

MODERNIZING THE IRS: A CRITICAL STEP FOR SMALL BUSINESSES AND THE U.S. ECONOMY



THE CHALLENGE

America's tax system is still powered by outdated infrastructure that no longer meets the needs of a modern economy. Across the Internal Revenue Service (IRS), paper-based workflows, fragmented digital systems and legacy technology slow processing, create confusion and delay critical refunds. In some cases, the agency still relies on fax machines to transmit sensitive taxpayer information—a symptom of a much broader modernization gap.

WHAT THE DATA SHOWS

Recent findings from federal watchdogs reinforce the urgency of modernization:

- ▶ A 2026 *Government Accountability Office (GAO) report*¹ highlighted how outdated IRS systems struggled to manage nearly five million Employee Retention Tax Credit claims, leading to significant delays and administrative strain.
- ▶ The GAO concluded that stronger automation and improved data systems would have accelerated processing, reduced costs and improved outcomes for taxpayers.
- ▶ *The National Taxpayer Advocate*² identified antiquated systems, paper-based processes and incomplete digital services as among the most serious challenges facing taxpayers today.

WHY IT MATTERS FOR SMALL BUSINESSES

Outdated IRS systems increase compliance costs, delay access to capital and introduce unnecessary risk into everyday operations. At a time when businesses expect seamless, secure digital interactions in nearly every aspect of their operations, the IRS remains out of step.

THE OPPORTUNITY

The Taxpayer Experience Improvement Act is a strong first step toward improving transparency and taxpayer access, but a broader approach is needed—one that prioritizes:

- ▶ **End-to-end digital processing, including amended returns.**
- ▶ **Stronger data security, reducing reliance on vulnerable paper and fax-based systems.**
- ▶ **Fewer errors, delays and duplicate and lost filings.**
- ▶ **Lower compliance costs and administrative burdens on employers and tax professionals.**
- ▶ **Faster service, real-time data and clear project oversight.**

THE BOTTOM LINE

An efficient, secure and fully modern IRS would strengthen compliance, improve taxpayer trust and support economic growth. For small businesses across the country, it would mean fewer delays, lower costs and a system that finally works as it should. It would also empower IRS employees with modern tools by replacing outdated equipment and manual workflows that slow productivity, increase frustration and make it harder to recruit and retain the skilled workforce the agency needs.

¹ "COVID-19 Relief: IRS Can Use Lessons Learned to Address and Prevent Improper Payments in Future Tax Programs." GAO.Gov. U.S. Government Accountability Office, February 10, 2026. <https://www.gao.gov/products/gao-26-107456>.

² "Taxpayer Advocate Service (TAS). "2025 Annual Report to Congress." Taxpayer Advocate Service, January 28, 2026. <https://www.taxpayeradvocate.irs.gov/reports/2025-annual-report-to-congress/>.