

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Taxpayer First Act: The IRS Implemented the Information Returns Intake System, Although Users Experienced Some Slight Processing Delays During Peak Processing**

February 28, 2025

Report Number: 2025-405-013

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document

[TIGTACommunications@tigta.treas.gov](mailto:TIGTACommunications@tigta.treas.gov) | [www.tigta.gov](http://www.tigta.gov)

# HIGHLIGHTS: Taxpayer First Act: The IRS Implemented the Information Returns Intake System, Although Users Experienced Some Slight Processing Delays During Peak Processing

Final Audit Report issued on February 28, 2025

Report Number 2025-405-013

## Why TIGTA Did This Audit

The Taxpayer First Act required the IRS to make available a website that allows filers to prepare and electronically file Forms 1099. In addition, the Act required that the website allow filers to prepare forms for distribution to recipients and maintain a record of completed, filed, and distributed Forms 1099.

This audit was initiated to assess the IRS's efforts to modernize information returns processing by implementing an internet-based platform for Forms 1099.

## Impact on Tax Administration

The IRS introduced the Information Returns Intake System (IRIS) in January 2023. IRIS allows taxpayers to file Forms 1099 either through the Taxpayer Portal or the Application to Application submission methods. Taxpayers that submit smaller volumes of Forms 1099 can manually enter the data or upload data to the Taxpayer Portal. Taxpayers that submit large volumes of information returns will use the Application to Application method.

As of May 2024, the IRS received more than 12.4 million Forms 1099 through IRIS. Of these, about 10.2 million Forms 1099 were transmitted through the Application to Application method, and more than 2.2 million Forms 1099 were transmitted through the Taxpayer Portal.

## What TIGTA Found

The IRS established tools to share with and assist stakeholders in using IRIS, including holding monthly working group meetings, establishing a centralized repository on IRS.gov/IRIS to provide one source for IRIS-related information, offering the ability to receive QuickAlerts, and creating and updating five publications.

However, the IRS experienced some information technology challenges implementing IRIS. Our review of 38 business rules used to evaluate the accuracy of information returns found that 37 were working as intended. One business rule was not working as intended. IRS management indicated that they were aware of and took actions to correct the rule. Because the IRS continues to accept paper-filed Forms 1099, it is important that IRIS contains the legacy Error Resolution System criteria to identify errors on paper-filed forms. Our review identified 17 paper processing rules that were included in the legacy processing that were either not included (9 instances) or were different (8 instances) from IRIS processing criteria.

Further, the IRS stopped processing paper-filed Forms 1099 in April 2024, because the IRIS only accepts a paper-filed form if the data, *i.e.*, field length, data type, *etc.*, are perfectly aligned with the IRIS system data fields. The IRS deployed several corrective patches from May through August 2024 and resumed processing paper-filed Forms 1099 in August 2024. Through September 2024, the IRS processed 5.7 million Forms 1099, with 8.5 million remaining to be processed by the end of the calendar year.

Finally, IRIS users experienced system delays leading up to the January 31 peak processing time frame. As part of its monitoring, the IRS became aware of performance issues with IRIS near the Jan. 31, 2024, filing due date. The IRS made corrections within 48 hours by improving IRIS's system capacity. IRS management stated that there have been no instances of IRIS crashing, failing, or needing to be restarted since deploying these enhancements. Although IRS management expressed that they were confident their corrective actions would mitigate similar issues in the future, they noted that they will continue to monitor IRIS's performance. This will continue to be important as additional filers use IRIS and changes in reporting requirements increase the volume of information returns to be processed.

## What TIGTA Recommended

We recommended that the IRS request programming changes to correct a business rule and use the same criteria as paper processing. IRS officials agreed with one recommendation and partially agreed with the other recommendation. IRS management stated it made several programming changes for the 2025 Filing Season. The IRS believes tax administration is best serviced by a holistic review of the information returns intake process and any further improvements will be balanced with other competing priorities.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**  
**WASHINGTON, D.C. 20024**

February 28, 2025

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in cursive script, reading "Danny Verneuille".

**FROM:** Danny Verneuille  
Acting Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Taxpayer First Act: The IRS Implemented the Information Returns Intake System, Although Users Experienced Some Slight Processing Delays During Peak Processing  
(Audit No.: 2024405009)

This report presents the result of our review to assess the Internal Revenue Service's efforts to modernize information returns processing by implementing an internet-based platform for Forms 1099. This review is part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenge of *Taxpayer Service*.

Management's complete response to the draft report is included as Appendix V. If you have any questions, please contact me or Diana M. Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services).

# Table of Contents

<b><u>Background</u></b> .....	Page 1
<b><u>Results of Review</u></b> .....	Page 4
<u>Actions Taken to Implement the Information Returns Intake System</u> .....	Page 4
<u>Information Technology Challenges Were Identified and Addressed, While Some Led to Processing Delays</u> .....	Page 5
<u>Recommendations 1 and 2:</u> .....	Page 6
<b>Appendices</b>	
<u>Appendix I – Detailed Objective, Scope, and Methodology</u> .....	Page 9
<u>Appendix II – Forms Currently Accepted for Electronic Filing With the Information Returns Intake System</u> .....	Page 11
<u>Appendix III – Application to Application/Taxpayer Portal Business Rules</u> .....	Page 13
<u>Appendix IV – Business Rule Issues Identified for Paper-Filed Information Documents</u> .....	Page 16
<u>Appendix V – Management’s Response to the Draft Report</u> .....	Page 20
<u>Appendix VI – Glossary of Terms</u> .....	Page 24
<u>Appendix VII – Abbreviations</u> .....	Page 25

## **Background**

The Taxpayer First Act, enacted on July 1, 2019, required the Internal Revenue Service (IRS) to make available a website that allows filers to prepare and electronically file (e-file) Forms 1099, *e.g.*, Form 1099-NEC, *Nonemployee Compensation*.<sup>1</sup> The website is to be modeled after the system that allows filers to file Form W-2, *Wage and Tax Statement*, with the Social Security Administration. In addition, the website was to allow filers to prepare forms for distribution to recipients and maintain a record of completed, filed, and distributed Forms 1099. In January 2023, the IRS introduced the free online system called the Information Returns Intake System (IRIS). IRIS allows taxpayers to file Forms 1099 either through the Taxpayer Portal or the Application to Application (A2A) submission methods. Taxpayers that submit smaller volumes of Forms 1099 can manually enter data or upload data in a comma-separated values (CSV) file using the Taxpayer Portal. Taxpayers that submit large volumes of information returns, *e.g.*, third-party software or service providers, can use the A2A method. Both submission methods allow for automatic extensions of time to file and corrections to forms filed through IRIS.

Prior to implementing IRIS, taxpayers e-filed information returns through the Filing Information Returns Electronically (FIRE) system (the legacy FIRE system).<sup>2</sup> Figure 1 provides a comparison of key features between the legacy FIRE and IRIS systems.

**Figure 1: Comparison of Legacy FIRE and IRIS Systems**

Key Feature	Legacy FIRE	IRIS
<b>Intake Method</b>	A2A Intake only.	A2A and Taxpayer Portal.
<b>Acceptable Tax Years</b>	Tax Year 2013 and forward.	Tax Year 2022 and forward.
<b>Acceptable File Size</b>	Cannot exceed 1 million records per file.	For A2A, the size of the transmission should not exceed 100 megabytes.  The Taxpayer Portal has a limit of 100 records per CSV file.
<b>Acceptable File Format</b>	Must have software, a service provider, or an in-house programmer that will create the file in the proper format.	The Taxpayer Portal allows users to manually enter data or upload a data file.

*Source: Treasury Inspector General for Tax Administration's review of Publication 1220, Specifications for Electronic Filing of Forms 1097, 1098, 1099, 3921, 3922, 5498, and W-2G; Publication 5717, Information Returns Intake System (IRIS) Taxpayer Portal User Guide; and Publication 5718, Information Returns Intake System (IRIS) Electronic Filing Application To Application (A2A) Specifications.*

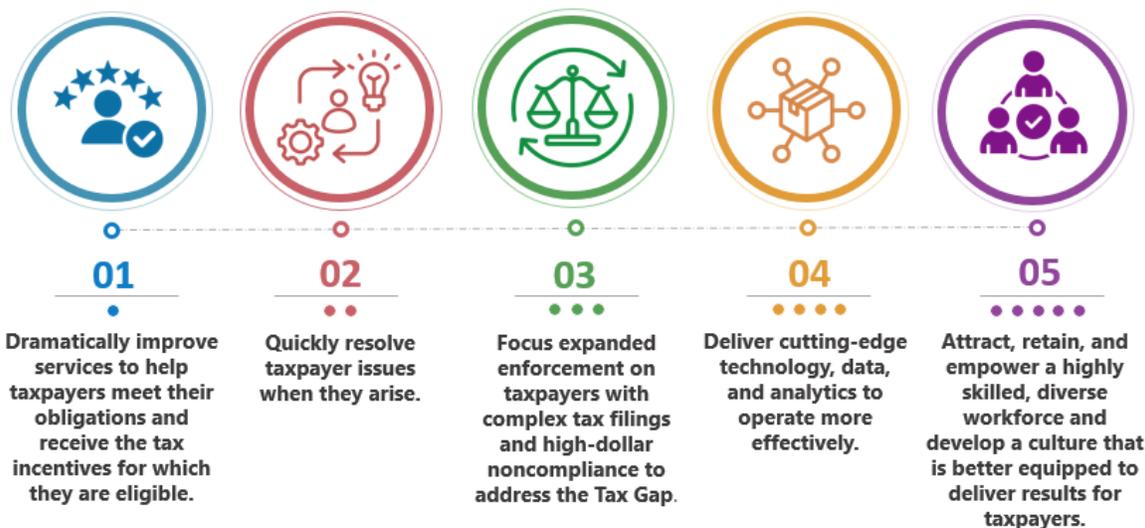
<sup>1</sup> Pub. L. No. 116-25, 133 Stat. 981 (2019) (codified in scattered sections of 26 U.S.C.). Also, see Appendix II for forms accepted for e-filing with IRIS.

<sup>2</sup> See Appendix VI for a glossary of terms.

## **Inflation Reduction Act Strategic Operating Plan (IRA SOP)**

In April 2023, the IRS published the IRA SOP, which includes five objectives that collectively provide a vision for the future of federal tax administration.<sup>3</sup> The IRS incorporated the implementation of IRIS in its efforts to modernize technology as part of Initiative 4.1, *Transform core account data and processing*. Figure 2 outlines the transformation objectives in the IRA SOP.

**Figure 2: IRS Transformation Objectives**



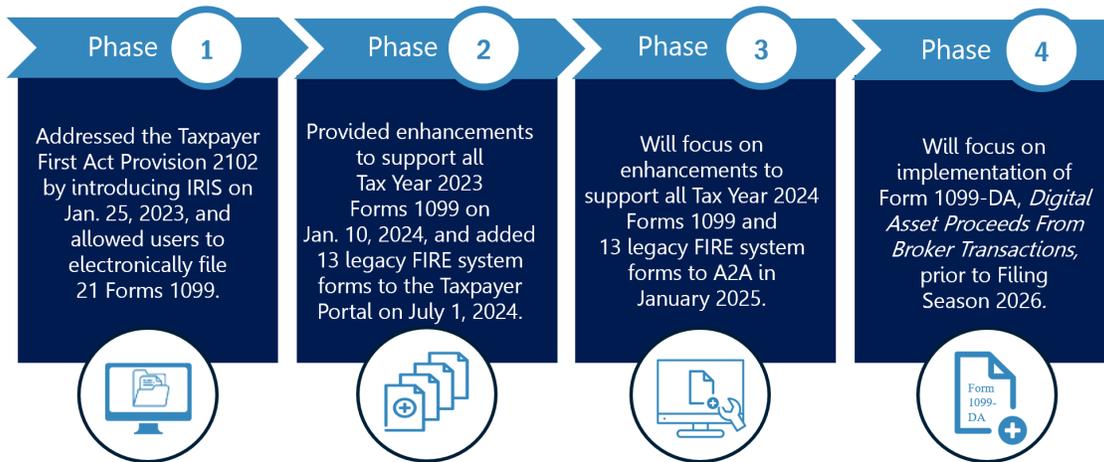
*Source: IRA SOP as of April 2023.*

## **Planned expansion of IRIS**

The implementation of IRIS is a multiphased initiative designed to modernize information returns intake and data processing. For example, during Processing Year (PY) 2023, only the Taxpayer Portal method was available to users, and in PY 2024, the IRS expanded the use of IRIS to accept information returns through both the Taxpayer Portal and A2A submission methods. Currently, the IRS has identified four phases of expansion for the modernization of information returns processing through IRIS. Figure 3 outlines the functionalities and milestones for IRIS.

<sup>3</sup> Publication 3744, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan FY2023 – 2031* (Rev. 04-2023).

**Figure 3: Functionalities and Milestones for IRIS**



Source: Treasury Inspector General for Tax Administration's review of Information Returns Modernization Phase 1 Vision, Scope, and Architecture (effective date: Feb. 2, 2023); Information Returns Modernization Release 2 Vision, Scope, and Architecture (effective date: Aug. 8, 2023); and Program 3-Year Roadmap.

Once fully developed, the IRS expects that IRIS will replace the legacy FIRE system. However, the IRS does not currently have a retirement date for the legacy FIRE system. For PYs 2024 and 2025, taxpayers can use either IRIS or the legacy FIRE system to e-file Forms 1099. The IRS explained that it is running both systems at the same time because there are six legacy FIRE system forms that need to be programmed and implemented in IRIS.<sup>4</sup> Moreover, the retirement of the legacy FIRE system depends upon the IRS's ability to modernize its information returns database that will store all processed information returns.

### Changes to e-filing requirements

In February 2023, and consistent with Section 2301 of the Taxpayer First Act, the Department of the Treasury issued final regulations providing taxpayers with the requirements for e-filing specified returns and other documents.<sup>5</sup> Generally, a taxpayer filing 10 or more returns or statements (previously 250) in a calendar year will be required to e-file in Calendar Year 2024. This new threshold includes information returns, such as the Forms 1099 series, Forms W-2, and Affordable Care Act Forms 1094 series and Forms 1095-C, *Employer-Provided Health Insurance Offer and Coverage*, among others. The IRS reported that because of this new e-file requirement, the volume of paper-filed income information returns decreased in Calendar Year 2024. For example, paper-filed income information returns decreased 45 percent from 25.9 million the prior processing year to 14.2 million, as of Sept. 30, 2024.

<sup>4</sup> The six remaining forms are Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, Form 8027, *Employer's Annual Information Return of Tip Income and Allocated Tips*, Form 8508, *Application for a Waiver from Electronic Filing of Information Returns*, Form 8596, *Information Return for Federal Contracts*, Form 8809, *Application for Extension of Time to File Information Returns*, and Form 8955-SSA, *Annual Registration Statement Identifying Separated Participants with Deferred Vested Benefits*. For Form 8809, an additional extension request (a second extension) will also need to be programmed in IRIS.

<sup>5</sup> Treasury Decision (TD) 9972 RIN 1545-BN36, *Electronic Filing Requirements for Specified Returns and Other Documents*, Final Regulation.

## **Results of Review**

### **Actions Taken to Implement the Information Returns Intake System**

As of May 2024, the IRS received more than 12.4 million Forms 1099 through IRIS compared to 67,000 in all of PY 2023. Of these, about 10.2 million Forms 1099 were transmitted by 21 transmitters through the A2A method and more than 2.2 million Forms 1099 were transmitted by 31,629 transmitters through the Taxpayer Portal. In comparison, the IRS received about 463.5 million Forms 1099 through the legacy FIRE system.



IRIS accepts 21 variations of Form 1099. Of the 12.4 million received, about 10.3 million (83 percent) were Form 1099-NEC.

### **Process for obtaining secure access to IRIS**

To ensure system security, the IRS requires users to complete several steps to access IRIS. Users must:

- Validate their identity using the IRS's Credential Service Provider.
- Register and create an Electronic Services account and personal identification number.
- Obtain a Transmitter Control Code (TCC) to submit information returns.<sup>6</sup>

These are the same three steps needed to access the legacy FIRE system. In addition, A2A users must obtain an Application Program Interface client identification number.

To create an account through the IRS's Credential Service Provider for the first time, each user must use an email, set up Multi-Factor Authentication, verify their identity, and consent to share identity information with the IRS to access its site. Anyone with an existing account from another government agency can sign in with their existing credentials. Taxpayers may request a TCC at any time but should allow up to 45 calendar days for application processing. The IRS advised that it generally takes 24 to 48 hours for application processing. As of September 2024, the IRS reported 76,794 active IRIS TCCs.

### **Communication and outreach efforts to engage stakeholders**

The IRS established tools to share with and assist stakeholders in using IRIS, including:

- Conducting forums and engaging with organizations to introduce and provide updates about IRIS. These organizations include state tax administrators and others within the payroll industry.
- Holding monthly IRIS working group meetings with state participants, tax return transmitters and preparers, and software developers. These meetings provide IRIS-related information to help users avoid filing errors, address any known issues or workarounds, and provide important filing dates and deadlines. The IRS began these meetings in September 2023 and plans to continue them. In addition, the IRS gathers questions during the working group meetings and posts answers to IRS.gov/IRIS. The IRS

---

<sup>6</sup> The purpose of the TCC is to request authorization to participate in e-filing of information returns through IRIS.

stated that it received more than 700 questions between September 2023 and September 2024.

- Establishing a centralized repository on IRS.gov/IRIS to provide one source for IRIS-related information, such as system availability and solutions to known issues.
- Offering stakeholders the ability to receive QuickAlerts. The IRS issued 35 IRIS QuickAlerts from August 2023 through October 2024. For example, a QuickAlert was issued to inform users that Tax Year 2024 IRIS schema and business rules were available through the Secure Object Repository mailbox. The schema and business rules help software developers test the transmissions of Tax Year 2024 information returns prior to Filing Season 2025.
- Creating and updating five publications, including for certain information returns, and general instructions related to IRIS for Tax Year 2023.

### **Information Technology Challenges Were Identified and Addressed, While Some Led to Processing Delays**

The IRS experienced some information technology challenges implementing IRIS. Some of these challenges included a lack of error codes available to validate paper-filed information returns and insufficient capacity to process the volume of information returns. In addition, some users experienced issues with IRIS, including delays loading web pages, leading up to the Jan. 31, 2024, peak processing time frame. While the IRS has taken actions to address these challenges, some concerns remain.

### **Changes are needed to identify errors on paper-filed information returns**

Prior to accepting the submission of information returns for processing, IRIS scans for viruses and other malware, and checks the file structure and schema. The IRS also established business rules to evaluate the accuracy of e-filed/submitted information returns. As of March 2024, the IRS had the following 161 business rules to perform multiple levels of validations:

- 24 transmission-level rules to validate transmitter information and the TCCs, and identify duplicate transmissions.
- 64 submission-level rules to validate the completeness of the submission, *e.g.*, an issuer/payer Taxpayer Identification Number is provided on each Form 1099.
- 73 form-level rules to evaluate the accuracy of the information on each Form 1099. As a hypothetical example, [REDACTED]

We reviewed 38 of the 73 form-level business rules and found that 37 of the 38 rules were working as intended.<sup>7</sup> One rule was not working as intended. However, IRS management indicated that they were aware of and took actions to correct the rule. See Appendix III for a list of the business rules we reviewed.

**Recommendation 1 (Alert):** In August 2024, we notified the Director, Examination Case Selection, Small Business/Self-Employed Division, of our concern that the business rule that performed a validity check on the gross proceeds amount reported on Form 1099-S, *Proceeds From Real Estate Transactions*, was not working as intended. Our analysis identified 13 of 20 records erroneously rejected or were identified as errors by IRIS. We recommended that the IRS request programming changes to prevent Forms 1099-S from being rejected or incorrectly identified as errors.

**Management's Response to Alert:** The IRS agreed the rule was not working as intended and noted that the business rule change was previously implemented in June 2024.

## **The IRS has not sufficiently addressed changes needed to identify errors on paper-filed Forms 1099**

Paper-filed Forms 1099 are scanned into the Service Center Recognition/Image Processing System (SCRIPS) and are validated by IRIS. Thus, it is important that when the IRS developed IRIS, it programmed the legacy Error Resolution System (ERS) criteria to identify errors on paper-filed Forms 1099 submitted through IRIS.

Our analysis identified 17 ERS rules included in the legacy ERS processing that were either not included in (9 instances) or were different from (8 instances) IRIS processing criteria.<sup>8</sup> Missing or incorrect business rules can result in inaccurate submissions of Forms 1099 to the IRS. It can also lead to taxpayer burden if the information returns are accepted and meet ERS criteria. These information returns are suspended from processing for a tax examiner to correct, which may delay processing. Additional taxpayer burden could occur if a taxpayer's return is selected for post-processing compliance treatment due to the comparison of the inaccurate Form 1099 to the taxpayer's tax return.

**Recommendation 2 (Alert):** In April, 2024, we notified the Director, Submission Processing, Taxpayer Services, of our concerns with the missing and inconsistent criteria used by IRIS to process paper-filed Forms 1099. We recommended that the IRS request programming changes, if needed, to ensure that IRIS business rules are using the same criteria as the legacy ERS.

**Management's Response to Alert:** IRS management partially agreed with the recommendation and stated that programming changes were implemented in January 2025, for Filing Season 2025 for 10 of the business rules, including the 8 inconsistent business rule conditions and 2 of the Legacy ERS Business rules missing from IRIS (see appendix IV). IRS management also stated that while the remaining seven

---

<sup>7</sup> We selected a judgmental sample of 38 form-level business rules. These rules were associated with the top 11 Forms 1099 with the highest volumes filed through IRIS as of May 16, 2024. We reviewed each of the business rules associated with the selected forms. A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

<sup>8</sup> See Appendix IV for details of the conditions we reported to the IRS.

Legacy ERS Business rules missing from IRIS are important, they believe tax administration is best serviced by a holistic review of the information returns intake process and any further improvements will be balanced with other competing priorities.

**Office of Audit Comment:** IRS management indicated that they would need to balance making further improvements with other competing priorities. Their corrective action to implement programming changes to the 10 business rules satisfies the intent of our recommendation.

### **Formatting errors delayed the processing of paper-filed information returns**

In April 2024, IRS management instructed employees to stop processing paper-filed Forms 1099 through SCRIPS until further notice. This work stoppage occurred because the data from the Forms 1099 could not be output/sent from SCRIPS to IRIS. IRS management explained that IRIS will only accept a paper-filed Form 1099 if the data, *i.e.*, field length, data type, allowable values in a field, *etc.*, are perfectly aligned. The IRS deployed several corrective patches from May through August 2024 to address the errors. In August 2024, the SCRIPS and IRIS interface was successfully implemented, and IRS employees were instructed to begin processing paper-filed Forms 1099.

Through September 2024, the IRS processed 5.7 million Forms 1099, with 8.5 million remaining to be processed by the end of the calendar year. According to IRS management, they completed processing of the remaining paper-filed information returns as of November 2024.

### **IRIS users experienced system delays leading up to the peak processing time frame**

As previously noted, both the Taxpayer Portal intake and A2A filing methods could be used during PY 2024; however, IRIS only accepted certain Forms 1099 for processing.<sup>9</sup> The IRS originally estimated the capacity of IRIS for the receipt of about 1.3 billion forms during PY 2024. As of May 2024, the IRS received more than 12.4 million (1 percent) of the 1.3 billion forms. Even with this smaller volume, IRIS users experienced issues with the system, including delays loading web pages leading up to the Jan. 31, 2024, due date for Forms 1099. There were about 10.3 million Forms 1099-NEC processed through IRIS.

As part of its internal system monitoring IRIS, the IRS became aware of performance issues and a schema error with IRIS near the filing due date and made corrections within 48 hours. Specifically, the IRS implemented enhancements to improve the capacity of both the Taxpayer Portal and A2A submissions. The IRS also updated the schema validation. The issues that the IRS addressed were:

- Pages not loading and other performance issues, *e.g.*, transmissions by large bulk filers stuck in processing and suspended due to a large volume of form submissions.
- Special characters in taxpayer names not being recognized during processing, leading to name and Taxpayer Identification Number mismatches during the schema validation.

As a long-term solution, the IRS added more system resources to improve the performance of the Taxpayer Portal. Since deploying this solution, IRS management stated that there have been no instances of IRIS crashing, failing, or needing to be restarted. Although IRS management

---

<sup>9</sup> See Appendix II for forms accepted for e-filing with IRIS.

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

---

expressed that they were confident their corrective actions would mitigate similar issues in the future, they noted that they will continue to monitor IRIS's performance.

However, we note that the Taxpayer Portal has not been tested with a similar peak processing volume of Forms 1099 since the IRS took its corrective action. Moreover, we are concerned that there will be increased volumes of information return submissions due to recent legislative changes. For example, the American Rescue Plan Act of 2021 changed reporting requirements for third-party payment platforms, such as some online marketplaces that connect users to goods and services.<sup>10</sup> These third-party payment platforms must report payments that exceed \$600 annually, regardless of the number of business transactions on Form 1099-K, *Payment Card and Third Party Network Transactions*. Originally scheduled to become effective for Tax Year 2022, the IRS delayed implementation of these new reporting requirements until Tax Year 2024, to allow the third-party payment platforms time to prepare for and adopt the new reporting requirements. The IRS estimates that this requirement would result in the receipt of more than 21 million Forms 1099-K in Tax Year 2024. We plan to conduct a review to evaluate the impact of delayed implementation and how the IRS will use the data to identify noncompliance and prevent taxpayer burden.<sup>11</sup>

In addition, the Infrastructure Investment and Jobs Act of 2021 includes specific requirements for the reporting of digital assets, *e.g.*, cryptocurrency.<sup>12</sup> In June 2024, the Department of the Treasury and the IRS issued final regulations on reporting by brokers on the sale or exchange of digital assets. The new reporting requirements phase in over time, starting with the requirement that gross proceeds are reported to the IRS on a new Form 1099-DA, *Digital Asset Proceeds From Broker Transactions*, beginning with transactions on or after Jan. 1, 2025.<sup>13</sup> Brokers will need to report basis on certain transactions on or after Jan. 1, 2026. As of October 2024, the IRS estimates that 500 million Forms 1099-DA will be filed by custodial brokers for Tax Year 2025.<sup>14</sup> This is in addition to the estimated 5.4 billion Forms 1099 to be filed during Calendar Year 2024.

Monitoring IRIS's performance and confirming that there is sufficient capacity to process the additional volumes of information returns will continue to be of importance to ensure that transmitters do not experience unnecessary delays.

---

<sup>10</sup> Pub. L. No. 117-2, 135 Stat. 4 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.).

<sup>11</sup> Treasury Inspector General for Tax Administration, Audit No. 2025300017, *Form 1099-K Reporting Changes and Implementation Delays*.

<sup>12</sup> Pub. L. No. 117-58 (2021), 135 Stat. 1339.

<sup>13</sup> 26 CFR Parts 1, 31, and 301 [TD 10000], RIN 1545-BP71 *Gross Proceeds and Basis Reporting by Brokers and Determination of Amount Realized and Basis for Digital Asset Transactions*.

<sup>14</sup> The IRS anticipates that this estimate will increase as the noncustodial regulations become effective.

## **Appendix I**

### **Detailed Objective, Scope, and Methodology**

The overall objective of this audit was to assess the IRS's efforts to modernize information returns processing by implementing an internet-based platform for Forms 1099. To accomplish our objective, we:

- Assessed the IRS's outreach and assistance to IRIS users, including monitored the IRS's QuickAlerts and public websites, and attended monthly IRIS working group meetings for any IRIS issues or concerns.
- Evaluated the effectiveness of business rules to ensure that they are working as intended when Forms 1099 are filed and ensured that accepted information returns are processed and recorded accurately. We selected a judgmental sample of 38 of the 73 form-level business rules. These 38 form-level business rules were associated with the top 11 Forms 1099 with the highest volumes filed through IRIS as of May 16, 2024.<sup>15</sup> We used a judgmental sample to focus on the rules associated with forms having the highest volume filed.
- Assessed the IRS's consideration of capacity needs and other challenges on the implementation of IRIS and related information modernization efforts.

#### **Performance of This Review**

This review was performed with information obtained from IRS personnel within the Small Business/Self-Employed Division in Washington, D.C.; Office of Information Technology in Washington, D.C.; and Taxpayer Services (formerly the Wage and Investment Division) in Atlanta, Georgia, during the period October 2023 through November 2024. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

#### **Data Validation Methodology**

During this review, we relied on data extracts of the IRIS database provided by the IRS. We evaluated the data by performing electronic testing of required data elements and selecting random samples to verify against the IRS's Customer Service Representative Portal and Integrated Data Retrieval System. We determined that the data were sufficiently reliable for purposes of this review.

#### **Internal Controls Methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for

---

<sup>15</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

---

planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's communication and customer support for IRIS, and processes and procedures for validating entities and assigning the TCCs. We evaluated these controls by reviewing the IRS's processes and procedures for IRIS processing; reviewing the Internal Revenue Manual; holding discussions with IRS management; and reviewing other relevant documentation obtained from the IRS.

## **Appendix II**

### **Forms Currently Accepted for Electronic Filing With the Information Returns Intake System**

Beginning Jan. 23, 2023, the following forms are accepted for e-filing with IRIS:

- Form 1099-A, *Acquisition or Abandonment of Secured Property.*
- Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions.*
- Form 1099-C, *Cancellation of Debt.*
- Form 1099-CAP, *Changes in Corporate Control and Capital Structure.*
- Form 1099-DIV, *Dividends and Distributions.*
- Form 1099-G, *Certain Government Payments.*
- Form 1099-H, *Health Coverage Tax Credit (HCTC) Advance Payments.*
- Form 1099-INT, *Interest Income.*
- Form 1099-K, *Payment Card and Third Party Network Transactions.*
- Form 1099-LTC, *Long-Term Care and Accelerated Death Benefits.*
- Form 1099-LS, *Reportable Life Insurance Sale.*
- Form 1099-MISC, *Miscellaneous Information.*
- Form 1099-NEC, *Nonemployee Compensation.*
- Form 1099-OID, *Original Issue Discount.*
- Form 1099-PATR, *Taxable Distributions Received From Cooperatives.*
- Form 1099-Q, *Payments From Qualified Education Programs (Under Sections 529 and 530).*
- Form 1099-QA, *Distributions From ABLE Accounts.*
- Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*
- Form 1099-S, *Proceeds From Real Estate Transactions.*
- Form 1099-SA, *Distributions From an HSA, Archer MSA, or Medicare Advantage MSA.*
- Form 1099-SB, *Seller's Investment in Life Insurance Contract.*

Beginning on July 1, 2024, the following information returns were added to the Taxpayer Portal submission method for Tax Year 2023:

- Form 1097-BTC, *Bond Tax Credit.*
- Form 1098, *Mortgage Interest Statement.*
- Form 1098-C, *Contributions of Motor Vehicles, Boats, and Airplanes.*

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

---

- Form 1098-E, *Student Loan Interest Statement*.
- Form 1098-F, *Fines, Penalties, and Other Amounts*.
- Form 1098-Q, *Qualifying Longevity Annuity Contract Information*.
- Form 1098-T, *Tuition Statement*.
- Form 3921, *Exercise of an Incentive Stock Option Under Section 422(b)*.
- Form 3922, *Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c)*.
- Form 5498, *IRA Contribution Information*.
- Form 5498-ESA, *Coverdell ESA Contribution Information*.
- Form 5498-SA, *HSA, Archer MSA, or Medicare Advantage MSA Information*.
- Form W-2G, *Certain Gambling Winnings*.

## Appendix III

### Application to Application/Taxpayer Portal Business Rules

Figure 1 presents a description of the 38 A2A/Taxpayer Portal business rules we reviewed for the 2024 Filing Season.

**Figure 1: Business Rules Reviewed for the 2024 Filing Season**

Count	Business Rule	Description
1	[REDACTED]	[REDACTED]
2	[REDACTED]	[REDACTED]
3	[REDACTED]	[REDACTED]
4	[REDACTED]	[REDACTED]
5	[REDACTED]	[REDACTED]
6	[REDACTED]	[REDACTED]
7	[REDACTED]	[REDACTED]
8	[REDACTED]	[REDACTED]
9	[REDACTED]	[REDACTED]
10	[REDACTED]	[REDACTED]
11	[REDACTED]	[REDACTED]
12	[REDACTED]	[REDACTED]
13	[REDACTED]	[REDACTED]
14	[REDACTED]	[REDACTED]

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

Count	Business Rule	Description
15	[REDACTED]	[REDACTED]
16	[REDACTED]	[REDACTED]
17	[REDACTED]	[REDACTED]
18	[REDACTED]	[REDACTED]
19	[REDACTED]	[REDACTED]
20	[REDACTED]	[REDACTED]
21	[REDACTED]	[REDACTED]
22	[REDACTED]	[REDACTED]
23	[REDACTED]	[REDACTED]
24	[REDACTED]	[REDACTED]
25	[REDACTED]	[REDACTED]
26	[REDACTED]	[REDACTED]
27	[REDACTED]	[REDACTED]
28	[REDACTED]	[REDACTED]
29	[REDACTED]	[REDACTED]
30	[REDACTED]	[REDACTED]
31	[REDACTED]	[REDACTED]
32	[REDACTED]	[REDACTED]
33	[REDACTED]	[REDACTED]
34	[REDACTED]	[REDACTED]
35	[REDACTED]	[REDACTED]

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

Count	Business Rule	Description
36	[REDACTED]	[REDACTED]
37	[REDACTED]	[REDACTED]
38	[REDACTED]	[REDACTED]

*Source: Treasury Inspector General for Tax Administration's analysis of IRIS business rules requirements as of March 5, 2024.*

## Appendix IV

### Business Rule Issues Identified for Paper-Filed Information Documents

Our analysis identified nine legacy ERS business rules that are missing from IRIS for the processing of paper-filed information documents. We also identified eight existing IRIS business rules that are not using the same criteria as the legacy error conditions. Figure 1 shows the business rules that are missing from IRIS. Figure 2 shows the existing business rules that are not using the same criteria as the legacy error conditions.

**Figure 1: Legacy ERS Business Rules Missing From IRIS**

Count	Information Return	Legacy ERS Rule Missing From IRIS	IRS Action
1	[REDACTED]	[REDACTED]	[REDACTED]
2	[REDACTED]	[REDACTED]	[REDACTED]
3	[REDACTED]	[REDACTED]	[REDACTED]
4	[REDACTED]	[REDACTED]	[REDACTED]
5	[REDACTED]	[REDACTED]	[REDACTED]

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

Count	Information Return	Legacy ERS Rule Missing From IRIS	IRS Action
6	[REDACTED]	[REDACTED]	[REDACTED]
7	[REDACTED]	[REDACTED]	[REDACTED]
8	[REDACTED]	[REDACTED]	[REDACTED]
9	[REDACTED]	[REDACTED]	[REDACTED]

Source: Treasury Inspector General for Tax Administration's analysis of IRIS business rules requirements as of March 5, 2024, and Internal Revenue Manual 3.12.8, Error Resolution – Information Returns Processing (Rev. 11/6/2023).

**Figure 2: Inconsistent Business Rule Conditions**

Count	Business Rule	IRIS Rule Description	Legacy Error Condition	IRS Action
1	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

Count	Business Rule	IRIS Rule Description	Legacy Error Condition	IRS Action
2	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
3	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
4	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

Count	Business Rule	IRIS Rule Description	Legacy Error Condition	IRS Action
5	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
6	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
7	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
8	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

*Source: Treasury Inspector General for Tax Administration's analysis of IRIS business rules requirements as of March 5, 2024, and Internal Revenue Manual 3.12.8, Error Resolution – Information Returns Processing (Rev. 11/6/2023).*

## Appendix V

### Management's Response to the Draft Report



COMMISSIONER  
SMALL BUSINESS/SELF-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

January 29, 2025

MEMORANDUM FOR DANNY VERNEUILLE  
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Lia Colbert      Amalia C. Colbert  
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Taxpayer First Act: The IRS Implemented the Information Returns Intake System, Although Users Experienced Some Slight Processing Delays During Peak Processing (Audit No.: 2024405009)

Digitally signed by Amalia  
C. Colbert  
Date: 2025.01.29  
16:31:52 -05'00'

Thank you for the opportunity to review and comment on this report. The Taxpayer First Act (TFA) created opportunities for the Internal Revenue Service (IRS) to modernize technology and improve taxpayer experience including the development of the Information Return Intake System (IRIS).

IRIS is a free electronic filing service that is secure, accurate and requires no special software. Taxpayers can use IRIS to create, upload, edit and view information and download completed copies of 1099-series forms for distribution and verification. IRIS offers real-time error checking which can prevent common mistakes before submission and provides immediate confirmation of receipt. Since its initial release in January 2023, we continue to make improvements to IRIS. For example, IRIS can now be used by small and large volume filers offering multiple ways to input data.

Creating and implementing new technology is challenging and often involves delays and setbacks, specifically when integrating new systems with old legacy systems. We appreciate you reviewing the IRIS business rules to verify they were operating as intended. Thank you for acknowledging our efforts to upgrade the existing IRIS business rules and recognizing there are also numerous high-priority non-IRIS IT functionalities requiring implementation. We will continue to modernize information return intake and processing through a multiphase initiative. As noted in your report, with each phase we are adding more forms and delivering incremental performance enhancements to IRIS and the taxpayer experience.

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

---

2

Attached are our comments and proposed actions to your recommendations. If you have any questions, please contact me, or Katherine Fox, Acting Director, Exam Case Selection, Small Business/Self-Employed Division.

Attachment

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

---

Attachment

**RECOMMENDATION 1:**

**(Email Alert):** On Aug. 13, 2024, we notified the Director, E-File Services, of our concern that the business rule that performed a validity check on the gross proceeds amount reported on Form 1099-S, *Proceeds From Real Estate Transactions* was not working as intended. Our analysis identified 13 of 20 records erroneously rejected or were identified as errors by IRIS. We recommended the IRS request programming changes to prevent Forms 1099-S from being rejected or incorrectly identified as errors.

**Management's Response to Email Alert:** The IRS agreed the rule was not working as intended and noted they were already aware of the issue. The IRS implemented the business rule change on June 30, 2024.

**CORRECTIVE ACTION:**

We agreed the rule was not working as intended and had previously implemented the business rule change on June 30, 2024.

**IMPLEMENTATION DATE:**

Implemented

**RESPONSIBLE OFFICIAL:**

Director, Exam Case Selection, Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**

N/A

**RECOMMENDATION 2:**

**(E-Mail Alert):** On April 23, 2024, we notified the Director, Submission Processing, of our concerns with the missing and inconsistent criteria used by IRIS to process paper-filed Forms 1099. We recommended the IRS request programming changes, if needed, to ensure IRIS business rules are using the same criteria as the legacy ERS.

**Management's Response to E-Mail Alert:** IRS management agreed with our assessment and stated that the programming changes will be implemented for Filing Season 2025 on ten business rules. For seven missing business rules, IRS management indicated they will consider adding new rules after a holistic understanding of optimal resolutions and the extent to which resolutions may be automated. However, management noted that it is not a priority item for the Information Technology organization because of a "backlog" of modernization and retirement initiatives.

**CORRECTIVE ACTION:**

We partially agree. Programming changes were implemented on January 6, 2025, for Filing Season 2025 for ten of the business rules, including the eight inconsistent business rule conditions and two of the Legacy ERS Business rules missing from IRIS

**Taxpayer First Act: The IRS Implemented the Information Returns Intake System,  
Although Users Experienced Some Slight Processing Delays During Peak Processing**

---

2

(see appendix IV). While the remaining seven Legacy ERS Business rules missing from IRIS are important, we believe tax administration is best served by a holistic review of the information returns intake process and any further improvements will be balanced with other competing priorities.

**IMPLEMENTATION DATE:**

Implemented

**RESPONSIBLE OFFICIAL:**

Director, Exam Case Selection, Small Business/Self-Employed Division

**CORRECTIVE ACTION MONITORING PLAN:**

N/A

## **Appendix VI**

### **Glossary of Terms**

<b>Term</b>	<b>Definition</b>
Application Program Interface	An application used to authenticate and authorize access to IRIS A2A services for transmitting information returns.
Customer Service Representative Portal	A computer system used to review the status of information return transmissions, submissions, and records transmitted through the IRIS system in the production environment.
Error Resolution System	A real-time computer system used to identify and address paper and e-filed tax and information returns with an error condition.
Integrated Data Retrieval System	IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.
Internal Revenue Manual	Primary source of instructions to employees relating to the administration and operation of the IRS. The Manual contains the directions employees need to carry out their operational responsibilities.
Legacy System	An information system that may be based on outdated technologies but is critical to day-to-day operations. In the context of computing, it refers to outdated computer systems, programming languages, or application software that are used instead of more modern alternatives.
Schema	A template that defines the data fields and formats necessary for the exchange of electronic data between the IRS and third-parties.

## **Appendix VII**

### **Abbreviations**

A2A	Application to Application
CSV	Comma Separated Values
e-file; e-filed	Electronically File; Electronically Filed
ERS	Error Resolution System
FIRE	Filing Information Returns Electronically
IRA SOP	Inflation Reduction Act Strategic Operating Plan
IRIS	Information Returns Intake System
IRS	Internal Revenue Service
PY	Processing Year
SCRIPS	Service Center Recognition/Image Processing System
TCC	Transmission Control Code



**To report fraud, waste, or abuse,  
contact our hotline on the web  
at <https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems  
affecting taxpayers, contact us at [www.tigta.gov/form/suggestions](http://www.tigta.gov/form/suggestions).**

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