

2003
Tax Forum
between
Internal Revenue Service
and
North Carolina Society of Accountants



Points of Contact:

Ronald D. Powell (336) 625-1427

Paul Bumgarner (704) 567-9889

1. **[TEC]** With the advancement of software packages, most practitioners print the completed payroll reporting forms. For example, Form 941 is mailed to the client every quarter with a blank form, envelope and a newsletter. The only part of the package the practitioner uses is the envelope.

Recommendation: Add a block on the Form 941, which can be marked, stating we do not wish to receive the printed materials. Then make the envelope available to the practitioner. By eliminating the package of forms (940/941), newsletters, and envelope, the IRS can realize considerable savings on postage and printing.

NCSA 2003 – This is the information we received from our 2002 meeting:

This suggestion was forwarded to the Multimedia section of IRS Publishing. They have agreed to look into a way to reduce sending unnecessary forms and instructions. If a checkbox is added to the form, it will increase taxpayer burden as measured by an additional entry item on the form. Practitioners can make suggestions to the IRS by writing to the Tax Forms Committee at an address found on the form or instructions. They can also comment to the IRS by e-mailing the Service through the Digital Daily.

We would like an update. Based on the answer provided we do not see how there is an “increase in taxpayer burden” by having to mark one entry item one time.

Answer:

Because employment taxes are absolutely critical to the funding of the United States budget, proposed changes to Form 941 undergo intense scrutiny by other organizations, including Treasury and the Social Security Administration. There are complex cost/benefit computations that are considered in addition to the costs of printing and mailing tax returns that are ultimately not used by the taxpayers’ paid preparers. The mailing of the tax forms and accompanying newsletters are deemed important reminders to taxpayers of their requirement to withhold and pay employment taxes. These reminders must remain intact as we continue to deal with noncompliance in this area. With respect to taxpayer burden, consistency from year to year is also a factor that is considered in evaluating the costs/benefits of modifying a form. Bearing in mind that not all taxpayers use a paid practitioner to prepare these returns, an evaluation of adding the suggested block would include an assessment of how existing recipients might react to the change. For example, some taxpayers might forget to file the return if they don’t have it in hand as a reminder. Others might erroneously conclude that if they opt to no longer receive the form, then they have no further liability for the taxes. In this scenario, the cost savings for not printing and mailing tax forms could be far surpassed by the resulting uncollected taxes. As indicated in our 2002 response, practitioners may make formal suggestions for changes to forms and publications by contacting the Tax Forms Committee through our web site or at the address found on the particular form.

2. **[SERVICE CENTER]** Although careful when entering social security numbers, sometimes numbers are provided over the telephone for dependent children, sometimes a number may be entered incorrectly. Currently, if the dependent or spouse's name and number on a paper return do not agree with the Social Security Administration records, the Internal Revenue Service removes the dependent, removes the related exemption, and if applicable, the related credits. If a return is electronically filed, then we are notified virtually immediately that there is a problem, which we can then correct, re-file, and there is no hold up on the processing of the return or the issuance of the refunds. But, not everyone electronically files his or her returns. When a CP2000 is issued, taxpayers are given sufficient time to address the items in question on the return prior to the IRS making any adjustments. I feel that something similar to this could be addressed for the non-matching of social security numbers and names.

Recommendation: If the situation described above occurs, we recommend the following notice:

“ Notice of Proposed Changes to Your Tax Return”

The taxpayer identification number(s) or name(s) you gave us for your dependent or spouse does not match our records or the records provided by the Social Security Administration.

The notice should state exactly which dependent information does not match.

Please compare the number(s) and name(s) with the social security card(s)

Please provide us with the correct information within 30 days from the date on this notice, or we will adjust your return. You may write (address), call (number), fax (number).

The return could be placed into a suspense status for 60 days. Should no information follow from the taxpayer, then a Notice of Change should be sent.

A notice of this type would serve two purposes. (1) It is a much friendlier approach to the situation when there is a mismatch. You know, getting a notice from the IRS that says “There may be a problem with your return and we are going to give you an opportunity to correct it” rather than “We changed your return,” has got to have some public relations value to it, and (2) I feel that this would have to be an easier process for the Internal Revenue Service.

Answer

The suggestion was elevated to National Office for feedback on any re-write initiatives to the math error notice.

NCSA 2003 – This is the information we received from our 2002 meeting. We would like an update.

Answer (Atlanta Submission Processing):

At the present time there have been no rewrites to the math error notices. Due to the volume of mismatches for social security numbers and names, suspending the returns could possibly delay the refund being issued timely.

3. **[SERVICE CENTER]** Practitioners encounter problems with document matching notices. Changes are made to the tax return without explaining what caused the change.

Question: What is the availability of sending the listing of the Form 1098/1099's with the notice so we can match our records with IRS?

Answer:

In instances, that there is an income discrepancy our Underreporter Operation prepares a CP2000. The CP2000 contains a computerized listing of the Forms 1099, W-2, and 1098 that are sources of the discrepancy for reconciliation purposes.

The CP2000 is in the process of being re-written for better comprehension by the customer. The expected release is not known at this time.

NCSA 2003 – This is the information we received from our 2002 meeting. We would like an update.

Answer (Atlanta Accounts Management):

The CP2000 is a proposed change to the tax return. Once the account has been assessed (agreed to by taxpayer or no response from the taxpayer) a notice of adjustment is generated. That notice does not contain a listing of the discrepancies. The practitioners maybe receiving the adjustment notice that does not have the listing.

4. **[SERVICE CENTER]** We have several concerns with correct application of estimated taxes. Typical problem we see is in applying the overpayment from prior year to the current year as stated on the return. The service center refunds the overpayment to the taxpayer. The taxpayer informs the practitioner of this, adjustment is made to the next estimated tax payment. If not, then the taxpayer may come up short for the next tax year. In both cases, an underpayment penalty may be applied because of the error. We cannot determine any particular pattern based on filing status, quarter, etc. All used current year estimated payment forms and were mailed at the appropriate time. If fixing the situation, requires phone calls to the IRS, letters with canceled checks, and prior year tax returns. **Repeat.**

Recommendation: Provide the taxpayer, who makes estimated tax payments, with an annual summary of taxes paid by January 31st. This will provide the practitioner with accurate information prior to filing the tax return. This information could be:

- ü included with the estimated tax payment coupons and mailed by February
- ü accessed by telephone (similar to what we can do for return/refund status)
- ü accessed on the Internet

NCSA 2003 – We did not receive a written response from our 2002 meeting. We would like an update.

Answer (Atlanta Submission Processing):

The credit elect line on the return is a transcribed line. If the amount on that line is transcribed then that amount is systemically applied to the following tax year. There are several exceptions to this. If the overpayment available (after offsets) is less than amount requested, then only the available overpayment will be

applied to the following year. Our system is also not capable of applying credit elects from prior year returns.

If the amount applied to the following year is less than the amount transcribed on the credit elect line then the taxpayer will receive a CP45 notice that will show the amount actually applied.

If the credit elect line is not transcribed then the entire overpayment will be available for refund.

This year Atlanta has issued over 200,000 estimated payment discrepancy notices. Those notices show exactly what credits are on the account. In some cases the problem is that we have misapplied a payment, but more frequently the taxpayer has forgotten which payments they have made. If the taxpayer has made a payment that is not reflected on the account, we will need a copy of the front and back of the cancelled check to trace that payment.

At this time there is no plan to provide an annual summary of estimated taxes paid. If there is a doubt as to how much estimated payments have been made, this information may be obtained by the taxpayer via our toll free numbers.

5. **[SERVICE CENTER]** Practitioners are having problems with Form 2848 (POA), which are being faxed, not being processed and posted in CAF in a timely manner. At times, we have faxed a POA two to three times in order to communicate with the IRS in resolving a problem. (On a positive note, sometimes, the agent has allowed us to fax the POA directly to them and then we proceed with resolving the issue – THANKS.)

Question: What is the most expedient manner for filing a POA that will be input to the CAF?

Answer:

The most expedient manner to receive a CAF number is to fax a request; the timeframe to process faxed requests is 48 hours. Mailed requests are processed within 5 days of receipt in the CAF Unit. It could possibly take up to 10 days to receive a response through the mail since it has to go through several areas prior to being received in the CAF Unit.

Question: Can the practitioner get some response that the Form 2848 has been recorded in CAF either by email or return fax?

Answer:

It is not possible to respond by fax or email on each CAF request. The receipts for the CAF function are approximately 3,000 to 5,000 per day. The large volume of receipts prevents a response to each one by email or return fax. Practitioners can however, contact the help desk for the CAF Unit at 901-546-4176 (not toll free) or 1-800-829-8815 (toll free) to verify if their request has been processed.

NCSA 2003 – This is the information we received from our 2002 meeting. We continue to see the problem of the POA not being entered into the “system” so it is available to IRS agents.

When responding to a notice via mail or fax with a signed POA, should we also fax a copy to the CAF Unit in Memphis?

Even if we fax or give a POA to an IRS agent when discussing an issue should we also fax a copy to the CAF Unit in Memphis?

Answer (Atlanta Submission Processing):

It would be advisable to FAX the POA request to the POA Unit in Memphis. The timeframes for processing the requests have not changed. A faxed POA request on Forms 2848, 8821 or 706 is processed within 48 hours of receipt in the CAF Unit. A faxed paper request is processed within 5 days of receipt in the CAF Unit. The Memphis Department Manager is reviewing daily to ensure the faxed requests are meeting these deadlines. If the request is made through a Revenue Agent, the Agent will forward the POA to the appropriate office.

6. **[TEC]** In the last few years, significant enhancements have been made in use of Internet technology from availability of forms and information on the IRS website to email updates to practitioners. Yet today we still try and resolve taxpayer problems with phone calls and letters after filing Form 2848.

Recommendation: Allow practitioners use e-mail for resolving issues with a valid Form 2848 on file. This would allow the practitioner to “converse” the same individual until the issue is resolved. A fax number could be provided to send documents directly to the agent working the issue.

Answer:

You make some excellent suggestions, most of which will come to pass by June 2003! Next year, we will be implementing our expanded e-Services for practitioners who substantially participate in our electronic filing programs.

E-services are web-based products that allow practitioners to interact with the IRS electronically 24/7. Web-based products will allow you to register and submit e-file applications, as well as gain access to electronic Disclosure Authorization, Account Resolution, and Transcript Delivery. Not only will you be able to submit POA and TIA forms online, but you will also be able to submit requests for and receive account related data for your individual and business clients. This will include payment tracing, refund inquiries, installment agreement information, notice resolution, and other account problems.

NCSA 2003 – This is the information we received from our 2002 meeting. We would like an update. (Prefer this to be a presentation with some handouts on process to enroll and use of the website.)

Answer:

We will make a presentation during the Tax Forum on our new e-Services for practitioners, including Disclosure Authorization, Electronic Account Resolution, and Transcript Delivery. We will be available for questions and answers during that session, and happy to address follow-up questions at any time after the conclusion of the Tax Forum.

7. **[SERVICE CENTER]** Several practitioners across the state are reporting problems with the overpayments on a tax return or notice not being properly

applied. This situation has occurred both on paper and electronically filed returns. Overpayments have been marked on the tax return to be applied to the following tax year and the taxpayer receives a refund. We work with the taxpayer to return the check with an explanation to apply this to the current tax year. If we don't receive a response the taxpayer then has to call to verify it was applied. On other returns the overpayments are being applied when a refund was requested. This is discovered when the taxpayer calls us to ask, "should I have received my refund yet?" By the time we get it straight, it could be almost six months after the return was filed.

Question: What is the most expeditious manner to resolve these matters?

Answer (Atlanta Submission Processing): See Question 4 above

Question: Will the online access for practitioners allow us to resolve these types of issues?

Answer (Atlanta Submission Processing): See Question 4 above

8. **[SB/SE-Compliance]** Taxpayer was two years delinquent in filing but had made estimated tax payments due to self-employment. The taxpayer received a notice from the collections section in Greensboro to obtain the tax returns. Taxpayer brought in the IRS notice and the information required to file the return. The 2000 tax return was completed and taken to the Greensboro office. When this return was completed there was overpayment and the return stated to apply this to 2001. The practitioner asked about waiting on filing the 2001 return until the 2000 return was accepted and processed to ensure the carry forward was applied and that the amount matched. The IRS agent stated the more important issue was to file the 2001 return and we were allowed 30 days to complete the next return. We filed the 2001 return 30 days later and 7 days after that the taxpayer received notice the 2000 tax return was being audited. Fourteen days after that notice, the taxpayer received notice that the 2001 tax return had a balance due (because the 2000 overpayment was not present). The IRS agent in Greensboro stated they could not help us, as it was only their job to collect the returns. With a POA the practitioner has contacted the IRS through he regular toll free number has received a "hold" on notices concerning the 2001 and 2002 returns. As of this date we are still waiting for resolution to the 2000 audit. We feel this issue will be resolved, however, it seems the focus on getting all the returns filed seemed more important than ensuring each one separately was accepted.

Question: Why was there such a rush to complete the 2001 tax return when it was questioned about the overpayment?

Answer:

Revenue Officers are required to conduct a full compliance check. This means securing all tax returns up through the current tax period. We are also required to bring the taxpayer into compliance with current estimated tax payments or ensure that they have adequate income tax withholdings. Each tax year stands alone. If tax is owed we expect immediate payment or for the taxpayer to make

Internal Revenue Service Tax Forum Questions - 2003

satisfactory arrangements to pay. If several returns are secured at the same time and there is a refund involved we take that into consideration. However, if immediate offset is not made then the taxpayer is expected to pay or make arrangements to pay. Had the returns been timely filed this would not have been a problem.

Question: Should the practitioner asked to speak with a supervisor in this case to further explain the concern? What would have been the best course of action?

Answer:

All taxpayers have the right to speak to a manager about their case.

9. **[WAGE & INVESTMENT – Field Assistance]** We have a concern about protection of privacy. For a practitioner to discuss a taxpayer's situation with the IRS we must obtain a POA. When we arrive at an IRS office to discuss with an agent we then go to a glass window in the same area as the waiting room where it is not private. If we request to go to an area more private to protect our client we are refused.

Question: If we are to obtain the POA and are bound to protect the privacy of our client, why must we discuss the situation in an environment where the public can overhear the conversation?

Answer:

We are equally concerned about taxpayer privacy. Our Taxpayer Assistance Centers (TACs) are designed to handle large volumes of walk-in traffic, generally instances that lend themselves to fast resolution requests. Steps are taken to safeguard taxpayer privacy, writing down SSNs for example to avoid saying them aloud in the office. Our counters are equipped with terminals to allow the employee to readily access a customer's account and help resolve the issue. Our offices are designed also to deal with security concerns as well. Conference rooms, if even available are not so equipped. We also need to have staff available at the counter to monitor traffic in the waiting area making it difficult to constantly be leaving the area to proceed to a conference room, again, even if available. One option, when dealing with a more complex case would be to possibly make an appointment to discuss the clients' account. With advance notice of the issue, if available, a conference room could be reserved. This will allow time for proper research and possible solution to the problem. We simply do not have the facilities to handle our routine traffic in private conference rooms. Field Assistance currently has a new design for our TACs which incorporates an enclosed workstation for each assistor, which will afford more privacy. Unfortunately these designs are expensive and likely will not be in all sites for several years. Our first newly designed TAC opens in Greenville NC on 10/17, and currently Charlotte NC is also scheduled for the new design.

10. **[SERVICE CENTER]** Corrected K-1s and Form 1099s from brokering companies are more frequently being changed as much as 60 days after the original filing deadline. Tax returns filed based on the timely filed reports are being prepared and then having to be amended due to changes. In many cases there is not reason to believe there will be a change so there is no reason to wait on filing the tax return. The real problem comes when a company files corrected K-1s or Form 1099s and the taxpayer has filed an amended return and a notice of change or delinquency is received before the amended return is processed.

Question: Why does it seem to take as much as six months to process an amended return?

Answer (Atlanta Submission Processing):

The processing of amended returns is not automated in any way, nor is it clerical in nature. Each amended return is assigned to an employee with tax law training who verifies the return and manually adjusts the account. Depending on the issue, an amended return may be worked in Submission Processing, Accounts Management, Collection, Examination or Underreported. The best way to speedup the process is to ensure the amended return is being sent to the correct location. Generally, amended returns should be filed at the center that processed the original return. Where there is a problem is when the return is being filed in response to some communication from the IRS. For example, your taxpayer filed the original return in Atlanta and an amended return is prepared in response to a CP2000 issued by Underreporter in Philadelphia. The case is in Philadelphia, if the amended return were sent to Atlanta, after initial research, the return would have to be rerouted.

Question: Since many tax returns are filed electronically and K-1 and Form 1099 information is filed electronically and electronic notices are sent based on the matching of information electronically, why can't an amended return be filed electronically?

Answer (Atlanta Submission Processing):

The Individual Electronic Filed Branch has no provisions at this time to accept amended returns electronically. It may be addressed in the future under the Modernized Electronic Filed Program.

- 11. [SB/SE COMPLIANCE]** A taxpayer met with an IRS agent to review a tax return prepared by the taxpayer. The original return showed no tax due and the review resulted in an amount due of \$2,875 after the IRS agent's supervisor approved. No mention was made about the taxpayer's right to appeal. A practitioner reviewed the return a year later and discovered the IRS review did not include the taxpayer's two dependents. These exemptions and the availability of EIC would have negated the tax liability. The return has been corrected and a refund with interest has been received.

Question: There should have been a better review of the tax return by the IRS agent and the supervisor for missing the dependents exemptions and the associated credits. What procedures are in place to review these types of returns?

Answer:

If the taxpayer signed the agreement form (4549 or 870) the case was forwarded to the manager for closing as an agreed case. Agreed case files are not reviewed in detail. The assumption is that the taxpayer and or representative have reviewed the report and findings and only upon understanding the results does the taxpayer sign the agreement. Group Managers generally review all unagreed cases, however, even in those cases the review would be limited to the unagreed issues. If there were exemptions shown on the return that were

not allowed there should have been an explanation detailing the reason for the disallowance. There should also have been an explanation detailing the adjustment to the Earned Income Credit.

Question: Is explaining the appeal process and the taxpayer rights fully explained during the review process today?

Answer:

Section 3504 of the 1998 Tax Restructuring and Reform Act requires a notice of the appeals process and the assistance available from the National Taxpayer Advocate to be included with any first letter of proposed deficiency mailed to the taxpayer. (The IRS is now required to include an explanation of the entire examination/ appeal/collection process with the first deficiency letter sent to a taxpayer). The explanation should accompany the first COMMUNICATION with which the taxpayer has the opportunity to request an Appeals hearing. This also includes the presentation of audit results in face-to-face meetings. Numerous publications, including Publication 3498, The Examination Process, are sent or given to the taxpayer. In addition the examiner should be explaining the examination and appeal process as well as the process to collect any deficiency.

- 12. [TEC]** Advertising by former revenue agents on television and newspapers guarantees that the balance due will be reduced as low as ten cents on the dollar. Taxpayers come to us and ask why we can't do the same when we work to do offers in compromise or correct returns based on discrepancies reported on notices.

Question: What procedures are these agents aware of that have not been shared with practitioners, presuming their advertisements are valid?

Answer:

The advertisements are being based on previous statistics generated by the Internal Revenue Service, which stated based on data available, that on average the IRS was collecting approximately 11 cents on the dollar from Offers In Compromise.

Question: Are these companies and former agents advertising reviewed for validity to protect the public?

Answer:

Presently, the Office of Professional Responsibility is looking into the validity and the nature of the commercials currently airing on television.

- 13. [SERVICE CENTER]** One service center sends one notice saying the matter concerning a tax return has been resolved, yet a few days later; a notice is received from another center stating a balance is due. This situation was resolved, however, the time and cost required of the taxpayer could have been avoided had the original center where the return was processed been the only center involved.

Question: Why are two service centers handing the same tax return and why two different answers?

Answer:

Timing probably caused the problem described in the question. A tax examiner or customer service representative probably adjusted an account and wrote a letter informing the taxpayer that the problem had been resolved. A letter is different than a notice. Any employee from any location can issue a letter. Notices on the other hand are generated systemically by what the computer master file sees at the moment. Although the employee that issued the letter adjusted the account, that doesn't post to the master file for three weeks.

Activity on an account may be occurring at more than one center. At the present time an employee at one center can see the activity at that center but cannot see activity at other centers without looking for it on other screens. That will change at the beginning of the year. All employees will see the same information no matter their location.

- 14.[TEC]** Offers in Compromise do not appear to always be added into the system for processing in a timely manner. A phone call was made to check on status of an offer and the taxpayer was told it was being worked. A follow up call 30 days later for status showed the case had been "opened in the system" the day after the first phone call. Delays in starting the process and result in the requirement of updated financials being sent to the IRS. Updating the financial information leads to additional cost on the taxpayer when the offer was sent with timely information.

Question: Can the taxpayer receive a notice that the offer has been received and is being processed? This would ensure timely processing.

Answer:

At this time there is no system set up to issue a notice that an offer has been received, however, due to this question, this recommendation has been forwarded to National Office.

Since the centralization of OIC processing in the Brookhaven and Memphis Service Centers, all OIC's are now being loaded to the automated OIC system within 72 hours of receipt.

In regards to the IRS requiring updated financial information, National office has now mandated that if the delay in working the OIC is the direct result of the IRS, no updated data will be required from the practitioner or the taxpayer. This decision was made due to recommendations and comments directly from the practitioner community.

15.[SERVICE CENTER] There appears to be an inconsistency in how returns are reviewed and changed due EIC being a part of the tax return. Most of these changes are based on either a filing status change or self-employment being part of the return. These matters are usually resolved within a few months; however, the accountant is the one who is presumed by the taxpayer to have made the mistake. The moment the taxpayer receives a notice saying the tax return has a problem or is being changed, they presume it is the tax practitioner's fault.

Question: Can the notice be changed to reflect that there is a lack of information to validated the filing status or EIC instead of stating we have changed your return because we believe it was not correct?

Answer (Atlanta Submission Processing): There are 21 different explanations that apply to changes of EITC. However, none of them properly explains the problem relating to self-employed taxpayers. We are aware of a problem computing earned income when there is a Schedule C or F loss, or a gain of less than \$400 and the computer cannot make the determination .

Question: Can the information sent with these notices be easier to understand? Most of them are more complicated to read than the code on which they are based.

Answer (Atlanta Submission Processing): Law mandates much of the information on notices, and although all the information provided may not pertain to a particular taxpayer it is still required. Notice clarity is a matter of concern and an ongoing project at headquarters level. Over the last several years, many notices have been completely redesigned and others will be each year. This is a lengthy process involving input from many stakeholders both internal and external. A team tasked with rewriting the math error explanations has recently completed their work and those rewritten explanations will appear on next year's notices.