GAO Highlights

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.

View GAO-24-107028. For more information, contact James R. McTigue, Jr. at (202) 512-6806 or McTigueJ@gao.gov.

What GAO Found

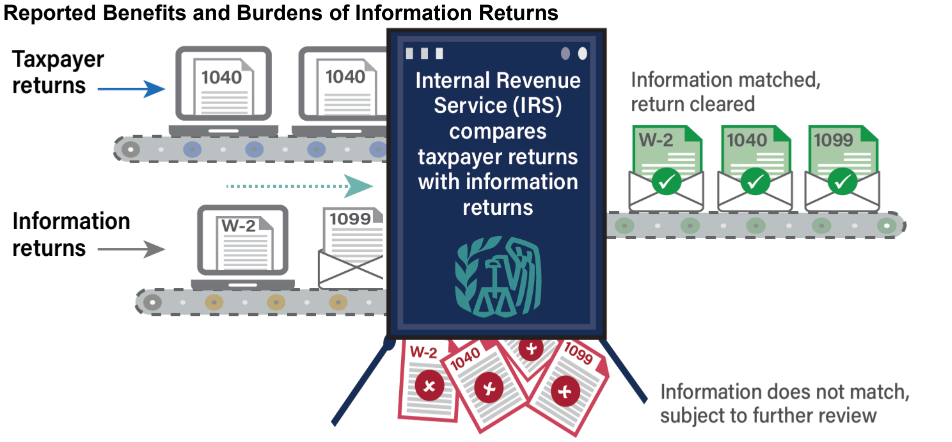
The Internal Revenue Service (IRS) has taken steps to implement information reporting changes, but GAO identified actions for IRS to be more prepared.

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



Benefits of Information Returns	Burdens of Information Returns
• Provide taxpayers with data that reduce record-keeping 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.	• 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