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### IRS Modernization – Preparing Clients

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## IRS Modernization – Preparing Clients

Internal Revenue Service (IRS) procedures seem to be outdated due to a lack of technology. On a good day, one can call the IRS and only wait on hold for an hour or two before speaking to an agent who may request a form be faxed. A tax professional may have spent half their workday by the time the situation is resolved or a plan of action has been established. It is no secret the IRS has had many setbacks the past 10 years including budget cuts, employment drops and workload increases. The budget declined by 17% from 2010 to 2018. Full-time equivalent employees dropped 36% from 1989 to 2018, with the number of returns filed annually steadily rising for the past 20 years, going from 130.97 million in 2001 to 169.1 million in 2020 (Tax Policy Center, 2020). Additionally, the COVID-19 pandemic created a major backlog, leaving 21.3 million unprocessed paper returns at the end of May 2022.

In response to the previous declining budgets and backlog, the Inflation Reduction Act was signed into law, providing a budget increase of \$80 billion over the next 10 years to the IRS in August 2022. The IRS released its Strategic Operating Plan explaining how they intend to use the funds over the next 10 years in April 2023. Commissioner Danny Werfel revealed the objectives of the plan, which includes an emphasis on improving services for the taxpayers, resolving taxpayer issues quickly and utilizing technology to operate more efficiently (IRS, 2023). While the debt ceiling increase had put a strain on the increased budget, the IRS is still moving along with its many innovations. Tax professionals must stay informed about IRS process changes to assist our clients in the best possible way.

### How has the IRS evolved already?

The IRS has already made many technological advances since the 1990s. We have listed some of these below:

- 1991: Electronic filing of tax returns streamlined return processing, with 10.86 million e-filed in the first year (Curry, 1992).
- Early 2000s:
  - Withholding calculator
  - Refund status tool
  - Sales tax deduction calculator
  - Transcript Delivery System (TDS)
  - Electronic PIN Signature (ePIN)
- 2013: Direct Pay allowing online payments

In 2016, the Online Account feature was established, giving tax professionals and their clients more insight to their records than before (IRS, 2019). The Online Account provides the taxpayer access to view key data from the most recent tax return. This key data includes the taxpayer's adjusted gross income, transcripts, economic impact payments, advance child tax credits and notices from the IRS. A taxpayer can adjust communication preferences for certain notices and set email notifications for new account activity. Going paperless may be beneficial for taxpayers who travel or would like information faster. While a taxpayer can make a payment online without

signing into an account, having an account enables one to also view five years of payment history and any pending or scheduled payments. In addition to other features, the taxpayer can also grant authorization to a tax professional through the account. Power of Attorney and Tax Information Authorizations can be approved and electronically signed as well.

### How will the IRS continue to evolve?

A news release was published in February 2023 announcing taxpayers can now respond to nine common notices by simply uploading the requested documentation online. While these notices are exam-related, it is a starting point for online notice responses. An online account is not required to use this tool. By simply changing the language of the notice, the taxpayer is now directed to upload their documents within 30 days of the date of the notice using an access code provided. The tool accepts scans, photos or digital copies and securely transmits them to the appropriate department. The taxpayer will then receive confirmation the documents were received.

A prototype was launched in 2021, with 38% of the notice recipients using it. Traditional mail and faxing an IRS agent while on the phone can possibly become a distant memory as the IRS intends to expand these capabilities. Now, an additional 51 notices and letters received from the IRS have been updated to have online response instructions (IRS, 2023). Eventually, the IRS intends to allow its employees to provide a link for a taxpayer to upload information during a phone call (IRS, 2023). In 2023, the IRS also provided an online portal for businesses to file the Form 1099 series, electronically saving many small business owners time and money. There is plenty of room for improvement, but after the major backlog in March of 2022, any tax professional can appreciate the advancements thus far.

### How can tax professionals prepare their clients?

The start of the 2024 filing season is fast approaching, with engagement letters being sent and information being collected, providing the perfect opportunity to communicate these helpful online features. Every tax professional should begin encouraging their individual clients to create an online account at *IRS.gov*. Provided below are detailed instructions of the process one may provide their clients.

1. Once you get to the homepage, click "Sign in to Your Account" under the "How can we help you?" section. Then, click the blue button labeled "Sign in to your Online Account." If you have never created an IRS account, then you will create an ID.me account.
2. Enter your email and create a password. A message will appear informing you that whatever identity verification you use to create the account will be shared with the IRS to track prior sign-ins, assist with multi-factor authentication, and the status of your verification.



## tax

3. An email will be sent to your account, and you will need to log in to your email and click verify. The screen you were previously on will change, and you can select the options to set up multi-factor authentication, which you will be asked to confirm is working. Select "Continue."
4. You will have two options to verify your identity using biometrics. You have the option to choose self-service or video chat with an agent. Self-service is the preferred method since all you will need is a state ID or passport and a picture of yourself. You will accept the terms and conditions of biometric data usage.
5. You can upload pictures of your ID through your device or have a link sent to your smartphone to take the pictures. Once submitted, it may take a minute to upload the images.
6. Next, you will take a picture of your face. You will be prompted on your device to return to your browser, where you should be asked to enter your Social Security number.
7. Confirm the information from your ID is correct. If not, it may be changed. For example, if you moved and have not had your ID reprinted with the correct address. To change something, simply select no, change and submit.
8. You will be prompted once more to allow the IRS to use this information to determine your identity. Finally, you will be taken to your new online account.

Tax professionals can ensure their records are up to date and cut down time spent on payment confirmations with the client if given proper authorization to the client's online account.

While an online account gives a taxpayer visibility to their tax records, an Identity Protection PIN protects from tax scammers. In the past, the IRS has issued Identity Protection Personal Identification Numbers (IP PINs) to aid victims of identity theft. An IP PIN is a six-digit number assigned by the IRS to the taxpayer. The assigned IP PIN must be included on electronic and paper filed tax returns. In 2021, the IRS opened the program to all taxpayers, featuring an opt-in approach. To opt in to the program, a taxpayer may use the Get an IP PIN tool on the IRS website. To complete the process, a taxpayer will need a valid Social Security number and access to a phone. The taxpayer must be able to verify their identity online or by phone. Only a taxpayer can request an IP PIN, as the IRS has prohibited tax professionals from requesting them on the taxpayer's behalf. An IP PIN is valid for one calendar year, and a taxpayer must obtain a new one every year. An IP PIN should not be shared with anyone except a trusted tax preparer. Applying for an IP PIN may seem excessive, but if a fraudulent return is submitted, the delays on refunds can extend over several years.

The IRS has many more improvements in the pipeline, so it is the tax professional's duty to get clients ready for them. Technology has provided a more efficient process for filing tax returns. The time it takes to communicate these simple changes to clients will streamline the implementation of the coming advances.

### ABOUT THE AUTHORS

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