

2004
Tax Forum
between
Internal Revenue Service
and
North Carolina Society of Accountants



Point of Contact:

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- 1. Third Party Designee.** Several of my clients have received letters from the IRS concerning Form 941 problems. On all of my clients' 941s, I am listed as the third party designee. When I call the IRS after my clients send me their notices, invariably the IRS says my name and PIN do not match what is on their records. I stare at a copy of the 941 for the quarter involved and see my information in the third party designee section. It should be the same thing the IRS has but without the payer's signature. I have been told that perhaps the information was keyed incorrectly.

Question: If the information is not going to be reflected in the system or correctly transcribed, what have we gained?

Answer: Based on the question provided we cannot tell if this involves a current Form 941 or an older one. Since a notice has been sent, we are assuming that this is an older period. Any return filed with the third party designee checked prior to January 2004 fell under the old rules of expiration, which are the earliest of:

- The date the account is placed in closed status (refund issued, no balance due)
- The life of the 1st balance due notice up through the issuance of the 2nd notice, or
- The one-year anniversary of due date of tax return, without extension.

In the instance you described, the name and PIN may have dropped off our system due to expiration.

Since January 2004, authorization has been expanded to function as the equivalent of Form 8821, Tax Information Authorization. The expiration date will be standardized to the one-year anniversary of the due date of the tax return.

We apologize for the problem you have experienced and hope that the new changes will help you help your clients. Questions of this nature can often be resolved by contacting our Practitioner Priority Service at (866) 860-4259. If you continue to have these problems, please contact the Taxpayer Advocate office at (336) 378-2180.

- 2. Third Party Designee.** Third party designee on Form 1040, Form 1120(S), Form 941, etc. appears to be limited to IRS contacting that individual to clarify numbers or math errors.

Question: What is the limitation of information sharing with this designation in comparison to a POA?

Answer: By completing the third party designee portion of a tax return, the taxpayer grants the IRS the authority to disclose oral information to the designee on issues limited to return processing issues and refunds/payments related to the return upon which the authorization appears. Starting January 2004, it is equivalent to Form 8821.

- 3. Deductibility of Payment for Fellowship Obligation.** Individual graduates from college and receives a teaching fellowship requiring them to teach in NC for four years. Each year they are paid \$6500. Parents are asked to sign as responsible party if individual does not fulfill the requirement and are held liable.

Question: If parents are required to repay, is there a deduction to be taken on an individual tax return? Typically this would occur when the dependent is no longer claimed on the taxpayer's return.

Answer: Unfortunately, there is no provision to allow the deduction of this Fellowship obligation since the dependent is no longer claimed on the taxpayer's return.

- 4. Automatic Extensions.** Most states, to include North Carolina, have adopted the six-month automatic extension. We realize we can elect the six-month extension but this form cannot be electronically sent, as it requires signature.

Recommendation: Change the automatic extension from four months to six months.

Answer: Thank you for your suggestion. We have heard the same complaint and request from practitioners throughout North and South Carolina. The good news is that Form 2688, Requesting an Additional Two Month Extension for Individual Income Tax Returns, can be filed electronically. As for the suggestion that the automatic four-month extension be extended to six-months, the IRS Office of Taxpayer Burden Reduction is currently looking at all issues related to filing extensions. Because of our experience, your organization's input in relation to this issue would be invaluable. Your experiences and resulting suggestions can be submitted using Form 13285A, Reducing Tax Burden on America's Taxpayers, or the Office of Taxpayer Burden Reduction can be contacted by e-mail at sbse.otpbr@irs.gov.

- 5. Thank you!** The Advance Child Credit lookup on your web site was a huge success. Most clients did not retain the letter that came with the check or even remember getting one. This helped to eliminate errors on the return by allowing us to verify the information prior to filing the return.
- 6. e-Services.** Based on your response to estimated tax discrepancies last year, "*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. 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.*"

Recommendation: Add either a function similar to the web-based 2003 Advance Child Credit inquiry or provide an eServices function where the practitioner can access individual estimated tax payments prior to completing the return. Most taxpayers who are making these payments utilize a professional to complete their tax returns. By adding this feature we feel Atlanta can eliminate most of the 200,000 discrepancy notices issued.

Answer: You have made an excellent point. Several of our electronic services provide access to this information. As an Electronic Return Originator (ERO) that qualifies for premium e-services (filing at least 100 returns electronically), you may, with a Power of Attorney on file, access your client's accounts 24 hours a day, 7 days a week. Premium e-services include access to the Electronic Account Resolution (EAR) system

and the Transcript Delivery System (TDS), which will be you an account of our client's payment history, online. For more information, go to www.irs.gov to access our e-services tutorials and general information about these incentives. Further, if you and your client are enrolled in the Electronic Federal Tax Payment System (EFTPS), you can access a 16-month history of payments made. This system is great for businesses or for individuals who are required to make quarterly estimated tax payments. For more information, access our website and view or download Publication 3806 for Individual Taxpayers, Publication 3425 for Tax Professionals, or go to www.eftps.gov.

- 7. e-Services.** Need to have an IRS database for business entities similar to what the NC Secretary of State offers for Corporations from their website. Information recommended to be included:

- ü Corporate status, information, filings, estimated tax payments etc.
- ü Partnership status, information, filings, etc.
- ü Payroll Filings; Form 940, Form 941, and payments
- ü Non-Profit status, information, filings, etc.
- ü Acceptance of S Corp Elections

Answer: Based upon disclosure rules, this type of information would not be allowable for posting on the IRS web site; but as a practitioner, if you have registered for e-services and meet the requirements for premium services, you are able to access most of the requested information. To access this information on a particular business, you must have a proper disclosure authorization. The authorization may also be filed using e-services. Then you would be able to use either the Electronic Account Resolution (EAR) or the Transcript Delivery System (TDS) to obtain the information you needed.

- 8. e-Services.** Applied for e-Services when it was first offered and somehow we now have four access accounts; two in which the only function is TIN matching; two in which we can do disclosures, transcript delivery service, electronic account resolution; all accounts have application and registration. Called the eService hotline and asked that they consolidate into one account. We were told the account access couldn't be merged into one account.

Question: What are my options?

Answer: The access to IRS e-services is determined based on the number of returns files under the EIN not the EFIN of the originator. If a firm has more than one office and all the offices use the same ERN to file returns electronically, then all the offices should have the same access to the IRS e-services even if the offices use different EFINs when transmitting returns. On the other hand, if the firm has multiple offices each with its own EIN and EFIN, then the access to IRS e-services will be determined based on the e-file participation of each individual office which may result in differences in the e-services application that can be accessed by each office.

The access to the "incentive" e-services (Electronic Account Resolution, Disclosure Authorization, and Transcript Delivery System) is limited to firms who are active participates in the IRS e-file program and e-file 100 or more accepted individual income

tax returns in a season. The determination of whether the 100 return requirement has been met is made using the EIN or the SSN listed on the firm's EIN line (located in the paid preparer's section of the return), and is not determined based on EFIN.

The Principal of the firm has the ability and the authority to delegate varying access to e-services to each registered user of the firm. If all of the offices are using the same EIN when preparing returns, then access to the various e-services applications may be different for each user because the Principal of the firm has delegated access to the "incentive" e-services only to specific registered user within the firm. In order to permit someone other than a Principal of the firm to use the incentive e-services, the Principal must access the IRS e-file application in e-services and name Delegated Users. When the "incentive" e-services become available to the firm, the delegated users will have access to them. In order to access e-services each individual in the firm that will be using e-services must complete the registration process.

Firms that continue to experience problems using IRS e-services are encouraged to call the e-help desk at 866-255-0654.

- 9. e-Services.** When using this function for submitting disclosure information on a business, verification is requested on the Taxpayer from their most recent tax return. This screen is confusing as it lists the taxpayer as the "Business Name."

Recommendation: This needs to specify the taxpayer's name or specify the business owner or something besides the business name to avoid confusion on what information to enter.

Answer: Though it can be a little confusing, just remember that at this point, the best way we have to identify or verify who you are is through your individual tax information. Once you login to e-services, you must select a specific Organization which will be "Individual" or the "Organization" name for which you have authority to access. Every e-services user has an Individual Organization designated under this profile. You may edit your registration information or complete a new application. Users of e-services products may be associated with one or more organizations. Under these profiles, you may represent a firm and perform specific tasks for that firm in e-services.

- 10. e-Filing.** This past year we saw considerable emphasis on using the free tax return preparation on your website. Many of your news updates and public information notices have heralded the success of this program. We see this as the IRS competing with us in the area of tax preparation. We have noticed a corresponding decline with individuals seeking our services among younger taxpayers.

Question: Can you share with us the statistics and overall reception of the program from our state and across the country? Is this not a conflict of interest in supporting large software companies and not the professional tax practitioner?

Answer: Thank you for your question. In researching this issue, we were unable to secure statistics and demographic data regarding Free File. We have submitted a request to IRS Headquarters to determine if we have this information. We will follow-up and provide this information when and if we receive it.

While some tax professionals may view the Free File program as a conflict of interest, in November 2001, the Office of Management and Budget's (OMB) Quicksilver Task Force established 24 e-government initiatives that are part of the President's Management Agenda. These initiatives were designed to improve Government to Government, Government to Business and Government to Citizen electronic capabilities.

One initiative, EZ Tax Filing, instructed the IRS to provide free online tax return preparation and filing services to taxpayers. In accordance with this OMB directive, the IRS began working in partnership with the tax software industry to develop a solution. The result was the formation of the Free File Alliance, LLC, a group of tax software companies, managed by the Council for the Electronic Revenue Communication Advancement (CERCA), who provide free online tax preparation and electronic filing services.

Free Filing Alliance is only one way the IRS has worked to offer free electronic filing alternatives. For example, the IRS supports existing coalitions, churches and community associates to expand computer access to taxpayers without home computers. The IRS also supports many volunteers during the filing season through Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) to low income taxpayers.

11.e-File Limitations. Many retirees have more than one retirement account. For good reasons, they have all of their federal income tax withheld from only one account equating to the withholding being more than 50% of the distribution. This precludes the return from being filed electronically.

Question: If W-2s can be sent electronically if the withholding exceeds 50%, why can't a Form 1099?

Answer: Thank you for your question. You mentioned that W-2s can be sent electronically if the withholding exceeds 50%. This is not the case. Both W-2s and Forms 1099 cannot be electronically filed if the withholding exceeds 50%. If a return is transmitted with W-2s or 1099s where the withholding exceeds 50%, the ERO will receive Error Reject Code (ERC) 0295. The Individual Electronic Filing Branch is aware that the ERC 0295 is an obstacle for e-filing returns. However, the Reject Code 0295 is a fraud prevention criteria based upon prior IRS experience in identifying fraudulent returns. Until the e-file fraud problem is resolved or at least declines, it would not be in the best interest of the IRS to remove this fraud control. There are no plans to change this requirement at this time.

Suggestion: Although currently limited to paper filing if one Form 1099-R has withholdings exceeding 50%, suggest if the total withholdings of the Form 1099-Rs for a return is less than 50% vice one and if coming from a registered practitioner (PIN) then allow the return to be filed electronically. If the return was fraudulently filed you have two means to track back – ERO and PIN.

12. e-File Limitations. A retiree changed employer's many times and opened an IRA account at each work location. With more than 10 Form 1099-Rs, we cannot file this return electronically. This may become more common as the work force is no longer staying with the same employer until retirement.

Question: Can the limit be increased or eliminated for EROs?

Answer: On page 22 of the 2003 revision of Publication of 1345-A, Filing Season Supplement, the IRS now accepts up to 20 Form 1099-Rs with an electronically filed individual income tax return. This is double the number of Form 1099Rs that were accepted in filing season 2002. If you continue to have problems in transmitting returns that have 20 or fewer 1099-Rs, please contact your software provider to determine if it is a vendor issue.

13. Electronic Amended Returns. 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 is filed electronically? Answer from 2003 was: "*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.*"

Question: Can we have an update on this issue and further explanation of what is included in the Modernized Electronic Filed Program?

Answer: Thank you for your question and for following up on this issue. The only amended return that is currently available for electronic filing is the Form 941c. According to the Electronic Tax Administration Advisory Committee's (ETAAC) annual report to Congress dated June 30, 2004, ETAAC has made recommendations that Congress should authorize additional funding for the IRS, specifically earmarked for Modernized e-File (MeF). In order to specifically address your issue of the future of the Modernized Electronic Filed Program, we have included the following excerpt from the ETAAC's report:

"The IRS has made significant progress in modernizing certain systems to enable electronic filing of information returns and electronic transfer of funds. However, major initiatives such as Modernized e-File (MeF) are substantially under funded in order to be implemented in a timely manner. Historically, the IRS has not had adequate resources in order to provide internal staff with updated hardware and software. This has led to challenges with the timely testing of programs and systems for release."

"While we believe that MeF will help practitioners file returns have had previously been ineligible for e-filing, we realize that this alone may not be enough of an incentive. Practitioners, transmitters, and the IRS will need to make substantial investment in hardware and data communications systems due to the larger file size and conversion from proprietary formats to the XML schemas employed by MeF..."

14. Electronic Reconciliation. We have seen over the last few years improvements in CP2000 to include information from Form 1098, Form 1099, W-2s, etc., which have helped to clarify tax returns. At times there seems to be a significant time before some notices are sent, sometimes as much as three years. We know the

information we file each year is sent more and more electronically and must be reported by February or March.

Question: What types of information are being electronically reconciled and what is the timeline to determine if there are shortfalls?

Answer: Tax years generally end on December 31, but IRS does not receive information from employers, banks, businesses, and other payers (i.e. W-2s, 1099s, 1098s) until February or March of the following year. Once we received all the tax returns and payer information, our computer system compares the information reported with the information the payers provided. This process is very complicated and takes a long time to complete. We're working hard to shorten the time it takes to contact taxpayers. A taxpayer may be contacted as early as 12 months from the date a return is filed. For example Tax year 2003 Form 1040 due by 4/15/04, with the acceleration of the AUR program the taxpayer could receive a AUR notice as early as December 2004/January 2005.

15. Web-based FIRE. Thank you for moving FIRE to a web-based accessible product vice the dialup access.

Question: Can we get an update on the system migration and new capabilities?

Answer: Filing Information Returns Electronically is known as FIRE. Current users of the old FIRE system will be sent a post card in a few weeks explaining the program changes. An updated Publication 3609 will also be completed and sent to the Area Distribution Centers. Publication 1220 is also being developed and should be available around that time.

Note: The previous (old) version of Publication 3609 is obsolete.

If you had an account on the old dial-up FIRE system prior to 4/2/2004, click "Log on!!!" and it will accept your User ID, Password, and PIN from the dial-up FIRE system. Otherwise, click "Create New Account" and setup a new account, you will be ready to send your data. If you have any questions, please call us toll-free at 866-455-7438 ext 3.

If you need to replace a bad magnetic media file or a bad file from the dial-up FIRE system, these can also be sent to this system as a replacement file.

The new internet based system provides a solution for e-filing of information returns via the internet and provides a solution for receiving large files that cannot currently be received on the FIRE system. It will provide the performance, scalability and availability of Windows and .NET and will establish an electronic filing processing future that can scale as more filers choose to interface with the IRS digitally. For updated information, please access the website at <https://fire.irs.gov/firev1r/>.

16. Numerous Identifying Numbers. We appreciate all the electronic availability of information, the eFile services provided, and the practitioner identification number for filing returns. However, we now have a number for each function we participate in. Recommend migrating your automated systems to eventually allow us to use a single identification number for a practitioner. For example we have the following numbers in our practice:

- ü Practitioner Identification Number
- ü Electronic Return Originator
- ü Central Access File
- ü Enrolled Agent

Question: Can the automated system be updated to have a practitioner database where all associated numbers for the practitioner can be kept or even better when the “authorizations” for that practitioner be kept under one number?

Answer: We recognize and appreciate the difficulty in maintaining multiple practitioner identification (ID) number for IRS purposes. However, given our security demands and constraints, it is not currently feasible for the IRS to implement a single ID numbering system for multiple applications. Many of our systems and programs are housed at various Campus locations, are maintained by different operating units, and cannot be merged into one common format. In addition, housing these various systems at multiple Campus locations enhances the overall security of our systems.

17. Request for W-2. Received a request for W-2 from IRS for filing year 1999. We sent a copy of the original filing submitted to SSA, which the notice stated SSA did not receive.

Question: Why did it take four years to request the document? Why did the request not come from SSA?

Answer: Tax year 1999 W-2s are sent to SSA in February of 2000. Balancing and reconciliation of all the W-2/W-3 information takes approximately one year (2001). If there is a discrepancy between the information reported to SSA and the returns filed with the IRS, SSA send a letter to the employer. SSA sends a second contact letter if there is no response to the first one. After several attempts to contact the employer and secure the W-2s, SSA (because they can't assess penalties or enforce collection of the W-2s) will send the cases to the IRS. We began working TY1999 CAWR in 2002. Did the employer respond to SSA? Did they respond to the first notice sent out? That could account for the four years, not because it is taking four years to request the document, but because we are not getting a response.

18.S Election Discrepancy. Client received a notice dated March 2004, from Cincinnati, disallowing the Form 1120S filing for year 2000. Form 1120S was filed for 1998 and 1999 and both returns were not questioned. A written response was mailed on May 18, and enclosed a Form 2553 marked "copy" which was received by my client from his attorney. This is only record on file and the client cannot locate the acceptance letter from the IRS. On July 16, 2004, faxed a copy of my original letter with a POA. Twice since the mailing calls have been made to a direct line without any returned calls. Next step will be to contact the Practitioner's Priority Service.

Question: Why was the third return rejected after accepting the first two? This is another case where if access to this information via eServices were available prior to filing a return, we would avoid future problems.

Answer: Without specific account information we cannot explain why the third Form 1120S was rejected.

In general, a properly completed Form 2553, Election to be an S Corporation, must be filed and approved before the IRS can accept Form 1120S tax return. The completed election must be made up to one year prior to but no later than the 15th day of the 3rd month following the requested effective date entered on the Line E of Form 2553. The business will be notified if the election is accepted or denied within 60 days. If a notice is not received within that timeframe, the business should contact the Entity department where the form was filed by correspondence or fax and request the current status of the request. The following is the phone numbers in Cincinnati and Ogden:

Entity Department, Cincinnati, OH 45999 or fax to 859-669-5748

Entity Department, Ogden, UT 84201 or fax to 801-620-7116

19. Notices verses Letters. 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. Answer from 2003, *“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.”*

Question: We have seen improvement in this area. Have your system improvements led to a reduction in these types of conflicting letters/notices being generated?

Answer: There have been improvements and you should see less conflicting information.

20. Contracted Collections. We have seen in the last year the use of contracted collection services. They seem to be approaching the situations with a less than friendly attitude or customer orientated viewpoint. When we identify ourselves as practitioners and explain the situation, their attitude changes.

Question: Is there a review or feedback process to the IRS on these agencies?

Answer: Currently the IRS is not using contract labor to help with tax collections. The North Carolina Department of Revenue (NCDOR), however, is using contract labor to assist them with the collection of state taxes that are due. Please contact NCDOR for issues concerning state tax collections.

21. Practitioners Priority Service. This service has been a great resource to our work. At times, we are not sure under what circumstances to contact them for resolving issues.

Question: Can you give us some clear guidance for using this service?

Answer: The Practitioner Priority Service (PPS) should be the practitioner's first point of contact with the IRS for account related issues. However, practitioners receiving notices from the IRS Automated Under Reporter Program (AUR), Automated Collection System (ACS) or Examination should call the number on the notices they receive.

The following is a partial list of the services PPS provides:

- Locating and applying proper credit for payments
- Explaining IRS communications such as notices and letters
- Providing general procedural guidance
- Securing taxpayer income verification (Forms 1099 and/or W-2)
- Securing transcripts of taxpayers accounts

The toll-free number for the Practitioner Priority Service is 1-866-860-4529. This service is available weekdays from 7:30 a.m. to 5:30 p.m. local time.

- 22.** Check 21 Federal Law became effective October 28, 2004 introduces the digital (substitute) check instead of returning the original cancelled check to the taxpayer.

Question: Will the IRS accept what is provided by the bank to the taxpayer, substitute check image pages, during audits or when verifying payment of taxes?

Answer: Bank provided documents will be accepted since Check 21 is federally mandated. The taxpayer needs to keep those documents as they would have kept the original canceled checks. If there is a discrepancy by the IRS on an issue they usually will send a letter stating there is discrepancy and what is needed. This letter should be taken to the taxpayer's bank for them to provide additional information. In these cases the bank may not charge any fees.

- 23.** The e-Services can be used to verify estimated tax payments. Currently to get transcript information a power of attorney must be filed first to obtain the estimated tax information. A precedent has been set whereby SSNs, tax filing status, AGI, and refund information is provided via internet without a POA and information can be provided instantly. Examples include the 2003 Advance Child Credit and Tax Return Refund Status.

Question: We need to verify, prior to submitting the return the estimated tax payments. Can a process similar to the Advance Child Credit be put in place where we can obtain the estimated tax information without completing the POA and getting a transcript via e-Services. Even with fast internet connection this process can take over 20 minutes (primary delay is each item entered requires "processing request").

Answer: This is being reviewed but may have privacy issues preventing release.

- 24.** The Form 8109 for tax depositors to the bank. Understand the emphasis on using EFTPS, however, change is sometimes slow. We need an easy way to get blank forms.

Answer: Following address was provided as a way to write to get blank forms.

Department of Treasury
P. O. Box 6678
St. Louis, MO 63116

25. When to involve the taxpayer advocate office.

Question: Can the Taxpayer Advocate's Office be involved if a case has gone to collections?

Answer: Yes it can happen. If you feel there is a need to involve the Taxpayer Advocate then give them a call. Call the Taxpayer's Advocate Office and discuss the situation with them and they can tell you which way to proceed.