However, the format of the information returns can create processing issues. For example, according to one research study, IRS has not routinely matched data on Schedule K-1s to partners' tax returns.<sup>63</sup> This matching can be difficult because of the complexities of partnership law that require many lines of information on a return.

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<sup>59</sup>GAO, *Tax Gap: Modest Reductions in the Gap Could Yield Large Fiscal Benefits*, [GAO-23-106448](#) (Washington, D.C.: Feb. 27, 2023).

<sup>60</sup>Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 1319, The American Rescue Plan Act of 2021, As Amended by the Senate, Scheduled for Consideration by the House of Representatives* (Washington, D.C.: March 2021).

<sup>61</sup>Joint Committee on Taxation, *Estimated Revenue Effects of the Provisions in Division H of an Amendment in the Nature of a Substitute to H.R. 3684, Offered by Ms. Sinema, Mr. Portman, Mr. Manchin, Mr. Cassidy, Mrs. Shaheen, Ms. Collins, Mr. Tester, Ms. Murkowski, Mr. Warner, and Mr. Romney, The "Infrastructure Investment and Jobs Act"* (Washington, D.C.: August 2021).

<sup>62</sup>89 Fed. Reg. 56480 (July 9, 2024).

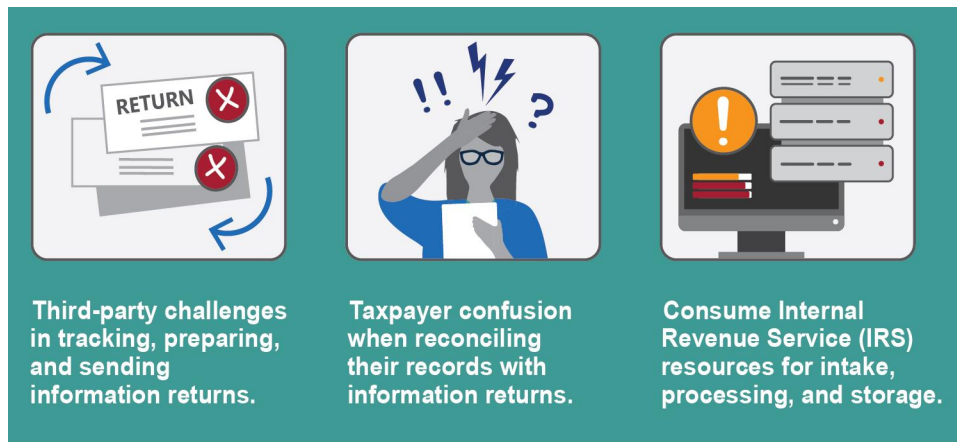
<sup>63</sup>Partnerships use Schedule K-1 to report their share of a partnership's income, deductions, and credits.

- Timing of receipt.** Filing deadlines and extensions affect IRS’s ability to use information returns for processing and compliance checks, as we previously reported.<sup>64</sup> For example, third parties are required to file most information returns listed in IRS’s *General Instructions for Certain Information Returns* between February 28 and March 15, with extension allowances into April. However, the tax filing season when IRS processes tax returns and issues refunds generally begins in late January. The timing of these due dates affects IRS’s ability to use data for processing and compliance efforts since IRS can match some data from information returns prior to issuing refunds.

## IRS Is Updating Estimates for Information Return Burden

Information returns create several types of burden for third-party filers, taxpayers, and IRS (see fig. 4).

**Figure 4: Reported Burden of Information Returns by IRS, Stakeholders, and Relevant Literature**



Source: GAO analysis of IRS information, relevant literature, and stakeholder interviews; GAO illustrations. | GAO-24-107028

### Accessible Text for Figure 4: Reported Burden of Information Returns by IRS, Stakeholders, and Relevant Literature

- Third-party challenges in tracking, preparing, and sending information returns.
- Taxpayer confusion when reconciling their records with information returns.
- Consume Internal Revenue Service (IRS) resources for intake, processing, and storage.

Source: GAO analysis of IRS information, relevant literature, and stakeholder interviews; GAO illustrations. | GAO-24-107028

- Burden on third-party filers.** Third-party filers encounter challenges in tracking information needed for reporting, as well as in preparing and sending information returns. It is generally acknowledged that there is some burden in preparing and submitting information returns, though some research suggests that the burden of information reporting on third-party filers is not excessively onerous. The burdens of information return forms vary, as reflected by the length of the instructions associated with information return forms. For example, some instructions are four pages long; however, another form has instructions that are more than 35 pages.

<sup>64</sup>GAO-21-102.

Additionally, some stakeholder organizations said IRS's information return intake system is outdated and challenging to use. While IRS has a new intake system, described below, it may require further development to handle the expected volume of information returns, according to some stakeholder organization representatives.

Third-party filers also can experience burden implementing changing or new information reporting requirements, such as the lowered Form 1099-K filing threshold or new digital asset reporting requirements discussed earlier. Officials from one organization said the constant need to implement changes to information reporting requirements is burdensome and the pace of changes can be challenging. Stakeholder organizations cited challenges and confusion related to implementing the Form 1099-K threshold change. Similarly, stakeholder organizations cited the challenge of implementing digital asset information reporting and noted that as of February 2024 they had not seen the form that will be used. IRS's final rule specifies this information reporting will be effective for certain digital asset transactions occurring on or after January 1, 2025, but representatives from stakeholder organizations said industry cannot start implementing a change until they can review the final form and rules.<sup>65</sup>

- **Burden on taxpayers.** Taxpayers can be confused when reconciling their records with information returns. For example, Form 1099-K reports gross payments rather than a net or taxable amount, and we previously reported that some platform workers do not know that gross payments may include fees and commissions retained by the platform. As a result, some taxpayers may inadvertently overreport their taxable income.<sup>66</sup> Moreover, some taxpayers may not fully understand the tax implications of payments reported on Form 1099-K. For example, they may not understand the reported amount may not be fully taxable, according to officials from several stakeholder organizations. They also noted taxpayers may not understand that deductions could offset some of the reported payments.
- **Burden on IRS.** Information returns require IRS resources for intake, processing, and storage, and IRS may face challenges in managing large volumes of information. As the number of information returns increases, so does the burden on IRS. For example, IRS estimates the implementation of Form 1099-DA reporting will increase information return intake by up to 160 percent—from approximately 5 billion to up to 13 billion information returns when reporting begins. As discussed above, IRS officials stated the agency is updating its IT systems to accommodate the increased volume.

Information reporting does not affect all taxpayers equally. For instance, one research study found that high-income and wealthy taxpayers often engage in transactions that are not subject to effective information reporting, enabling them to pursue tax avoidance and evasion strategies. This research cited high-income taxpayers' use of offshore bank accounts as one way these taxpayers can avoid information reporting. Another research study found that the effectiveness of information reporting from Form 1099-K varied by business type. For example, partnerships showed a relatively large increase in self-reported receipts that can be used to offset income to determine tax liability; whereas sole proprietors and S-corporations showed a modest increase and C-corporations did not show any increase.<sup>67</sup>

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<sup>65</sup>89 Fed. Reg. 56480 (July 9, 2024).

<sup>66</sup>[GAO-24-105281](#).

<sup>67</sup>According to IRS officials, differences in information reporting effectiveness can at least partially be explained by different reporting rules, forms, and practices for each category of business.

There may also be considerable variance in the complexity of information returns, which can affect burden. IRS's *2024 General Instructions for Certain Information Returns* provides estimates of the time needed to complete information returns, ranging from 7 minutes to 30 minutes per form. The document states the time will vary depending on individual circumstances. In terms of the new digital asset reporting, a broker—in this case the third-party filer—will incur an average of 425 hours of time burden and \$28,000 of monetized burden for the ongoing costs per year for completing digital asset reporting requirements, according to IRS's final rule for 1099-DA reporting.<sup>68</sup>

We have previously reported on the limitations of IRS's methods for calculating burden and IRS is transitioning to a new tax compliance burden estimation method for all tax forms and regulations, including information returns.<sup>69</sup> As of February 2024, IRS had not determined a scheduled completion date. IRS plans to survey third-party filers to learn about the costs and time associated with preparing and providing information returns. IRS states that it will use this information to learn how to reduce compliance burden. However, IRS's planning documentation states that the agency must balance its burden reduction efforts with tax forms' benefits, such as reduced administrative costs that would otherwise be required to determine a taxpayer's liability.

IRS is taking actions to mitigate some burden associated with information returns. For example, in January 2023, IRS created a new information returns intake platform, known as Information Returns Intake System, to provide a free online portal for third-party filers to submit Form 1099-series information returns to IRS. Third-party filers can submit up to 100 returns at a time. According to IRS, this portal will help filers create, upload, and edit information returns, as well as view information and download copies of 1099 forms for distribution and verification.

In addition, IRS's *Inflation Reduction Act Strategic Operating Plan* states that IRS plans to enhance its new system and retire legacy information returns processing systems.<sup>70</sup> As a result of these efforts, IRS plans to match some information return data with taxpayer-reported information in real time to identify and notify taxpayers and tax preparers of potential mismatches of income and processing errors. These improvements are intended to enhance compliance and taxpayer experience.

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## Conclusions

Information returns are an important feature of our tax system, providing benefits to both taxpayers and IRS. Further, they support efforts to address the tax gap. Recent changes to information reporting—the lowered Form 1099-K filing threshold and new digital asset reporting requirements—have the potential to help IRS collect billions of dollars in tax revenue that was previously uncollected. However, these changes will increase burden on third-party filers and have caused taxpayers and industry confusion.

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<sup>68</sup>9 Fed. Reg. 56480, 56539 (July 9, 2024).

<sup>69</sup>GAO, *Paperwork Reduction Act: Agencies Could Better Leverage Review Processes and Public Outreach to Improve Burden Estimates*, [GAO-18-381](#) (Washington, D.C.: July 11, 2018); and *Tax Administration: IRS Is Working to Improve Its Estimates of Compliance Burden*, [GAO/IGD-00-11](#) (Washington, D.C.: May 22, 2000).

<sup>70</sup>We previously reported that IRS's information return processing systems were operating at capacity, which created limitations in IRS's ability to use information return data. For more information, see [GAO-21-102](#).

IRS could better prepare to implement these information reporting changes. Assessing risks and documenting key decisions would help promote accountability and transparency to ensure IRS has a sound rationale for its implementation decisions. Developing a process to systematically and comprehensively track and assess stakeholder feedback would help ensure IRS has more complete information as it considers implementing changes to tax administration.

Building on lessons learned from prior outreach strategies that did or did not work would help IRS more effectively prepare for, plan, and execute its implementation of the new reporting requirements. Finally, evaluating its communication efforts can help IRS ensure it is providing timely, understandable, readily available, and accessible information to tax professionals, industry, and taxpayers so they are prepared to meet their filing obligations.

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## Recommendations for Executive Action

We are making the following four recommendation to IRS:

The Commissioner of Internal Revenue should update IRS's policies and procedures to require a documented risk assessment for substantive tax administration decisions and include guidance on when these assessments are needed, such as when a decision could affect a large number of taxpayers or when decisions could generate congressional or oversight scrutiny. (Recommendation 1)

The Commissioner of Internal Revenue should ensure offices implementing the lowered Form 1099-K reporting threshold develop and implement a process to comprehensively and systematically document stakeholder feedback. (Recommendation 2)

The Commissioner of Internal Revenue should ensure the Communication and Liaison Office and the Office of Digital Asset Initiative consult with the offices implementing the lowered Form 1099-K reporting threshold and incorporate any lessons learned and effective outreach strategies into their communication strategy for the new digital asset reporting requirements. (Recommendation 3)

The Commissioner of Internal Revenue should ensure the Communication and Liaison Office and the Office of Digital Asset Initiative update their Communication Strategy to include periodic evaluation of their outreach and education efforts to assess whether they are meeting the agency's goals and providing timely, understandable, readily available, and accessible information to tax professionals, industry, and taxpayers. (Recommendation 4)

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## Agency Comments

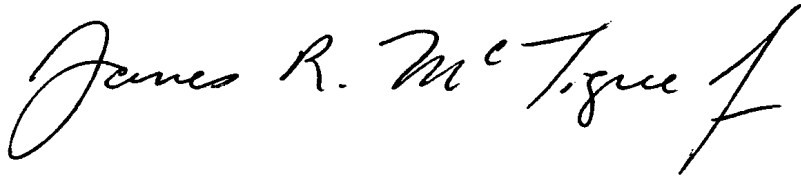
We provided a draft of this report to IRS for review and comment. In its comments, reproduced in appendix II, IRS agreed with and intends to implement all four recommendations. For the first two recommendations to improve implementation of the Form 1099-K reporting threshold change, IRS plans to review and update its policies for completing risk assessments as well as review and update its process for documenting stakeholder feedback. To address the remaining two recommendations to improve implementation for the new digital asset information reporting requirements, IRS stated that its Office of Digital Asset Initiative will consider lessons

learned for its communications and outreach plan and evaluate stakeholder feedback. IRS also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Commissioner of Internal Revenue, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or [McTigueJ@gao.gov](mailto:McTigueJ@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

James R. McTigue, Jr.

A handwritten signature in black ink that reads "James R. McTigue, Jr." The signature is written in a cursive style with a large, stylized initial "J" at the end.

Director, Tax Policy and Administration  
Strategic Issues



# Appendix I: Objectives, Scope, and Methodology

This report (1) evaluates the extent that the Internal Revenue Service (IRS) is prepared for additional information reporting and (2) describes the benefits and burdens of information returns.

To address our objectives, we reviewed applicable federal statutes, regulations, and agency guidance. We also interviewed selected stakeholders including outside organizations that interact with IRS, parties affected by information reporting, and an expert in tax law. We interviewed these stakeholders to understand (1) the effect of IRS's decision to delay implementation of the Form 1099-K \$600 reporting threshold and use a phased approach on taxpayers and third-party filers; (2) whether IRS's outreach efforts and guidance have resolved prior confusion related to the \$600 reporting threshold; and (3) views on the benefits and burdens of information reporting for third-party filers, IRS, and taxpayers. We prioritized stakeholders that were likely to have insights into both Form 1099-K and digital asset information reporting. In our interviews we asked questions about all the topics above; however, representatives from all organizations had different levels of experience with information returns and not all organizations' representatives answered all our questions.

To identify stakeholders to interview, we analyzed our past work and IRS documentation and received referrals from interviewee contacts. We selected individuals and stakeholder organizations for interviews to provide a cross section of the various types of stakeholder organizations that interact with IRS and have related expertise and experience with IRS and information returns (e.g., return filers, return processors, represented taxpayers affected). We interviewed an academic expert on tax policy who had written numerous articles on policy issues in the areas of federal income tax and tax administration, among others. We interviewed the following organizations for our work:

- **American Institute of Certified Public Accountants.** The American Institute of Certified Public Accountants is the national professional organization of Certified Public Accountants in the United States.
- **Freelancers Union.** The Freelancers Union is a nonprofit organization serving as a support system for the independent workforce through advocacy, education, and services.
- **Internal Revenue Service Advisory Council.** The Internal Revenue Service Advisory Council serves as an advisory body to the Commissioner of Internal Revenue and provides an organized public forum for discussion of relevant tax administration issues between IRS officials and representatives of the public.
- **Ledgible.** The Ledgible Platform is a digital asset tax information and accounting platform for professionals, enterprises, and institutions.
- **National Association of Computerized Tax Processors.** The National Association of Computerized Tax Processors is a nonprofit association that represents tax processing software and hardware developers, electronic filing processors, tax form publishers, and tax processing service bureaus.
- **Taxpayer Advocacy Panel.** The Taxpayer Advocacy Panel is a Federal Advisory Committee to IRS and helps to identify tax issues of importance to taxpayers and to provide a taxpayer perspective to IRS on key programs, products, and services.

The individual and stakeholder organizations were selected from various affected parties, including Third-Party Settlement Organizations, taxpayers, tax practitioners, tax processing software and hardware developers, and electronic filing processors. The interview and any follow-up information collected from them is not generalizable to a broader population of stakeholder organizations.



To evaluate the extent to which IRS is prepared for additional information reporting we interviewed IRS officials and analyzed documents on IRS's use of information returns and implementation of the Form 1099-K reporting threshold change and digital asset reporting requirements. We focused our work on IRS's actions to implement (1) the lowered filing threshold for Form 1099-K enacted in the American Rescue Plan Act of 2021 and (2) the new digital asset reporting requirements in the Infrastructure Investment and Jobs Act.<sup>1</sup>

We analyzed IRS's documentation and interviewed officials about the agency's November 2023 decision to delay the lowered filing threshold for Form 1099-K and plan to use an interim threshold for tax year 2024 to understand the extent to which IRS had documented its decision-making and rationale. We also analyzed IRS's documentation and interviewed officials about the agency's actions to minimize burden and improve taxpayer understanding of the Form 1099-K change.

Finally, we followed up with organizations that we had interviewed for prior work related to IRS's outreach and education efforts for the lowered filing threshold for Form 1099-K to understand if their views of IRS's efforts had changed and what, if anything, would help reduce confusion.<sup>2</sup> We compared IRS's actions to implement the lowered Form 1099-K reporting threshold to selected principles related to design control activities, risk assessment, and communication and information in *Standards for Internal Control in the Federal Government*, IRS's *Inflation Reduction Act Strategic Operating Plan*, IRS's *Internal Revenue Manual*, and our guide on evidence-based policymaking.<sup>3</sup>

We also analyzed IRS rulemakings, guidance, and other documentation and interviewed IRS officials to understand IRS's actions to implement new digital asset reporting requirements. We compared IRS's actions to implement the new digital asset reporting requirements to internal controls related to information and communication in *Standards for Internal Control in the Federal Government*, IRS's *Inflation Reduction Act Strategic Operating Plan*, and our guide on evidence-based policymaking.<sup>4</sup>

To describe the benefits and burdens of information returns, we analyzed studies published in peer-reviewed journals and research produced by experts working for policy organizations and IRS documentation. We also interviewed IRS officials. In addition, we conducted a literature search to identify research on the benefits and burdens of information returns. To identify research, we conducted searches of various databases, including Scopus, ProQuest Sociology Collection, Policy File Index, Business Source Corporate Plus, Lexis+. We identified 15 publications between 2015 and 2023 that appeared in scholarly journals or think tank publications. We excluded three of these publications since they were not relevant to our research objective on the benefits and burdens of information returns. We also included a publication identified from a stakeholder we interviewed that was relevant to our research objective. See the list of publications in the bibliography.

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<sup>1</sup>Pub. L. No. 117-2, § 9674, 135 Stat. 4, 185 (2021); Pub. L. No. 117-58, § 80603, 135 Stat. 429, 1339 (2021).

<sup>2</sup>For more information, see GAO, *Sole Proprietor Compliance: Treasury and IRS Have Opportunities to Reduce the Tax Gap*, [GAO-24-105281](#) (Washington, D.C.: Oct. 19, 2023).

<sup>3</sup>Internal Revenue Service, *Inflation Reduction Act Strategic Operating Plan*, Publication 3744 (April 2023), and *Internal Revenue Manual* § 1.4.60.3 Enterprise Risk Assessment Process (Feb. 24, 2021); and GAO, *Evidence-Based Policymaking: Practices to Help Manage and Assess the Results of Federal Efforts*, [GAO-23-105460](#) (Washington, D.C.: July 12, 2023), and *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

<sup>4</sup>Internal Revenue Service, *Inflation Reduction Act Strategic Operating Plan*, Publication 3744 (April 2023); [GAO-14-704G](#); and [GAO-23-105460](#).

To determine whether the 13 studies were appropriate for our purposes, we reviewed the studies' objectives and the features of the evaluation methodologies used. We reviewed the studies' limitations to determine if there were any methodological or data issues that significantly affected the findings or conclusions. We found no methodological or data issues that significantly affected the findings or conclusions, though some issues limited the usefulness of the findings, such as research that primarily relied on the views of others instead of original research.

We then reviewed the findings of the 13 studies and identified common themes related to the burdens and benefits of information returns. To characterize themes throughout this objective, we defined the following terms to quantify studies' findings as follows:

- "Most" represents more than six studies;
- "Several" represents four-to-six studies; and
- "Some" represents two-to-three studies.

We interviewed IRS officials and reviewed documents on IRS initiatives to identify and measure burden associated with information returns and to reduce burden and enhance benefits. For example, we reviewed IRS documentation on IRS's current estimates of burden to complete information returns and IRS's plan to update those estimates. We also interviewed IRS officials to understand actions they are taking to reduce burden (e.g., IT updates and improvements).

We conducted this performance audit from August 2023 to September 2024 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Internal Revenue Service Comments



CHIEF TAX COMPLIANCE OFFICER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

August 28, 2024

Mr. James R. McTigue, Jr.  
Director, Tax Policy and Administration  
Strategic Issues  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. McTigue:

Thank you for the opportunity to review your draft report titled, *IRS Needs to Take Additional Actions to Prepare for New Information Reporting Requirements (GAO-24-107028)*.

Information returns are a vital component of the US tax system. We received more than 5 billion Form W-2s and other information returns in tax year 2022. Information returns are filed by third parties such as employers, businesses, and banks. Taxpayers can use information returns to help them with the preparation of their tax returns thus reducing overall burden. We use information returns to help validate the items taxpayers report on their tax returns. Information reporting is critical to voluntary compliance. Our research shows that third party reporting on information returns decreases misreporting of income by at least 40%.<sup>1</sup>

We are working judiciously to implement the American Rescue Plan Act of 2021, which lowered the Form 1099-K reporting threshold, and the Infrastructure Investment and Jobs Act, which required brokers to report the sales and exchanges of digital assets. We appreciate the U.S. Government Accountability Office's (GAO's) recognition of the delicate balance between implementing legislative change and limiting taxpayer burden. We acknowledge the benefits and burdens of expanding third party information reporting and share GAO's goal of continuously evaluating and improving information reporting administration to improve voluntary compliance. We will continue to use information return data to inform our compliance efforts.

Consistent with the Strategic Operating Plan (the Plan), we are focused on using resources from the Inflation Reduction Act to improve compliance by deploying enhanced data and analytics to select compliance cases based on highest risk of noncompliance, and to choose enforcement actions predicted to be most effective. In

<sup>1</sup> Publication 5869, Federal Tax Compliance Research: Tax Gap Projections for Tax Years 2020 & 2021

2

addition, the Plan encompasses continuing communications and engagement with stakeholders as part of the IRS's larger focus on helping taxpayers meet their obligations and receive the tax incentives for which they are eligible.

With respect to Form 1099-K, we have taken significant steps to conduct stakeholder outreach, consider feedback from diverse sources, and provide easy to understand educational materials for payors, payees, and tax practitioners. Our efforts resulted in transition updates to forms, schedules, instructions, publications, web pages, and frequently asked questions. We created and issued over 100 Form 1099-K communication products and hosted over 370 external outreach events with the Small Business Administration, Better Business Bureaus, Chambers of Commerce, payroll industry partners, practitioners, educational institutions, community-based organizations, and minority and women's groups, to name a few. We presented technical and transition information at the 2023 Tax Forums and continue to engage with the public at the ongoing 2024 Tax Forums.

We are leveraging our Form 1099-K experiences and the feedback contained in this report and are actively building a comprehensive communications and outreach strategy to support the Office of Digital Asset Initiative (ODAI). Our Communications & Liaison office (C&L) and ODAI are proactively conducting outreach and education efforts for the Form 1099-DA. We are focusing on contemporaneously documenting the numerous information technology, policy, procedural, and process challenges and decisions incumbent in tax law implementation. We are also building processes to weigh feedback from individuals who will receive Form 1099-DA, brokers responsible for issuing the form, and other industry stakeholders. As metrics and additional feedback become available, we also intend to continually evaluate the communications and outreach needs for the new Form 1099-DA implementation.

Responses to your specific recommendations are enclosed. If you have any questions, please contact me or Richard L. Tierney, Director, Small Business/Self-Employed Examination.

Sincerely,

Heather C. Maloy Digitally signed by Heather C. Maloy  
Date: 2024.08.28 18:26:58 -0400  
Heather C. Maloy  
Chief Tax Compliance Officer

Enclosure

Enclosure

**GAO Recommendations and IRS Responses to GAO Draft Report**  
*TAX ADMINISTRATION: IRS Needs to Take Additional Actions to Prepare for New  
Information Reporting Requirements*  
(GAO-24-107028)

**RECOMMENDATION #1:**

The Commissioner of Internal Revenue should update IRS's policies and procedures to require a documented risk assessment for substantive tax administration decisions and include guidance on when these assessments are needed, such as when a decision could affect a large number of taxpayers or when decisions could generate Congressional or oversight scrutiny.

**COMMENT:**

We agree. We share GAO's broader goals with respect to continuous evaluation of the processes and standards we use to document our risks and business decisions. In consultation with IRS leadership, the Chief Risk Officer (CRO) will review the policies regarding when to use the Risk Acceptance Form and Tool or other risk assessment tools to document decisions. Based on feedback from stakeholders, CRO will appropriately update these policies, and will communicate the updated guidance to the appropriate parties.

**RECOMMENDATION #2:**

The Commissioner of Internal Revenue should ensure offices implementing the lowered Form 1099-K reporting threshold to develop and implement a process to comprehensively and systematically document stakeholder feedback.

**COMMENT:**

We agree. Small Business/Self-Employed will review the current processes for documenting stakeholder feedback and will partner with C&L to develop and communicate the updated guidance to the appropriate parties.

**RECOMMENDATION #3:**

The Commissioner of Internal Revenue should ensure the Communication and Liaison Office and the Office of Digital Asset Initiative consult with the offices implementing the lowered Form 1099-K reporting threshold and incorporate any lessons learned and effective outreach strategies into their communication strategy for the new digital asset reporting requirements.

**COMMENT:**

We agree. C&L will provide ODAI with lessons learned and will recommend building those effective strategies into the evolving communications and outreach plan.

**RECOMMENDATION #4:**

The Commissioner of Internal Revenue should ensure the Communication and Liaison Office and the Office of Digital Asset Initiative update their Communication Strategy to include periodic evaluation of their outreach and education efforts to assess whether they are meeting the agency's goals and providing timely, understandable, readily available, and accessible information to tax professionals, industry, and taxpayers.

**COMMENT:**

We agree. C&L is developing the communications and outreach strategy to address this implementation effort and supporting ODAI as information becomes available. C&L will work with ODAI to evaluate feedback and other information to provide clarity to taxpayers and stakeholders.

# Accessible Text for Appendix II: Internal Revenue Service Comments

August 28, 2024

Mr. James R. McTigue, Jr.  
Director, Tax Policy and Administration  
Strategic Issues  
U.S. Government Accountability Office  
441 G Street, N.W.  
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Information returns are a vital component of the US tax system. We received more than 5 billion Form W-2s and other information returns in tax year 2022. Information returns are filed by third parties such as employers, businesses, and banks. Taxpayers can use information returns to help them with the preparation of their tax returns thus reducing overall burden. We use information returns to help validate the items taxpayers report on their tax returns. Information reporting is critical to voluntary compliance. Our research shows that third party reporting on information returns decreases misreporting of income by at least 40%.<sup>1</sup>

We are working judiciously to implement the American Rescue Plan Act of 2021, which lowered the Form 1099-K reporting threshold, and the Infrastructure Investment and Jobs Act, which required brokers to report the sales and exchanges of digital assets. We appreciate the U.S. Government Accountability Office's (GAO's) recognition of the delicate balance between implementing legislative change and limiting taxpayer burden. We acknowledge the benefits and burdens of expanding third party information reporting and share GAO's goal of continuously evaluating and improving information reporting administration to improve voluntary compliance. We will continue to use information return data to inform our compliance efforts.

Consistent with the Strategic Operating Plan (the Plan), we are focused on using resources from the Inflation Reduction Act to improve compliance by deploying enhanced data and analytics to select compliance cases based on highest risk of noncompliance, and to choose enforcement actions predicted to be most effective. In addition, the Plan encompasses continuing communications and engagement with stakeholders as part of the IRS's larger focus on helping taxpayers meet their obligations and receive the tax incentives for which they are eligible.

With respect to Form 1099-K, we have taken significant steps to conduct stakeholder outreach, consider feedback from diverse sources, and provide easy to understand educational materials for payors, payees, and tax practitioners. Our efforts resulted in transition updates to forms, schedules, instructions, publications, web

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<sup>1</sup> Publication 5869, Federal Tax Compliance Research: Tax Gap Projections for Tax Years 2020 & 2021

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Responses to your specific recommendations are enclosed. If you have any questions, please contact me or Richard L. Tierney, Director, Small Business/Self-Employed Examination.

Sincerely,

Heather C. Maloy  
Digitally signed by Heather C. Maloy  
Date: 2024.08.28 18:26:58 -04'00'

Heather C. Maloy  
Chief Tax Compliance Officer

Enclosure

Enclosure

**GAO Recommendations and IRS Responses to GAO Draft Report**

TAX ADMINISTRATION: IRS Needs to Take Additional Actions to Prepare for New Information Reporting Requirements (GAO-24-107028)

**RECOMMENDATION #1:**

The Commissioner of Internal Revenue should update IRS's policies and procedures to require a documented risk assessment for substantive tax administration decisions and include guidance on when these assessments are needed, such as when a decision could affect a large number of taxpayers or when decisions could generate Congressional or oversight scrutiny.

**COMMENT:**

We agree. We share GAO's broader goals with respect to continuous evaluation of the processes and standards we use to document our risks and business decisions. In consultation with IRS leadership, the Chief



Risk Officer (CRO) will review the policies regarding when to use the Risk Acceptance Form and Tool or other risk assessment tools to document decisions. Based on feedback from stakeholders, CRO will appropriately update these policies, and will communicate the updated guidance to the appropriate parties.

**RECOMMENDATION #2:**

The Commissioner of Internal Revenue should ensure offices implementing the lowered Form 1099-K reporting threshold to develop and implement a process to comprehensively and systematically document stakeholder feedback.

**COMMENT:**

We agree. Small Business/Self-Employed will review the current processes for documenting stakeholder feedback and will partner with C&L to develop and communicate the updated guidance to the appropriate parties.

**RECOMMENDATION #3:**

The Commissioner of Internal Revenue should ensure the Communication and Liaison Office and the Office of Digital Asset Initiative consult with the offices implementing the lowered Form 1099-K reporting threshold and incorporate any lessons learned and effective outreach strategies into their communication strategy for the new digital asset reporting requirements.

**COMMENT:**

We agree. C&L will provide ODAI with lessons learned and will recommend building those effective strategies into the evolving communications and outreach plan.

**RECOMMENDATION #4:**

The Commissioner of Internal Revenue should ensure the Communication and Liaison Office and the Office of Digital Asset Initiative update their Communication Strategy to include periodic evaluation of their outreach and education efforts to assess whether they are meeting the agency's goals and providing timely, understandable, readily available, and accessible information to tax professionals, industry, and taxpayers.

**COMMENT:**

We agree. C&L is developing the communications and outreach strategy to address this implementation effort and supporting ODAI as information becomes available. C&L will work with ODAI to evaluate feedback and other information to provide clarity to taxpayers and stakeholders.

# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

James R. McTigue, Jr., (202) 512-6806 or [McTigueJ@gao.gov](mailto:McTigueJ@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Neil Pinney (Assistant Director), Jason Vassilicos (Assistant Director), Dawn Bidne (Analyst-in-Charge), Jeff DeMarco, Robert Gebhart, John Karikari, Sabine Paul, Carl Ramirez, Crystal Wesco, and Alicia White made key contributions to this report.

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