#8 REQUIRE THAT ELECTRONICALLY PREPARED PAPER TAX RETURNS INCLUDE A SCANNABLE CODE

Present Law

Present law does not address the treatment of tax returns that are prepared electronically but filed on paper.

Reasons for Change

In recent years, more than 85 percent of individual income tax returns have been submitted electronically. While this percentage is relatively high, almost 20 million returns are still submitted on paper. When the IRS cannot capture the data from a tax return electronically, IRS employees must enter the data from paper-filed returns manually. The manual transcription of millions of lines of return data is expensive, produces transcription errors, and delays return processing.

Scanning technology is available that would allow the IRS to scan paper returns prepared with tax return preparation software and capture the data in an efficient manner. Many states have been using scanning technology for paper-based returns for many years. To allow the IRS to utilize scanning technology, a horizontal or vertical bar code containing the return information would be imprinted on paper copies of a return prepared with tax return preparation software. Upon receiving the paper return, the IRS would scan it, capture the data, decode it, and process the return just as if it had been transmitted electronically.

While scanning technology does not convert taxpayers to e-file, it produces significant advantages over paper filing, including: (1) faster processing of tax returns; (2) more accurate recording of tax return information; and (3) cost savings due to the reduction in manual data transcription. Despite these benefits, the IRS has not fully availed itself of this or similar technology for individual income tax returns. The IRS can achieve savings by working with tax software companies to incorporate scannable bar codes into their individual tax return preparation software. The IRS already provides scanning technology as an option for filers of Schedules K-1 (Form 1065).[61] The IRS is also using character recognition software to capture data on some paper returns.[62] It is unclear whether character recognition software is more accurate than scanning technology in the context of tax return data.

Recommendation

- Require the IRS to report to Congress, within 180 days of enactment, on its plans to reduce the monetary costs and transcription errors associated with the processing of individual income tax returns prepared electronically but filed on paper.[63]

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61 Internal Revenue Manual (IRM) 3.0.101.5.3, Substitute Schedule K-1 (Jan. 1, 2018).
62 IRM 3.41.275.1, Program Scope and Objectives (Nov. 14, 2017).
63 For legislative language that would impose this requirement, see Taxpayer First Act of 2018, S. 3246, 115th Cong. § 2104 (2018). *See also* Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals* 227 (Mar. 2014).