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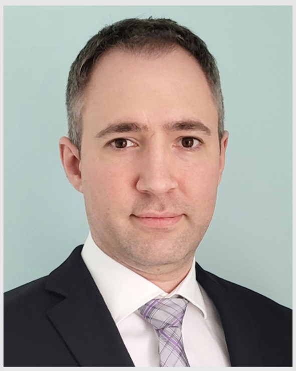

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In this article, Strebel and Sohn evaluate outcomes from the 2026 filing season and identify emerging patterns.

I. Introduction

In a previous article,[1] we examined the anticipated impact of Executive Order 14247[2] on employers with globally mobile workforces, focusing on the risks posed by the elimination of paper refund checks to tax equalization programs and employer refund collection processes. The article also outlined steps and practical solutions employers could implement to prepare for the transition to digital payments to and from the IRS.[3] While the previous article focused on potential issues, this article evaluates outcomes from the 2026 filing season and identifies emerging patterns.

Following the EO, the U.S. Department of the Treasury sought stakeholder input through a request for information (RFI) on implementation of the EO's mandate to transition to electronic payments.[4] In its response to the RFI, KPMG cautioned that a rapid transition away from paper refund checks could create refund delays, administrative burdens, and increased collection risk for employers with cross-border employees.[5] KPMG also highlighted barriers affecting both payments to and refunds from the IRS for cross-border employees and global mobility programs.[6]

The 2026 filing season marks the first year of implementation for the new refund process, under which a paper refund check is no longer the default method for taxpayers who do not provide direct deposit information. Observations from this filing season suggest that many of the concerns identified in our previous article and in KPMG's RFI response have materialized in practice.[7] Recent letters to the Treasury from Danny K. Davis and Terri A. Sewell, ranking members of the House Ways and Means Committee, echo those

[1] Alex Strebel and Yoori Sohn, "How Digital Refunds Affect Global Mobility Programs," *Tax Notes Federal*, May 19, 2025, p. 1183.

[2] Executive Order 14247, "Modernizing Payments to and From America's Bank Account" (Mar. 25, 2025).

[3] Strebel and Sohn, *supra* note 1.

[4] Treasury, "Request for Information Related to the Executive Order, 'Modernizing Payments to and From America's Bank Account,'" 90 F.R. 23108 (May 30, 2025).

[5] KPMG LLP comment to Treasury's RFI (June 30, 2025).

[6] *Id.*

[7] *Id.*

concerns and demonstrate the need for further clarity regarding the new refund process for all those involved.[8]

II. Implementation of the EO

In accordance with the EO, the Treasury Department and the IRS began transitioning federal payments to electronic methods, with payment by paper check being treated as a limited exception rather than the default method.[9] As part of this transition, the IRS announced its plans to phase out paper tax refund checks, with the 2026 filing season serving as the first year of implementation.[10] On January 27, 2026, the IRS formally announced the operational details of the new refund process through fact sheet FS-2026-2 and an accompanying news release.[11]

A. New Refund Process

Under the new refund process, if a return is filed without direct deposit information, or if a direct deposit is rejected, the IRS will no longer automatically issue a paper check.[12] Instead, the IRS will temporarily freeze the refund and issue Notice CP53E, requesting that the taxpayer provide direct deposit information through an IRS individual online account or explain why that information cannot be provided.[13]

While this may appear straightforward, it presents another obstacle for cross-border taxpayers. Apart from the difficulty of opening a bank account for short-term inbound assignees, foreign nationals may also face challenges creating an IRS individual online account. These existing challenges are exacerbated by the fact that the phone number listed on Notice CP53E provides only a recorded explanation of the notice and does not connect callers to a customer service representative or allow taxpayers to provide direct deposit information.[14] To update account information or to request a waiver from the new refund process, taxpayers must instead call the main IRS phone number, which is not listed on Notice CP53E, to speak with a customer service representative.[15]

If the taxpayer does not provide their account information or take any action within the prescribed 30-day period, a paper check will be issued after six weeks.[16] Thus, refunds that might have been processed within weeks may now be delayed by months. Notably, IRS guidance to date has provided very little detail for unbanked taxpayers on how to request a waiver from the new refund process.[17]

B. International Taxpayer Exception

The fact sheet also includes an exception or accommodation for international taxpayers. It notes that the IRS is developing secure alternatives to paper checks for tax refunds and payments for them but does not explain who qualifies as an international taxpayer.[18] As a result, similarly to unbanked taxpayers, it remains unclear which cross-border assignee profiles, such as a U.S. person with foreign address or a foreign national filing Form 1040-NR, would qualify an individual for an exempted category, such as the international taxpayer category. The EO specifically authorizes Treasury to provide exceptions and accommodations when electronic payments are not feasible.[19] The fact sheet states that international taxpayers without U.S. banks should continue to use existing options to file returns, make payments, and receive refunds.[20] It also notes that the IRS is developing secure alternatives, such as partnering with international

[8] Letter from members of the Committee on House Ways and Means to Treasury Secretary Scott Bessent (Mar. 24, 2026).

[9] IR 2025-95 (Sept. 23, 2025).

[10] *Id.*

[11] FS-2026-2 (Jan. 27, 2026); IR 2026-13 (Jan. 27, 2026).

[12] FS-2026-2; IR 2026-13.

[13] FS-2026-2; IRS, "Understanding Your CP53E Notice" (last updated May 11, 2026).

[14] Taxpayer Advocate Service, "Direct Deposit Changes for 2026 Could Affect How and When You Get Your Refund" (last updated Apr. 30, 2026).

[15] *Id.*

[16] FS-2026-2.

[17] Letter from members of the Committee on House Ways and Means, *supra* note 8.

[18] FS-2026-2.

[19] *Id.*

[20] *Id.*

payment providers, but does not define the term international taxpayers or identify a specific plan to accommodate this category of taxpayers.

III. Implications for Globally Mobile Employees and Employers

In our previous article, we identified several challenges that the IRS's transition away from paper refund checks would likely create. KPMG later reinforced those concerns in its response to Treasury's RFI, cautioning that refund digitization — if implemented without clear transition rules and workable exceptions — would introduce refund delays, administrative burdens, and heightened collection risk for global mobility programs.

Together, the previous article and the RFI response emphasized that these risks stem not from taxpayer noncompliance with U.S. tax laws but rather from the misalignment between global mobility realities and the IRS's payment system. In particular, the previous article and KPMG's RFI submission highlighted the following challenges for cross-border employees and employers:

- Limited access to U.S. banking for cross-border employees.
  - Foreign nationals, short-term assignees, business travelers, and former assignees who may be unable to open or maintain U.S. bank accounts because of documentation requirements, immigration status, or account closures following assignment completion.
- Increased collection risk for employers operating tax equalization programs.
  - Under tax equalization programs, tax refunds often belong to the employer. The elimination of paper refund checks was expected to shift refunds into employee-controlled accounts or delay issuance altogether, increasing reliance on post-assignment employee cooperation and elevating the risk of nonrecovery after repatriation or termination.
- Operational and administrative limitations within IRS payment systems.
  - The absence of a viable bulk electronic payment or refund mechanism for employers or third-party administrators managing large cross-border assignee populations complicates tax reconciliation, weakens the documentation trail, and increases administrative burden.
- Uncertainty regarding IRS implementation and international taxpayer exceptions.
  - The lack of clarity regarding how the IRS would define international taxpayers and apply the exceptions permitted under the EO makes it difficult for employers to plan transition strategies or clearly communicate expectations to affected employees.

The first tax season under the digitized refund regime confirmed that these challenges are not merely theoretical. It also confirmed that they persist even after the IRS's initial implementation of the new refund process, which still did not address issues unique to global mobility programs and the significant number of individual taxpayers affected by the shift to digitization. We have observed multiple clients implementing changes to their payment and refund collection processes and obtained a better understanding of solutions that work in practice.

IV. Observed Effectiveness of Responses in Global Mobility Programs

Employers have reacted to the push for digitization in three ways. First, some did not make any meaningful changes to their existing approaches, effectively continuing to apply simplified gross-up calculations that use flat gross-up percentages and do not fully reflect foreign tax credits or actual marginal tax rates. As a result, many, if not most, assignees end up in refund positions. In many cases, paper refund checks are directed to the employer's address and are delayed until Notice CP53E is resolved or the 30-day period expires. Even when checks are ultimately issued, they may arrive after the related assignment has ended, complicating recovery of amounts owed under the tax equalization policy. Mobility, payroll, and tax teams have consequently spent more time tracking individual refunds, explaining IRS notices, and coordinating follow-ups. As a result, cash flow timing and collection risk that are managed via paper checks have been further delayed and made more difficult to administer without any corresponding reduction in risk.

A second group of employers has pursued targeted but limited changes, including enhanced communications regarding the new refund process, potential IRS correspondence, and modest adjustments to withholding and hypothetical tax calculations to reduce, but not eliminate, refund positions. In many cases, this has meant applying lower gross-up percentages rather than performing more precise calculations, which may result in larger-than-expected shortfalls and underpayment penalty exposure. These measures have yielded some benefits because assignees are better prepared for IRS notices and have a clearer understanding of the reason for delays under the new refund procedure. However, the core design flaw remains. As long as programs are structured to generate refunds payable to the assignee, employers remain exposed to refund timing, recovery, and compliance risk that they do not fully control, with collection risks expected to increase even more once paper checks are eliminated entirely.

By contrast, some employers have shifted away from simplified gross-up methods and instead recalibrated their gross-up and hypothetical tax calculation processes to minimize overwithholding and deliberately position assignees in modest balance-due positions. These employers focus on refining U.S. hypothetical tax and gross-up calculations in the current year, supported by year-end true-up calculations, to reduce overpayment of taxes and, therefore, the size and frequency of tax refunds.

When a balance is due and the employer pays the resulting tax liability directly (often by check), this lowers collection risk by eliminating reliance on IRS refunds and avoiding the need to recover funds from assignees. As explained in "How Digital Refunds Affect Global Mobility Programs," this refined gross-up approach is the most practical and effective solution in the current environment, and experience to date supports that conclusion. Employers that have implemented this approach appear to be navigating the new refund regime with fewer refund-related disputes, reduced collection risk, and more predictable cash flows.

We have also observed limited exploration of settlement services, in which a financial institution opens a temporary account in the employee's name, receives the IRS refund, and forwards the employer's share to the employer. However, while a number of employers have considered or explored this option, we are not aware of successful, broad-scale implementation in the global mobility context. The concerns around cost, regulatory complexity, employee privacy, and perception remain and may explain the lack of wider adoption.

V. Practical Takeaways for Global Mobility Programs

As mentioned above, select members of the House Ways and Means Committee raised concerns about whether the current framework burdens taxpayers without ready access to electronic banking or the IRS online portal.[21] Despite the inquiry, Treasury and the IRS have not released the total number of taxpayers who received Notice CP53E, the total number of refunds delayed under the new refund process, the total number of paper checks issued, or further guidance related to the international taxpayers category.[22]

IRS news release IR-2026-43, issued on April 2, 2026, states that taxpayers who qualify for an exception to the direct deposit requirement may review and select the appropriate exception in their IRS individual online account or call the toll-free line for assistance.[23] However, the toll-free number was not included in the news release, and as of April 15, 2026, the online portal did not include an option to request a refund by paper check.

While the IRS continues to emphasize that limited exceptions and alternative payment mechanisms remain available, the results of the first implementation year suggest that these

[21]Letter from members of the Committee on House Ways and Means, *supra* note 8.

[22]*Id.*

[23]IR-2026-43 (Apr. 2, 2026).

alternatives may involve additional delays and uncertainty.

For employers that have yet to recalibrate their processes, it is not too late to act. The EO contemplates a full digitization of the federal government's payment system, including both tax payments and refunds, and updates to current program processes may ultimately be necessary. Potential considerations include:

- reducing overwithholding and limiting anticipated refunds when possible;
- enhancing employee communication regarding electronic refund requirements;
- monitoring CP53E notices as a compliance risk indicator; and
- reevaluating the feasibility of employer-controlled refund processes.

VI. Conclusion

The 2026 filing season demonstrates that the elimination of paper refund checks represents more than a technical modernization of the IRS. It reflects a fundamental shift in how tax refunds are processed and delivered, affecting both cross-border assignees and employers alike. Although the efficiency of the new refund process may improve over time, the first year of implementation has highlighted the importance of proactive planning and risk management, especially as the transition toward full digitization would likely continue in accordance with the EO's mandate.[24] ■

[24] The foregoing information is not intended to be "written advice concerning one or more Federal tax matters" subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser. This article represents the views of the authors only and does not necessarily represent the views or professional advice of KPMG LLP.