

Congress of the United States
U.S. House of Representatives

COMMITTEE ON WAYS AND MEANS
1139 LONGWORTH HOUSE OFFICE BUILDING

(202) 225-3625

Washington, D.C. 20515-0348

<http://waysandmeans.house.gov>

April 4, 2023

The Honorable Gene L. Dodaro
Comptroller General of the United States
United States Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Mr. Dodaro,

In Fiscal Year 2021, the Internal Revenue Service (IRS) received over 4.7 billion information returns – reports provided to the IRS to track business or trade payments and transactions – filed by third parties, most of which were filed electronically.¹ In addition, recent legislation drastically lowered the threshold to \$600 for reporting certain types of payments, such as those made using a third-party platform like PayPal or Venmo.² New regulations related to information reporting for transactions occurring across these digital assets could lead to the filing of billions more information returns. This will result in additional paperwork and information being submitted both to the IRS and taxpayers. These new requirements will have a significant impact on low- and middle-income Americans, including many working in the gig economy.

Processing this large amount of information is already a significant undertaking at the IRS – an agency that has struggled to modernize or adequately exercise its customer service responsibilities. As such, the extent to which the IRS uses, or can even process, third-party information to identify and prevent fraud and noncompliance through its matching and other compliance programs is of particular interest. For example, last year the Treasury Inspector General for Tax Administration reported that the IRS destroyed 30 million paper information returns due to constraints related, at least in part, to the massive paper return backlog that began in 2020.³ While information reporting can help the IRS ensure accurate tax reporting and

¹ Internal Revenue Service, Data Book, 2021 (Oct. 1, 2020 to Sept. 30, 2021), <https://www.irs.gov/pub/irs-pdf/p55b.pdf> at 35.

² The American Rescue Plan Act of 2021, Pub. L. 117-2.

³ Treasury Inspector General for Tax Administration, *A Service-Wide Strategy is Needed to Address Challenges Limiting Growth in Business Tax Return Electronic Filing* (May 4, 2022), <https://www.tigta.gov/sites/default/files/reports/2022-06/202240036fr.pdf>.

Letter to The Honorable Gene L. Dodaro

April 4, 2023

Page 2


incentivize voluntary compliance with tax laws, those goals must be balanced against the burden that this reporting places on taxpayers, third party providers, and the IRS. Many Americans who will likely be subject to these new requirements – particularly given the low reporting threshold of \$600 – are also likely to struggle to afford the level of accounting and tax preparation services that might be needed.

Therefore, we ask that the U.S. Government Accountability Office (GAO) assess the following:


1. How effective the IRS is in leveraging the 4.7 billion information returns it currently receives to ensure tax compliance.
2. Whether the IRS is using all the information reported for matching or other compliance purposes, and if not, why not and for what other purposes does the IRS collect the unused information.
3. The burden and challenges taxpayers, third-party providers, and the IRS face in collecting, processing, and reporting required information (please include a specific focus on the \$600 threshold for 1099-K reporting through third-party settlement organizations).
4. IRS's plans for and ability to use recently enacted or proposed information reporting.
5. The extent to which the IRS plans to use artificial intelligence or machine-learning approaches to more fully leverage information return data to enhance tax compliance.

Please keep Sean Clerget of the Ways and Means Committee staff apprised of your progress as you design your approach and develop specific research questions for this project. Thank you for your assistance.

Sincerely,



Jason Smith
Chairman
Committee on Ways and Means



David Schweikert
Chairman
Committee on Ways and Means,
Subcommittee on Oversight