TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Snapshot Report: The IRS's Paperless Transition Efforts as of July 2026

September 14, 2026

Report Number: 2026-IE-R015

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Why TIGTA Did This Evaluation

In March 2025, the President signed Executive Order 14247, *Modernizing Payments To and From America's Bank Account*, requiring all federal payments and receipts to be made electronically. However, it acknowledged several exceptions for populations that would face undue hardship from receiving or paying funds electronically.

We initiated this review to provide an update on the steps the IRS has taken to comply with the Executive Order (EO) and eliminate paper check disbursements and receipts. This report provides a snapshot of recent progress and the remaining challenges facing the IRS to achieve full compliance with the EO.

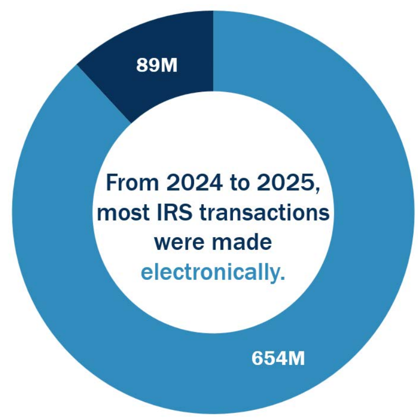
Impact on Tax Administration

Replacing paper checks with electronic transfer will increase efficiency, reduce the risk of fraud, and provide significant cost and time savings to the IRS. These changes are intended to help deliver refunds faster and improve the experience for most taxpayers.

What TIGTA Found

Even prior to implementation of the EO, most individuals and businesses either received refunds electronically or made payments electronically to the IRS. According to IRS records, in Processing Years 2024 and 2025, 654 million out of 743 million (88 percent) total tax transactions were made electronically. Specifically:

- 81 percent of individual payments and 85 percent of individual refunds were electronic.
- 97 percent of business payments were electronic, but only 0.7 percent of business refunds were electronic. However, business refunds (approximately 5 million) were less than 1 percent of the 743 million total tax transactions.



We found that the IRS is making progress helping more individual and business taxpayers conduct their transactions electronically. For example, the IRS redesigned several relevant business tax forms to enable taxpayers to input their bank account information and updated notices and online services to help individual taxpayers understand the EO and how to comply.

However, there are several challenges the IRS must overcome to help increase the number of taxpayers that send or receive electronic payments. Some of these challenges are acknowledged in the EO and include taxpayers that are unbanked, hold certain religious beliefs, or have limited access to technology. In addition, the IRS needs to further increase public awareness, modify additional tax forms to allow taxpayers to include bank account information, notify affected business taxpayers, and update tax account features for businesses so they can provide banking information.

This report is informational only. We made no recommendations.

TREASURY INSPECTOR GENERAL
for Tax Administration

DATE: September 14, 2026

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Nancy A. LaManna
Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Evaluation Report – Snapshot Report: The IRS's Paperless Transition Efforts as of July 2026 (Evaluation No.: IE-26-004)

This report presents the results of our review to assess actions the Internal Revenue Service has taken to comply with Executive Order 14247, *Modernizing Payments To and From America's Bank Account*. This evaluation is part of our Fiscal Year 2026 Annual Program Plan and addresses the major management and performance challenge of *Improving Operational Efficiencies*.

This report is informational only. We made no recommendations. If you have any questions, please contact me or Frank O'Connor, Director, Inspections and Evaluations.

Table of Contents

Background

Executive Order 14247, *Modernizing Payments To and From America's Bank Account* issued in March 2025, requires all federal payments and receipts to be made electronically. By September 30, 2025, agencies must discontinue disbursing paper checks, including intragovernmental benefits, vendor payments, and tax refunds where legally permissible.

The U.S. Department of the Treasury (Treasury) was directed to shift toward Electronic Funds Transfer (EFT) options such as direct deposit, prepaid debit cards, and other digital payment methods. Additionally, Treasury was tasked with ensuring that eligible taxpayers are enrolled for EFT payments.

The Executive Order (EO) acknowledged several exceptions for populations that would face undue hardship using EFT. The White House directed the Secretary of the Treasury to review and revise procedures for granting exceptions to taxpayers when electronic payment and collection methods are not feasible, including exceptions for:

- Individuals who do not have access to banking services or electronic payment systems.
- Certain emergency payments where electronic disbursement would cause undue hardship.
- National security- or law enforcement-related activities where non-EFT transactions are necessary or desirable.
- Other circumstances as determined by the Secretary of the Treasury, as reflected in regulations or other guidance.

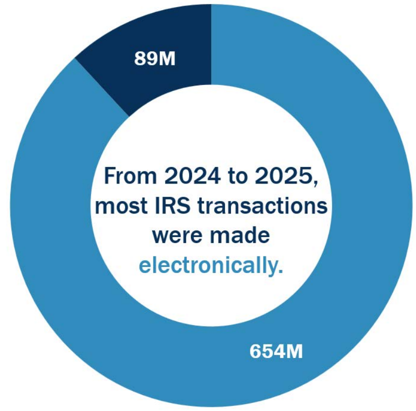
Individuals or entities that qualify for an exception under the EO or other applicable law can continue sending and receiving paper payments and refunds. In October 2025, the Taxpayer Advocate Service issued guidance to help taxpayers, among other things, understand how the EO will affect them and circumstances that would enable them to be excepted from the requirement. The Taxpayer Advocate Service noted that Treasury's authority to approve limited exceptions must be used "proactively, compassionately, and with stakeholder input."

The EO also directed Treasury and the IRS to develop and implement a comprehensive public awareness campaign. The campaign was to inform federal payment recipients about the transition to electronic payments and include guidance on accessing and setting up digital payment options. In addition, Treasury was required to work with financial institutions and stakeholders to address financial access provisions for unbanked and underbanked populations.

We initiated this review to provide an update on IRS efforts to comply with the EO. This report provides information on recent progress and the remaining challenges that the IRS faces to achieve full compliance with the order.

Results of Review

Even prior to implementing the EO, most IRS transactions were being processed electronically.[1] In Processing Years (PY) 2024 and 2025, 654 million out of 743 million (88 percent) transactions were conducted electronically. Specifically:



Individual taxpayers

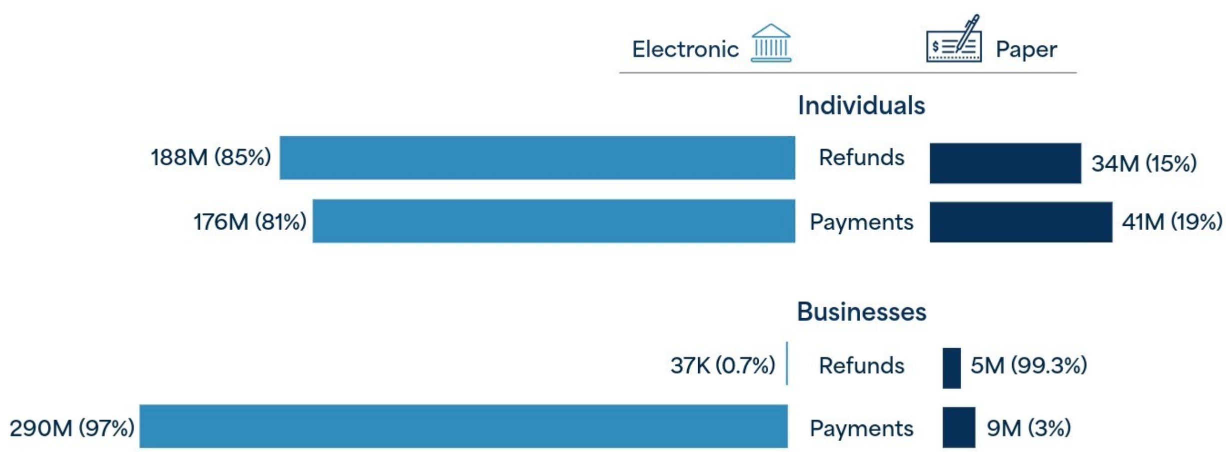
- 176 million out of 217 million (81 percent) payments and 188 million out of 222 million (85 percent) of refunds were electronic.

Business taxpayers

- 290 million out of 298 million (97 percent) payments were electronic, but only 37,000 out of 5 million (0.7 percent) refunds were electronic. However, business refunds accounted for less than 1 percent of the 743 million transactions.

Figure 1 shows the combined number of transactions for individual and business taxpayers in PYs 2024 and 2025 and the percentage of those transactions that were electronic vs paper.

Figure 1: Individual Taxpayers Accounted for Most Paper Transactions in PY 2024 and PY 2025



Source: TIGTA analysis of IRS data.

IRS's Efforts to Help Taxpayers Convert to Electronic Payments

The IRS's efforts to help taxpayers comply with the EO continues a longstanding effort to increase taxpayers' use of electronic transactions. Over the years, the IRS has worked to develop and encourage taxpayers to file tax returns, make payments, and receive refunds electronically. Despite these efforts, the IRS still receives millions of paper checks from taxpayers and issues millions of tax refunds via paper check.

[1] The term "transactions" refers to payments and refunds, received and issued, for Processing Years 2024 and 2025. The transactions were classified as either paper or electronically generated.

Regarding the EO, we found that the IRS is making progress helping more individual and business taxpayers to conduct their transactions electronically. For example, the IRS redesigned several relevant business tax forms to enable taxpayers to input their bank account information and updated notices and online services to help individual taxpayers understand the EO and how to comply.

However, there are several challenges that the IRS must overcome to help increase the number of taxpayers that send or receive electronic tax transactions. Some of these challenges are acknowledged in the EO and include taxpayers that are unbanked, hold certain religious beliefs, or have limited access to technology. In addition, the IRS needs to further increase public awareness, modify additional tax forms to allow taxpayers to include bank account information, notify affected business taxpayers, and update tax account features for businesses so that they can provide banking information.

Implementation Plan Developed to Further Eliminate Paper Transactions

The EO required full compliance within six months of the directive's announcement. IRS officials stated that compliance with the EO was aligned with the start of the filing season in January 2026. According to Treasury's implementation plan, the IRS planned to prioritize form updates, conduct a media campaign, update notices and online accounts, and establish procedures for processing exceptions.[2]

The implementation plan also introduced the *IRS 3-Year Phased Plan* to eliminate paper checks. Figure 2 provides a summary of this plan and its phased approach for further eliminating paper transactions.

[2] Department of the Treasury, *America's Bank Account Executive Orders – 180 Day Implementation Reports* (September 2025).

Figure 2: The IRS 3-Year Plan

2026	2027	2028
• Update Individual Online Accounts to capture banking, waiver, or consent for debit card/bank harvesting. • Update business forms to capture banking information. • Pause refunds without banking information on individuals. • Leverage tax industry and associated financials to promote direct deposit. • Seek to pilot new payment options such as peer-to-peer payment vendors.	• Leverage learnings from 2026 waiver request and build business rules to reduce friction for banking information. Examples: Religious, International, Cannabis, Age, etc. • Expand direct deposit requests for additional form types including Amended Returns, Form 8849 Request for Excise Tax Refunds. • Explore/Expand updates to Business Online Accounts.	• Continue to reduce exceptions and waivers for direct deposit. Options include exploration of electronic payments for international refunds.

Source: Information received from the IRS.

The IRS developed the CP53E notice and issued it to taxpayers that did not include banking information when they filed their return

The CP53E notice informed taxpayers about new paperless requirements. When a taxpayer does not include direct deposit bank account information on their tax return, they will receive a CP53E notice, which gives them 30 days to update this information in their online account. As of May 2026, according to the Government Accountability Office, the IRS issued more than 4.2 million CP53E notices to taxpayers.

The notice includes a phone number to an automated phone line with answers to common questions, but it does not connect them with a customer service agent. However, there is a Quick Response (QR) code on the notice that directs the taxpayer to their online account where they can update bank account information. Figure 3 shows the March 2026 version of the CP53E notice obtained from the IRS.

Figure 3: IRS Notice CP53E

We couldn't direct deposit your 2024 Form 1040 refund

What you need to know

We couldn't process your direct deposit due to one of the following:

- Your financial institution rejected due to an invalid bank account number.
- A bank account number wasn't provided on your tax return.
- Your bank account could not be validated.

NOTE: When your refund is issued, it may be subject to offset if you have other outstanding liabilities.

What you need to do

You have 30 days to provide us:

- A new or updated bank account number.
- Update your direct deposit information by visiting IRS.gov/Account or use the QR code to access your online account.

Additional information

Note: IRS employees cannot update bank account information.

- Visit IRS.gov/CP53E
- You can contact your financial institution to ask why your direct deposit was rejected.
- Executive Order 14247, mandates the transition to electronic payments for all Federal disbursements, including tax refunds, except under certain circumstances. Refer to IRS.gov/ModernPayments for more information.
- If you can't provide a new or updated bank account number, contact us at 866-325-4066 for more information.

Source: Selection from IRS Notice CP53E from IRS Taxpayer Correspondence Services.

More public outreach to stakeholders and taxpayers could have increased awareness of the EO and reduced confusion with the notice

The IRS met with financial institutions and stakeholder groups, but it did not issue a press release until late September 2025.[3] This announcement came just one week before the EO required full compliance. The announcement stated that paper tax refund checks for individual taxpayers will be phased out, but the IRS did not outline a notification process (that eventually became the CP53E notice) until January 2026. Further, we found limited outreach from the IRS between September 2025 and January 2026.[4] As a result, at the beginning of tax filing season in mid-January 2026, taxpayer awareness of the EO may have been low.

Media reports indicated that the notice had unclear instructions and required taxpayers to go through a process that they could find burdensome. For example, once a taxpayer either signs into or creates an IRS online account, they must verify their identity with a third-party vendor. As of March 28, 2026, the IRS reported that nearly 352,000 taxpayers called the CP53E toll-free line.

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[3] Internal Revenue Service News Release – IR-2025-94 – *IRS to Phase Out Paper Tax Refund Checks Starting with Individual Taxpayers* (September 23, 2025).

[4] We found one piece of additional outreach from the IRS, between September 2025 and January 2026 (released in November 2025), covering the Executive Order and its implications for taxpayers and tax administration.

According to the media reports, some taxpayers had to visit a Taxpayer Assistance Center for help, and some had to open bank accounts and wait several days for their identity to be verified by IRS systems. As a result, some taxpayers' refunds may have been delayed.

Taxpayers may have also confused the 30-day deadline to update their online account with banking information with the IRS's 6-week refund rule, leading them to believe they had to wait 10 weeks for a paper check. According to internal guidance, generally the IRS can hold refunds for up to 45 days from the due date of the return without paying interest on the refund amount. To foster compliance with the EO, the IRS elected to hold refunds for the maximum time allowed for all tax returns that did not have direct deposit information when submitted.

On April 2, 2026, with two weeks left in the filing season, the IRS provided clarity for CP53E notice recipients on actions they should take, as well as statistics of the 2026 Filing Season thus far. According to the IRS, less than 1 percent of individual taxpayers received CP53E notices and 98 percent of refunds had been issued electronically by that time.

Additionally, the QR code on the CP53E notice caused concern amongst practitioners and taxpayers because the IRS has only started to use them in recent years on a limited number of notices. The IRS listed impersonation scams on its 2026 "Dirty Dozen" list and indicated that using QR codes may direct taxpayers to fake IRS websites. As a result, practitioners and taxpayers may be unsure whether the notice and QR codes are legitimate.

In May 2026, the IRS updated the "Understanding your CP53E notice" web page to include information on confirming the legitimacy of a QR code and a link to IRS tips on recognizing tax scams and fraud. Further, the update clarified details that if a taxpayer does nothing in response to the CP53E notice, the IRS will send a paper check after six weeks. The IRS also indicated that it is in the process of redesigning the notice to reduce confusion and provide additional information to taxpayers.

Tax refunds were paused for returns without banking information

According to the IRS, a new feature was introduced to individual online accounts for CP53E notice recipients, allowing them to update their bank information or provide a self-certified exception. Once the taxpayer confirms their bank account, the IRS will issue a refund or process a payment electronically. The IRS will collect the self-certified exceptions for further analysis after the 2026 Filing Season. If no banking information is provided, the IRS will pause a refund and mail a paper check six weeks from when the return was received. As of late March 2026, the IRS granted more than 300,000 exceptions and reported that more than 470,000 taxpayers updated their bank account information using their individual online account.

The IRS stated that business tax account infrastructure is behind individual accounts, as it has not received similar development priority. As a result, there is no notice equivalent to the CP53E notice for business taxpayers or expanded business tax account features.

The IRS updated some business tax forms to include bank account information and revised internal guidance

Before the EO, not all business tax forms had bank account fields. This made it more difficult for taxpayers to choose an electronic payment method. According to the IRS, 69 tax forms required updates prior to the 2026 Filing Season. The IRS stated that it updated 54 forms to include banking information prior to the filing season and plans to update nine amended return forms in PY 2027. The remaining six forms are being indefinitely delayed because the IRS is required to handle transactions relating to these forms manually. The updated forms were predominantly forms used by business taxpayers. For example, Figure 4 illustrates updates made to Form 941, *Employer's QUARTERLY Federal Tax Return*. This form was updated to include bank account details, enabling the IRS to handle transactions electronically.

Figure 4: Example of Tax Form Updated to Include Banking Information

Prior Year

10 **Total taxes after adjustments.** Combine lines 6 through 9 10

11 **Qualified small business payroll tax credit for increasing research activities.** Attach Form 8974 11

12 **Total taxes after adjustments and nonrefundable credits.** Subtract line 11 from line 10 . . 12

13 **Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), or 944-X filed in the current quarter** 13

14 **Balance due.** If line 12 is more than line 13, enter the difference and see instructions . . . 14

15 **Overpayment.** If line 13 is more than line 12, enter the difference Check one: Apply to next return. Send a refund.

You MUST complete both pages of Form 941 and SIGN it.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 17001Z Form **941** (Rev. 3-2024)

Revised

10 **Total taxes after adjustments.** Combine lines 6 through 9 10

11 **Qualified small business payroll tax credit for increasing research activities.** Attach Form 8974 11

12 **Total taxes after adjustments and nonrefundable credits.** Subtract line 11 from line 10 . . 12

13 **Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), or 944-X filed in the current quarter** 13

14 **Balance due.** If line 12 is more than line 13, enter the difference and see instructions . . . 14

15a **Overpayment.** If line 13 is more than line 12, enter the difference **15b** Check one: Apply to next return. Send a refund.

15c Routing number **15d** Type: Checking Savings

15e Account number

You MUST complete both pages of Form 941 and SIGN it.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. *www.irs.gov/Form941* Cat. No. 17001Z Form **941** (Rev. 3-2026) Created 4/1/25

Source: TIGTA Example created from March 2024 and April 2025 versions of Form 941.

Some form updates were intentionally delayed due to manual processing requirements. For example, amended returns and forms used to claim excise refunds require additional processing before a refund or payment is issued.

The IRS began updating its internal guidance to employees to reflect exceptions and accommodations allowed by the EO. Some parts of the Internal Revenue Manual have been updated. The IRS anticipates additional updates after its annual revision in January 2027. In addition, according to IRS officials, they will continue to accept paper check payments for the foreseeable future. The IRS uses lockboxes to deposit taxpayer payments and forward any tax forms or documentation to the IRS. Treasury extended the lockbox contract in two locations until the end of 2027 and eliminated one location in July 2025.

The IRS implemented a process to identify taxpayers that were excepted from the EO

The EO listed several exceptions for populations that would face undue hardship with electronic transactions. To further define exemptions and affected taxpayer populations, in October 2025 the Taxpayer Advocate Service consulted with external stakeholders and recommended certain cases where taxpayers should be exempt from electronic payment requirements for Tax Year 2025 refunds while the IRS explores longer term solutions. Appendix II provides a listing of the Taxpayer Advocate Service's results. We categorized the potential exceptions and grouped them to evaluate their potential effect on IRS compliance efforts. According to the IRS, these exceptions have not been formally defined and could change from year to year.

Bank limitations

The Federal Deposit Insurance Corporation (FDIC) conducted a survey in 2023 and reported:[5]

- 5.6 million American households (4 percent of all households) are unbanked. This means that no household member has a checking or savings account at a bank.
- 19 million households (14 percent of all households) are underbanked, or the household has an active bank account holder who routinely relies on nonbank financial service providers and alternative credit sources.

Most unbanked and underbanked respondents cited minimum deposit requirements and a lack of trust as reasons for not using financial institutions. The IRS has opportunities to address these issues by sending prepaid debit cards to taxpayers that are due a tax refund. IRS also began accepting payments through peer-to-peer payment platforms to offer added flexibility to underbanked taxpayers.

We confirmed that a peer-to-peer payment system would work by successfully making an estimated payment. However, we did not confirm that the IRS piloted any new or different payment options, or whether peer-to-peer account information can be used for electronic refunds.

Religious beliefs

The EO acknowledges exceptions based on religious beliefs. Taxpayers may be exempt from the EO's requirements if using electronic transactions conflict with sincerely held religious beliefs. For example, certain Amish and Mennonite taxpayers do not use electronic financial transactions. The IRS plans to review this exception category after the 2026 Filing Season to evaluate how many people are affected and consider any legal and ethical challenges that might arise from requiring electronic transactions.

Limited access to technology

Taxpayers with limited access to technology must be considered before eliminating the use of paper checks. According to stakeholders, taxpayers who are imprisoned, disabled, or have limited access to technology must have alternatives to meet their obligations. The IRS must find a way to bring these individuals into compliance while avoiding undue burdens on them.

[5] Federal Deposit Insurance Corporation, *2023 FDIC National Survey of Unbanked and Underbanked Households* (November 2024).

If a taxpayer is unable to receive a refund or make a payment electronically, they must select an exception reason in their online account portal. According to IRS officials, exceptions to the EO include:

- Populations that are unbanked and have limited access to a financial institution.
- Sincerely held religious beliefs preventing the use of EFT.
- Imprisoned taxpayers, and taxpayers with health conditions preventing reliance on technology, have limited access to technology, and are otherwise subject to conditions that prevent them from using electronic transmissions.

As previously mentioned, as of March 30, 2026, the IRS has granted 300,537 exceptions for taxpayers, as follows:

- 261,816 (87 percent) taxpayers using existing data available to the IRS, *e.g.*, prisoners, international taxpayers, *etc*. These taxpayers were not sent a CP53E notice.
- 14,373 (5 percent) taxpayers through a telephone call.
- 12,203 (4 percent) taxpayers through their Individual Online Account.
- 12,145 (4 percent) taxpayers due to failed account verification.

The IRS intends to use updated data from online accounts to monitor exception responses to CP53E notices. With this information, the IRS plans to clarify the scope of each exception category and develop an approach to address each one after the 2026 Filing Season. However, the IRS must recognize that some taxpayers may have difficulty claiming an exception. For example, taxpayers with limited access to technology may have difficulty creating an online account.

This report was written for informational purposes only. We are not making any recommendations. However, our Office of Audit is conducting a more in-depth review regarding the volume of notices and exceptions for the 2026 Filing Season.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the IRS's progress in complying with EO 14247. To accomplish our objective, we:

- Researched EO 14247, IRS policies and guidance, and federal laws surrounding paper check issuance/acceptance.
- Assessed the IRS's progress in implementing EO 14247.
- Identified any outstanding challenges that remain in complying with the EO.
- Analyzed the volume of paper and electronic transactions in the IRS's Business Master File and Individual Master File and stratified the transactions by category.

This review was performed with information obtained from IRS Taxpayer Services located in Atlanta, Georgia, during the period of September 2025 through July 2026.

We conducted this evaluation in accordance with the *Quality Standards for Federal Offices of Inspector General*. Those standards require that the work adheres to the professional standards of independence, due professional care, and quality assurance and followed procedures to ensure accuracy of the information presented. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Data Validation Methodology

We performed tests to assess the reliability of data from the TIGTA Data Center Warehouse, as well as the IRS Centralized Data Warehouse. We evaluated the data by performing electronic testing of required data elements. We determined that the data were sufficiently reliable for the purposes of this report.

Appendix II

Examples of IRS Exceptions From Electronic Payment Criteria

Exception	Description
Bank Limitations	
Cost of Bank Accounts	No bank account due to high fees based on financial institutions risk assessment/balance requirements.
Limited or no access to banking	Residing in areas lacking the physical or digital infrastructure required for electronic payments or unable to get a bank account due to negative banking history.
International bank accounts	Living abroad, particularly whose bank accounts have a foreign routing number limiting the IRS's ability to electronically transmit refunds.
ITIN holders	Banking limitations due to the need to have a Social Security Number.
Religious Exception	
Religious Beliefs	Specific religious belief or tenet that prevents taxpayers from accepting electronic payments.
Limited Access to Technology	
Incarcerated taxpayers	Imprisoned taxpayers who cannot execute electronic banking transactions.
Disability	Physical or psychological conditions preventing electronic banking management.
Use Digital or Mobile Payments	Taxpayers that do not use traditional banking but use mobile payment applications.
Age (Minor or Elderly)	Minors under the age of 18 or elderly and unable to manage electronic transactions.

Appendix III

Abbreviations

EFT	Electronic Funds Transfer
EO	Executive Order
FDIC	Federal Deposit Insurance Corporation
IRS	Internal Revenue Service
QR code	Quick Response code
TIGTA	Treasury Inspector General for Tax Administration
Treasury	U.S. Department of the Treasury

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.

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