

2015 Taxpayer Advocacy Panel Recommendations

Total Elevated Issues 19

TAP Issue ID: 29897 Elevated Date: November 3, 2015	Committee Name: Tax Forms and Publications Committee
Title: Add Worksheets to Form1040 Instructions Table of Contents and Index	
Project Statement	Add location of Worksheets to Form 1040 Instructions and Index. Also include in the Table of Contents where to find the information on paying down the public debt.
Goal Statement	The goal is to add reference to the Worksheets contained in the Form 1040 Instructions to the Table of Contents and Index.
Proposed solution	Add page references to the Worksheets to the Form 1040 Instructions, per Appendix 1 and Appendix 2 attached.

<p>TAP Issue ID: 32387 Elevated Date: November 3, 2015</p>	<p>Committee Name: Tax Forms and Publications</p>
<p>Title: Form 1040 – Healthcare Check Box</p>	
<p>Project Statement</p>	<p>Make the Healthcare Check Box prominent to ensure all taxpayers can readily indicate their full year or partial year healthcare coverage.</p>
<p>Goal Statement</p>	<p>The goal of this referral is to recommend to the IRS a simple solution to assist the taxpayers in confirmation of their healthcare coverage to comply with Affordable Care Act (ACA) requirements.</p>
<p>Proposed solution</p>	<p>The proposed solution is to add a separate block for ACA right after the “Exemptions” block on the front page of Form 1040 as follows:</p> <p>Add line to say “Full Year Medical Coverage per ACA requirements” and a small box for check mark. Also, have a note “Go to Line 61 if “Full Year” coverage is not checked.</p> <p>Revise Line 61 to say “Go to Instructions to determine partial year or no medical coverage and to determine additional taxes.”</p>

<p>TAP Issue ID: 32861 Elevated Date: November 3, 2015</p>	<p>Committee Name: Tax Forms and Publications</p>
<p>Title: Form 1040 - V</p>	
<p>Project Statement</p>	<p>Reword the instructions for Form 1040-V/1041-V to make it clear that you are to send the voucher, return and payment to the address provided. Also to provide the Form 1040-V in the Form 1040 Instructions so it is easy to find.</p>
<p>Goal Statement</p>	<p>The goal of this referral is to recommend to the IRS a simple solution to make the instructions for the Form 1040-V/1041-V clearer and the form more readily available.</p>
<p>Proposed solution</p>	<ul style="list-style-type: none"> • On Page 2 of Form 1040-V/1041-V the chart states; ‘IF you live in... THEN use this address to send in your payment...’ <p>The submitter of Issue 32861 stated it was not clear where to send in the actual return when there was a balance due. The recommendation is to change the wording to make it clear that you are also sending in the voucher and tax return with the payment. Therefore if you change the wording to say ‘IF you live in... THEN use this address to send in your return, voucher and payment...’ it would be clear up any confusion for the taxpayer as to where to send the return.</p> • The second recommendation as suggested in Issue 32802 is to include the Form 1040-V in the 1040 instructions so taxpayers that have a balance due are not forced to search out the form.

<p>TAP Issue ID: 24894 Elevated Date: August 13, 2015</p>	<p>Committee Name: Notices and Correspondence</p>
<p>Title: CP2000 Corrections</p>	
<p>Project Statement</p>	<p>The Notices and Correspondence Committee is tasked with reviewing IRS materials ensuring they are clear and informative to taxpayers. The Committee has determined the Notice CP2000 appears to be a bill, not a notice of difference in tax records.</p>
<p>Goal Statement</p>	<p>The goal of this project referral is to have verbiage changes made to the first page of the CP2000 that will clarify its purpose as a notice from the IRS.</p>
<p>Proposed solution</p>	<ol style="list-style-type: none"> 1) The Committee proposes to eliminate the first section of the CP2000 titled "Proposed changes to your XXXX Form 1040 Amount due:" (Appendix 1) and replace it with the first section found on the CP2501 titled "Important message about your XXXX Form 1040 Your tax return doesn't match the information we have on file" (See Appendix 2). 2) The Committee proposes to include the language "If you don't agree" option, to be placed at the end of page 5 (See Appendix 2) instead of the beginning on page 6 of the CP2000. 3) The Committee proposes to have a note added to page 1 that refers to page 2 for the proposed amount due and the details of the mismatch.

<p>TAP Issue ID: 29543 Elevated Date: April 9, 2015</p>	<p>Committee Name: Notices and Correspondence</p>
<p>Title: Clarify Estimated Payment Wording on Form 4868</p>	
<p>Project Statement</p>	<p>The Taxpayer Advocacy Panel (TAP) requested re-establishment of the Notices and Correspondence Committee because taxpayers continue to submit items for this area. TAP previously partnered with the Internal Revenue Service (IRS) to review, update, and improve IRS correspondences and forms.</p> <p>The instructions on Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return are not clear. Taxpayers are confused as to the actions they should take in order to apply for extension. This confusion can lead to unnecessary penalties and interest for the taxpayer.</p>
<p>Goal Statement</p>	<p>Make recommendations to Form 4868 that will avoid problems with automatic extensions of time to file U.S. Individual Income Tax Returns.</p>
<p>Proposed solution</p>	<p>The instructions that are contained on Form 4868 under the paragraph <i>Pay Electronically</i> should be revised as follows:</p> <p><i>E-file</i> Form 4868 and Pay Electronically</p> <p>You can electronically file Form 4868 and make an electronic payment of part or all of your estimated income tax. You can electronically pay online or by phone (see page 3- Making Payments Electronically). If you file Form 4868 electronically, you do not need to submit a paper Form 4868 unless you are making a payment with a check or money order.</p>

<p>TAP Issue ID: 32934, 32935, 32936, 32938</p> <p>Elevated Date: May 6, 2015</p>	<p>Committee Name: Taxpayer Assistance Center Improvements Committee</p>
<p>Title: Publication 4012 - Volunteer Resource Guide; Publication 4491 - VITA/TCE Training Guide; Publication 5157 - VITA/TCE Affordable Care Act; Form 6744 - VITA/TCE Volunteer Assistor's Test/Retest</p>	
<p>Project Statement</p>	<p>Review Publications 4012, 4491, 5157, Form 6744 and provide IRS program owners with feedback.</p>
<p>Goal Statement</p>	<p>The Committee has reviewed Publications 4012, 4491, 5157 and Form 6744, and attached the following substantive recommendations regarding this publication.</p>
<p>Proposed solution</p>	<p>Publication 4012 VITA/TCE Volunteer Resource Guide:</p> <ul style="list-style-type: none"> • Clarify if these returns are subject to quality review and if so, does the quality reviewer need to be trained to review what could be out of scope returns. • Clarify that certification level limits also apply to answering client tax law questions as well as when preparing tax returns. • For TY 2015 add Forms 1095-B & 1095-C to list of information reporting documents. • Add: change return stage to "ready for quality review after third bullet • If taxpayer has previously applied for exemption certificate from the marketplace but has not yet received a response, mark applied for on Form 8965 and complete the rest of the return following normal procedures. • This Notice only applies to 2014 and needs to either be superseded or removed • Coverage Exemptions need to be expanded to include all Codes available on Form 8965 • Prior material in ACA section refer to it as "shared responsibility payment" • This footnote is unnecessary as the person is not a qualifying person for HoH as defined on page B-3 • This footnote needs to be updated or eliminated to comport with Notice 2013-61 • Footnote should be added to reflect that nonresident aliens, other than residents of Canada and Mexico cannot claim exemption for spouse. • Include or exclude SSDI from definition as a benefit provided by the state • When a paper return must be filed, advise the taxpayer to sign and mail the federal return to the

	<p>applicable IRS address for the state where the taxpayer lives.</p> <ul style="list-style-type: none">• If applicable, State income tax returns should be signed and mailed to the appropriate address for that state. <p>Publication 5156: Recommended text changes: Health care coverage exemptions</p> <ul style="list-style-type: none">• Taxpayers with income below the filing threshold will use Part II (Coverage Exemptions for Your Household Claimed on Your Return) of Form 8965, page 11• add (except for those not lawfully present in the U.S.) page 10
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<p>TAP Issue ID: 33169 Elevated Date: 08/05/2015</p>	<p>Committee Name: Taxpayer Assistance Centers (TACs)</p>
<p>Title: Enhancing IRS Support for VITA/TCE Grant Programs</p>	
<p>Project Statement</p>	<p>The Taxpayer Assistance Centers Committee recognizes that the Volunteer Income Tax Assistance (VITA) / Tax Counseling for the Elderly (TCE) programs are processing more returns due to the cessation of return preparation by the Taxpayer Assistance Centers¹. The Committee proposes that the IRS increase its support in the recruitment of volunteers for these programs to meet the increased demand for return preparation.²</p>
<p>Goal Statement</p>	<p>The goal of this referral is to have the IRS provide program support locally by assisting grant partners and provide publicity on a national scale to encourage individuals to volunteer at local tax preparation sites.</p>
<p>Proposed solution</p>	<p>Notwithstanding the above practices, the IRS can and should do more to support its VITA/TCE partners in order to keep and maintain volunteers. Doing so supports a mutually beneficial program. The IRS eliminated tax preparation at all of its TAC facilities beginning in TY 2013, and shifted this responsibility to its grant partners. Thus, the IRS has a fiduciary relationship with its partners to ensure that low income and elderly taxpayers have free tax preparation services in their community.³ As such, the IRS has a statutory obligation to assist in the recruitment and retention of volunteer tax preparers to ensure the success of free tax preparation programs. Furthermore, the IRS is in a position to employ economies of scale to augment and strengthen local partner efforts to recruit and maintain VITA/TCE volunteers.</p> <p>TAP has identified a number of ways the IRS can strengthen its role by enhancing support for VITA/TCE Partners:</p> <ol style="list-style-type: none"> 1. Provide guidance on how partners can use various established techniques to help its partners attract new volunteers and continue to motivate its current coterie of volunteers. This reference material can be made a section of Publication 4883, Grant

¹ In the last year the IRS prepared tax returns, FY 2013, over 300,000 returns were prepared in IRS offices. Correspondingly, over the last three years, the number of volunteer prepared tax returns has increased by 381,565. GAO Report: *The Tax Season*, Dec. 2014.

See <http://www.gao.gov/assets/670/667563.pdf>, Appendix VI.

² Between FY 2012-2014 volunteer prepared returns increased by 11.7%, Id.

³ The taxpayers VITA and TCE grant partners help include rural and English as a second language (ESL) taxpayers as well.

Resource Guide. The material can stress some of the motivating factors driving volunteerism such as:

- Increased satisfaction by participating in an enjoyable and rewarding experience;
- Increased sense of connection to the community;
- Feeling of productiveness;
- Opportunity to use current skills and learn new ones;
- And sharing of experiences, interests, and knowledge.

2. Develop an advertising campaign to run public service announcements (PSAs) on national media that promote the value of individuals volunteering at a free tax preparation site in their local area as a means of helping their fellow citizens. Send television stations a ready-made clip, 30 seconds to one minute long. Create radio PSAs that are 20, 30, 45, or 60 seconds in length and circulate to stations or programs to which potential volunteers are likely to listen.
3. Engage Stakeholder Partnerships, Education and Communication (SPEC) Relationship Managers to make recruiting of VITA/TCE volunteers a hallmark of their local outreach efforts among tax professionals, businesses, and other groups. Develop a generic flyer or IRS publication that emphasizes the benefits of volunteering and directs interested individuals to apply online at IRS.gov for managers to distribute at outreach events.
4. Develop a series of national news releases in conjunction with the IRS Public Affairs Office that can be released to national and local media outlets. The goal of this series is to promote the value of individuals volunteering at a free tax preparation site as a way to help their fellow local area citizens and direct interested parties to the IRS volunteer application web page.
5. Incentivize grant recipients to attract new volunteers by providing additional credit (points) when evaluating or rating grant application

	<p>packages. The goal is that grant recipients who develop and implement plans to support increased volunteerism within their local communities will receive additional credit on their funding requests.</p>
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<p>TAP Issue ID: 26887 Elevated Date: November 3, 2015</p>	<p>Committee Name: Tax Forms and Publications</p>
<p>Title: Form 1040 Instructions, Earned Income and Credit Bullet</p>	
<p>Project Statement</p>	<p>State the non-eligibility of Earned Income Credit (EIC) filers in a more prominently featured area of the 1040 Instructions.</p>
<p>Goal Statement</p>	<p>The goal of this referral is to recommend to the IRS a simple solution to assist the taxpayers in confirmation of their eligibility for the EIC.</p>
<p>Proposed solution</p>	<p>The proposed solution is to add one additional bullet to the Step 1 portion of the Form 1040 Instructions (page 53), for the EIC eligibility. The bullet would be as follows:</p> <ul style="list-style-type: none"> • Were you, or your spouse if filing a joint return, at least age 25 but under age 65 at the end of 2014? (Check “Yes” if you, or your spouse if filing a joint return, were born after December 31, 1949, and before January 2, 1990.) If your spouse died in 2014 or if you are preparing a return for someone who died in 2014, see Pub. 596 before you answer. <p>If the answer is “Yes” filers can continue to the next step. If “NO” filer is not qualified for EIC.</p>

<p>TAP Issue ID: 32408 Elevated Date: November 3, 2015</p>	<p>Committee Name: Tax Forms and Publication</p>
<p>Title: Form 1040 Instructions - Taxability of Social Security Disability Benefits</p>	
<p>Project Statement</p>	<p>There is no clear direction in the instructions for Form 1040 or 1040A about the taxability of Social Security disability benefits, which are paid to the recipient through the Social Security Disability Insurance (SSDI) program.</p>
<p>Goal Statement</p>	<p>The goal is to provide easy access to the information pertaining to the taxability of Social Security disability benefits.</p>
<p>Proposed solution</p>	<p>The proposed solution is for IRS to have a statement about the Social Security disability benefits in the Form 1040 and 1040A Instructions and guide taxpayers in proper protocol.</p> <p>The solution is to begin the instructions for Line 20a and 20b (page 28) of 1040 Instructions and for Line 14a and 14b (page 26) of 1040A Instructions as follows:</p> <p>Social Security Benefits “Social Security benefits include monthly retirement, survivor, and disability benefits. The amount of Social Security benefits that must be included in your income tax return and used to calculate your income tax liability depends on the total amount of your income and benefits for the taxable year. Social security benefits include monthly retirement, survivor, and disability benefits. They do not include supplemental security income (SSI) payments, which are not taxable.”</p>

<p>TAP Issue ID: 32409 Elevated Date: November 3, 2015</p>	<p>Committee Name: Tax Forms and Publications</p>
<p>Title: Schedule A Instructions, Deductibility Nutritional Supplements and Nicotine Patches</p>	
<p>Project Statement</p>	<p>Provide a clear statement in the Schedule A Instructions on the eligibility of prescribed “Nutritional Supplements” and “Nicotine Patches” as deductible medical expenses.</p>
<p>Goal Statement</p>	<p>The goal of this referral is to recommend to the IRS to include the eligibility of Medical expenses pertinent to prescribed “Nutritional Supplements” and “Nicotine Patches” within the Schedule A Instructions.</p>
<p>Proposed solution</p>	<p>1. The proposed solution is to add one additional bullet to the write up “Examples of Medical and Dental Payments You Can Deduct”, on page A-2 right after the bullet about “A weight-loss program....” directly from Publication 502, Medical and Dental Expenses, page 16. The proposed bullet would read:</p> <ul style="list-style-type: none"> • “You cannot include in medical expenses the cost of nutritional supplements, vitamins, herbal supplements, “natural medications,” etc. unless they are PRESCRIBED by a medical practitioner as treatment for a specific medical condition diagnosed by a physician. Otherwise, these items are taken to maintain ordinary good health, and are not considered medical care.” <p>Note that the word “prescribed” is highlighted since it replaces the word “recommended” in Publication 502.</p> <p>2. Revise Publication 502 (page 16), sub-section on “Nutritional Supplements” to replace the word “recommended by....” To “prescribed by....”</p> <p>3. Modify the last bullet on page A-1 of Instructions for Schedule A by adding a sentence directly from Publication 502, Page 13: “However, you cannot include in medical expenses amounts you pay for drugs that do not require a prescription, such as nicotine gum or patches, that are designed to help stop smoking.”</p> <p>4. Another potential option is add a bullet on such medications and refer to Publication 502 which could be additional efforts for taxpayers.</p>

<p>TAP Issue ID: 33015 Elevated Date: June 2, 2015</p>	<p>Committee Name: Tax Forms and Publications</p>
<p>Title: Publication 974 Premium Tax Credit</p>	
<p>Project Statement</p>	<p>The IRS Wage and Investment (W & I), Media and Publications, asked the Taxpayer Advocacy Panel, Forms and Publications Committee to review Publication 974, Premium Tax Credit (PTC) and provide IRS program owners with feedback.</p>
<p>Goal Statement</p>	<p>N/A</p>
<p>Proposed solution</p>	<p>Committee Recommendations:</p> <p>Changes:</p> <ol style="list-style-type: none"> 1. Add an index to this publication. 2. Add explanation of premium tax credit and definitions should be included in Publication 974. 3. Instructions on how to complete the Form 8962, Premium Tax Credit, for specific people (see page 8 and page 15 of the pdf copy) should be included in the Instructions for Form 8962 and removed from the Publication 974. <p>Page 8:</p> <p>Individuals Not Lawfully Present in the United States Enrolled in a Qualified Health Plan</p> <ul style="list-style-type: none"> • Include a direct link to the healthcare.gov website which provides more information about who qualifies as a lawfully present individual, or include the information here. <p>Page 8</p> <p>Individuals Not Lawfully Present in the United States Enrolled in a Qualified Health Plan</p> <ul style="list-style-type: none"> • Line 3: Change: APTC paid for a not lawfully present individual who enrolls in a qualified health plan must be repaid. To: All APTC paid for an individual not lawfully present who enrolls in a qualified health plan must be repaid.

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Lawfully Present and Not Lawfully Present Family Members Enrolled

- Paragraph 1, Line 4: Change: If you or a member of your family is not lawfully present and is enrolled in a qualified health plan with family members who are lawfully present for one or more months of the year, you may take the PTC only for the coverage of the lawfully present family members. To: If you or a member of your family is not lawfully present and is enrolled in a qualified health plan with family members who are lawfully present for one or more months of the year, you are only eligible for the PTC for the coverage of the lawfully present family members.

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Individuals Filing a Tax Return and Claiming No Personal Exemptions

- Paragraph 1 Line 3: Change: If you file an income tax return but claim no personal exemptions, even for yourself, your tax family size is 0 and you cannot take the PTC. You must repay the APTC for which you are responsible. To: If you file an income tax return but claim no personal exemptions, even for yourself, your tax family size is 0 and you cannot take the PTC. You must repay the APTC that you did not qualify for but received.

Page 16: Determining the Premium for the Applicable Second Lowest Cost Silver Plan (SLCSP)

- Paragraph 1 Line 2. Change: If you or a member of your family enrolls in a qualified health plan and requests financial assistance...To:If you or a member of your family enrolls in a qualified health plan and received the ATPC...

Page 16: Determining the Premium for the Applicable Second Lowest Cost Silver Plan (SLCSP)

- Paragraph 2 Line 1. Change: If you did not request financial assistance, the Marketplace may not report an applicable SLCSP premium...To:If you did not receive the ATPC, the Marketplace may not report an applicable SLCSP premium...

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Shared Policy Allocation

- Example 1. Change: Under Step 2 of that method (Kara, David) and under the method for Taxpayer Allocating With Taxpayers Who Divorced or Legally Separated in 2014 (Lydia), Kara and Lydia agree to allocate 80% of the policy amounts to Lydia, and David and Lydia agree to allocate 50% of the policy amounts to Lydia. To: Under Step 2 of that method (Kara, David) and under the method for Taxpayer Allocating With Taxpayers Who Divorced or Legally Separated in 2014 (Lydia), Kara and Lydia agree to allocate 80% of Kara's share of the policy amounts to Lydia, and David and Lydia agree to allocate 50% of David's share of the policy amounts to Lydia.

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- Lydia's Worksheet D Line 1 and

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- Lydia's Worksheet D Line 1. Change: Enter the decimal from line 1 of the Worksheet C completed by the former spouse from Step 1 above To: Enter the decimal from line 1 of the Worksheet C completed by one of the former spouses from Step 1 above.

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- Married Taxpayers Allocating Because Not filing a Joint Return and Also Allocating with another Taxpayer Paragraph 1 and Step 1. Change: Use this allocation method if you are married but not filing a joint return and you must allocate policy amounts with your spouse and with a taxpayer claiming a personal exemption for an individual enrolled in a qualified health plan with members of your and your spouse's tax families. To:

Use this allocation method if you are married but not filing a joint return and you must allocate policy amounts with your spouse and with a taxpayer claiming a personal exemption for an individual enrolled in your plan.

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- Example Paragraph 4. Change: Under Step 2 of that method (Pat, Jamie) and under the allocation method for Taxpayer Allocating with Married Taxpayers Not Filing a Joint Return. (Andy), Pat and Andy agree... To: Under

Step 2 of the allocation method for Married Taxpayers Allocating Because Not Filing a Joint Return and Also Allocating With Another Taxpayer (Pat and Jamie) and under the Taxpayer Allocating With Married Taxpayers Not Filing a Joint Return, (Andy), Pat and Andy agree....

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- Example 1, Paragraph 1, 14. Change: ...Sharon files as head of household and claims a personal exemption for Arvind. To: ...Sharon files as head of household and claims a personal exemption for herself and Arvind.

TAP Issue ID: 29730
Elevated Date: 4/8/2015

Committee Name: Taxpayer
Communications Project Committee

Title: Identity Theft on Business

Project Statement

The Small Business/Self-Employed (SB/SE) Operating Division working with Privacy, Government Liaison and Disclosure (PGLD) asked the Taxpayer Advocacy Panel (TAP) to “provide feedback on processes and outreach developed to assist business identity (ID) theft victims and resolve their account issues, while ensuring that there is no increased burden for the legitimate business taxpayers.” Additionally, TAP was asked to address the following questions:

- How can businesses reduce their organization’s Employer Identification Number (EIN) exposure?
- How can the IRS reduce the number of fictitious EINs being established?
- What kind of business ID theft outreach is needed from the IRS?
- In light of disclosure rules and privacy concerns, how can the IRS work with other federal or state agencies when we've identified that ID theft has occurred? Which agencies?
- We’ve limited the number of EIN’s to one request per day, per requester. Should we limit it further?

Goal Statement

Recommend ways the IRS can improve awareness of business ID theft, reduce the number of EINs issued and used fraudulently, and improve coordination with other agencies, while ensuring that the burden on legitimate business taxpayers is minimized.

Proposed solution

1. **Increase awareness** of business ID theft and its potential impact, especially on small businesses.

There appears to be little awareness about business ID theft in the context of tax fraud. The IRS should aggressively engage in that outreach, especially to small businesses. In addition to defining business ID theft, key elements of the message should be:

- Business ID theft is real and a growing problem.
- A third party can easily find out the EIN of a larger business through websites like www.feinsearch.com or simple Google searches. A small business should disclose its EIN only when necessary or if it has confirmed the identity of the recipient.
- Although the primary loser is the US Treasury, a business itself can be impacted when a fraudster submits fake Forms W-2, *Wage and Tax Statement*, with its EIN. The IRS will find a discrepancy between the W-2s, the Forms 941, *Employer's Quarterly Federal Tax Return*, submitted by the business, and related tax deposits. The business will certainly need to expend resources to resolve the discrepancy and may even be liable for any shortfall. This can be a significant burden for a small business.
- A business should keep careful employee and payroll records and retain them for at least four years, even if the business closes. See IRS Publication 15, *Employer's Tax Guide*, and Publication 583, *Starting a Business and Keeping Records*.
- A business that receives a notice from the IRS that it believes was triggered by business ID theft should contact the IRS office that initiated the notice.
- There are useful third-party information resources available, such as www.businessidtheft.org⁴.

The IRS has numerous ways to communicate this message:

- Add a business identity theft section to the IRS.gov Small Business and Self-Employed Tax Center landing page (www.irs.gov/Businesses/Small-Businesses-&Self-Employed).
- Add this content to related pages on IRS.gov such as www.irs.gov/Businesses/Small-Businesses-&Self-Employed.

⁴ Identity Theft Protection Association, "Use of Stolen Business EINs for Tax Fraud."
<http://businessidtheft.org/Education/BusinessIDTheftScams/BusinessEINandTaxFraud/tabid/226/Default.aspx>

Self-Employed/Combined-Annual-Wage-Reporting-Employment-Tax-Problem-Inquiries.

- Add language to Letter 147C, *EIN Previously Assigned*, and CP575, *EIN Assignment Notice*, notices, which are sent to a business after it is issued a new EIN. The text should alert the business to the possibility of business ID theft, encourage the business to take care in the handling and disclosure of the EIN, and direct them to appropriate web resources. The IRS has a project in progress to modify these items, in lieu of a more comprehensive electronic “welcome package,” that has been proposed within the IRS and suggested by the TAP (TAP issue 22115, *Small Business Tax Workshop*). The addition of a business ID theft message should make that work even more urgent.
- If the Combined Annual Wage Reporting (CAWR) process begins to reveal significant frauds, add language to Letter 99C, *Letter of Employment Tax Problem*, to alert a business to the possibility of business ID theft fraud, how it could occur, and what to do if they believe the discrepancy may be a result of such a fraud.
- Deliver a presentation on business ID theft and EIN theft at the National Tax Forums.
- Develop a Tax Tip and content for other e-newsletters, especially “e-News for Small Business.”

2. Develop a Personal Identification Number (PIN)-based activation system for new EINs.

The IRS has a duty to ensure that it issues new EINs only to legitimate businesses and that applicants are who they say they are. Currently, an individual “responsible party” can apply online for only one new EIN per day. It would not be reasonable or effective to limit that further.

The credit card industry has, for years, mailed a physical credit card but suspended its use until the legitimate recipient “activates” it by phone or online. The IRS should adopt similar procedures when it issues a new EIN. The IRS could process the

application and issue the new EIN just as it does today, but the IRS would then mail a PIN to the applicant and require that the applicant use the PIN to “activate” the EIN. The IRS should reject, or at least delay, the processing of any individual return with a W-2 containing an EIN that has not been properly activated. Furthermore, the IRS should require that the PIN accompany any business tax return for an EIN. These requirements would apply only to newly issued EINs.

Such a system would make tracking fraud somewhat easier by tying a verified address to an EIN. In addition, the PIN letter can contain general information about business ID theft, as suggested in Recommendation 1.

3. Add additional filters to block the suspicious issuance of a new EIN.

The IRS should suspend an application for a new EIN and review it manually if:

- The TIN of the responsible party has been flagged for ID theft. This could be overridden if an Identity Protection Personal Identification Number (IP PIN) has been set up for that TIN and it accompanies the application.
- The TIN of the responsible party was created recently and no tax returns with that TIN have been successfully processed.

4. Develop a score to indicate whether an EIN is associated with a legitimate business.

A new, legitimate business may have little or no “paper trail” that would help identify it as an existing business. Indeed, a business may apply for an EIN prior to establishing a banking relationship, opening a store, setting up a website, incorporating, or even fully developing a product or service. However, the IRS should have some way to gauge the legitimacy of an EIN that, in conjunction with other factors, could halt the automated processing of a tax return.

The IRS should add a “flag” to the Business Master File (BMF) to indicate whether an EIN is verified as

associated with a legitimate business, or is known to be suspicious, or if its status cannot be determined. This “flag” can take the form of discrete values such as “Yes”, “No”, and “Unknown.” However, it will be most effective in the form of a score in which higher values indicate greater confidence in the legitimacy of an EIN. The score could be set manually by an IRS employee, but also maintained in an automated fashion. At a high level, some steps in the automated maintenance could include:

- Initially set to “unknown” or a relatively low score.
- Set to zero if the EIN has been associated with a known fraud or if the existing BMF identity theft flag is set to true.
- Give an older EIN a higher score than a newer EIN.
- Increase the score when a Form 941 or related form is filed.
- Increase the score significantly if employer tax deposits are made or if a tax return is filed and a payment is made.
- Increase the score each time the business files a tax return and no problems are uncovered during the filing year.
- Increase the score if the company data can be verified through a third party database such as Dun and Bradstreet.
- Decrease the score each year an EIN remains dormant (no activity associated with it).
- Decrease the score if the company appears on any list of fictitious companies, perhaps one developed in cooperation with state and local authorities.

Once the score is established, the IRS can use it when processing a business tax return or the Forms W-2 or 1099 attached to an individual tax return. A very low score can itself cause the return processing to be suspended for further review. Higher scores can be combined with other filters to make such a decision. Of course, the precise algorithms would require significant analysis, testing, and continuous adjustment.

5. **Add additional filters** to catch fraud during return processing.

It is not within the committee's scope to propose new filters for processing individual returns, nor do we have access to the data we would need to confidently make suggestions. However, a few high level thoughts came forth in our work and we share them here. When evaluating an information return from an employer or vendor (Form W-2 or 1099) the IRS should consider:

- The age of the EIN.
- The filing history, or lack thereof, of an EIN.
- Unusual year-to-year changes in the number of W-2s for an EIN.
- Frequent changes of address.

6. **Collaborate with states** to develop strategies, to mitigate risk, and to identify and follow up instances of theft.

The IRS should leverage its existing network of Government Liaisons (GL) to increase the awareness of state and local governments and to share best practices. The IRS should develop a consistent message for each GL to deliver to their contacts and should be tasked to survey each state with respect to their awareness of business ID theft and to compile information that may help the IRS as it develops its own strategy. The information gathered should include:

- What information does each state collect from businesses that could help the IRS determine whether an EIN identifies a legitimate business? For example, does a business file state unemployment taxes?
- Does the state rely on the Federal EIN or does it have its own scheme to identify a business/employer?
- Does the state check the validity of a federal EIN entered on its own tax returns? If so, how?

In addition, we recommend the following specific steps

to improve coordination with the states:

- Extend the existing IRS Identity Theft Protection Indicator Extract program to the BMF. Alert states to EINs which the IRS has determined to be involved with business ID theft.
- Work with the Federation of Tax Administrators to extend its Suspicious Filer Exchange to include data on suspicious EINs.
- Improve awareness through *TaxExPRESS*, a weekly newsletter from the Federation of Tax Administrators delivered electronically to state tax administrators.

7. Accelerate the due date of information returns and require that they be submitted electronically, to allow real-time matching as returns are processed.

The other recommendations can help reduce the chance of successful fraud, but they are ultimately “band-aids” that do not alter a fundamental reality: When the IRS cannot check data from employers at the time it processes an employee’s tax return, it can definitively identify most fraud only after the return is processed and the refund money is lost.

In the Administration’s Fiscal 2015 budget request, the IRS has asked for the resources and authority to “accelerate the due dates of third-party information returns, which would allow us to match up these documents against income tax returns earlier in the tax filing process and more quickly spot errors and potential fraud.”⁵

The TAP strongly endorses this proposal in principle and further recommends that the IRS require timely electronic submission of these information returns, perhaps with exceptions or phase-in periods for certain small businesses. Employees of businesses that do not comply with such a requirement would face a higher chance of a delay in the processing of any refund (ideally via the scoring system described in

⁵ IRS Commissioner John Koskinen, Prepared Remarks for House Ways and Means Subcommittee on Oversight, May 7, 2014.

Recommendation 3). The TAP stands ready to advise the IRS with respect to the effectiveness, implementation, and potential taxpayer burden of any specific change.

Although these are presented as separate recommendations, a number of them must be adopted in coordination to be most effective. For example, information obtained from the states (Recommendation 6) would be vital input to the score proposed in Recommendation 4.

<p>TAP Issue ID: 32776 Elevated Date: 1/15/2015</p>	<p>Committee Name: Taxpayer Communications Committee</p>
<p>Title: Improve Compliance with Schedule C Filers</p>	
<p>Project Statement</p>	<p>Individuals engaged in “the trade or business” of earning compensation for services rendered are often self-employed sole proprietors. Many have limited experience and knowledge of their tax rights and responsibilities. Focused marketing and education should be provided to improve filing and payment compliance with Schedule C filers.</p>
<p>Goal Statement</p>	<p>Provide low-cost outreach and education to unaffiliated (those without a relationship with a trade organization, licensing agency, etc.) Schedule C and potential Schedule C filers in order to improve filing and payment compliance.</p>
<p>Proposed solution</p>	<p>Produce attached brochure, in electronic and paper format, for education and marketing purposes to reach current and potential sole proprietors. Distribution and digital access should include resources which may have direct or indirect contact with entrepreneurs and other individuals attempting to earn, or supplement, a livelihood by rendering services for compensation.</p> <p>It may also be beneficial to produce the attached brochure in other languages, such as Spanish. However, this committee did not have the resources available to accomplish this task.</p> <p>Recommended affiliations for distribution include, but are not limited to:</p> <ul style="list-style-type: none"> Small Business Development Centers (SBDC) All Licensing Agencies (local, state and federal) Specific Career Licensing Agencies (Cosmetology, Massage Therapy, Day Care, etc.) State Unemployment Offices Libraries Sponsors of Job Fairs Community Colleges Universities Vo-Tech Schools Beauty and other Specialty Training Schools Secretary of State Offices State Departments of Taxation State Departments of Commerce and Consumer Affairs General Educational Development (GED) Testing Centers VITA and LITC Centers Retirement Associations (such as AARP) Chambers of Commerce

	Social Media Financial Planners Banks Social Services Offices (such as food stamps and family assistance programs) Food Banks Religious Organizations
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<p>TAP Issue ID: 32848 Elevated Date: October 1st, 2015</p>	<p>Committee Name: Toll Free Phone Lines</p>
<p>Title: Review and Improvement of EITC Examination Process</p>	
<p>Project Statement</p>	<p>Review of the implementation of an automated message system for the Earned Income Tax Credit (EITC) Audit Process. The automated message will walk taxpayers through the audit process covering each audit issue; telling taxpayers what enclosures are related to which issue; providing examples of documents needed to prove their claim. The phone routing will allow the taxpayers to speak with a live examiner if not all questions are answered or if there is a need for additional information.</p>
<p>Goal Statement</p>	<p>The primary goals are to improve the taxpayer's understanding of the audit process, including what is needed to respond correctly and completely to the audit inquiry reducing phone time.</p>
<p>Proposed solution</p>	<p>Provide the taxpayer with access to the available information during times now designated as "Office Closed" (i.e., hours after 8:00 pm and Holidays). a. Script available at any time.</p> <p>Provide a message informing the caller that a live examiner is not available until regular office hours for further information or unanswered questions</p>

<p>TAP Issue ID: 32849 Elevated Date: January 12, 2015</p>	<p>Committee Name: Toll Free Phone Lines</p>
<p>Title: Review and Improvement of EITC Examination Process</p>	
<p>Project Statement</p>	<p>The IRS has requested the Toll Free Phone Line Committee review and provides feedback to enhance the proposed EITC (Earned Income Tax Credit) Audit telephone script. The EITC script is designed to assist taxpayers who call-in following the receipt of an EITC audit letter, often requiring additional information. In addition to the work of this subcommittee, another subcommittee will address the specific functioning of the telephone prompts.</p>
<p>Goal Statement</p>	<p>To retain the full intent of the proposed script as received by the subcommittee, along with making modification to improve the language to be easily comprehended by those in receipt of an audit letter. The subcommittee concentrated their efforts on both shortening sentence lengths and using single syllable words.</p>
<p>Proposed solution</p>	<p>The attached document details the original script as proposed, in addition to the subcommittee's recommended changes. The specific recommended changes are as follows:</p> <ol style="list-style-type: none"> 1. Change text (page 1), found on Main Menu (from Welcome), to: <ul style="list-style-type: none"> • If you have sent or faxed us anything, press 1. • If you have not sent or faxed us anything, press 2. • If you want to know about your rights as a taxpayer, press 3. 2. Change text (page 2), found on Previous Contact Announcement 56178, to: <ul style="list-style-type: none"> • Your letter tells you what we need to complete your review. This is a list of records and receipts we need. If you have questions, please stay on the line. A representative will answer, as soon as possible. 3. Change text (page 3), found on Taxpayer Rights (from Main Menu), New Announcement (English), to: <ul style="list-style-type: none"> • We are examining your return because you have unresolved filing problems. You have rights and our representatives will explain them. We must treat your information as private and confidential. We will be professional and courteous. You can have representation and assistance with your filing problems. You may appeal our review. You have a right to relief from certain penalties. You have a right to know why we are asking you for something, how we will use it, and what happens if you do not provide it. In our letter to you, we sent you a brochure called The Examination Process (Examinations

by Mail) Publication 3498-A. This will provide you with additional information.

Also, change text (page 3), found on Announcement 56180, to:

- If you have sent or faxed us information, press 1.
- Otherwise, press 2.

4. Change text (page 4), found on Previous Contact ... Announcement 56181, to:

- If you are calling about the Earned Income Tax Credit or EITC, press 1.
- Otherwise, press 2.

5. Change text (page 5), found on New Announcement, to:

- If your question is not about EITC, or you did not get a letter about an audit, press 8.
- This is the Earned Income Tax Credit, or EITC, menu. You should have the letter from us near you at the telephone so you can refer to it.
- Your letter also included a form that tells you what information you need to send us for this audit. This form is called Form 886-H-EIC. If you do not have it, and you have access to a computer, you can download the form at www.irs.gov Forms, Key word 886. Choose the form that is for the same tax year as shown on your letter.
- If you have a question about the child or children you listed, press 1.
- If you have a question about dependents, press 2.
- If you have a question about head of household filing status, press 3.
- If you have other questions and would like to speak with a representative, Press 4.
- To return to the previous menu, press 8.
- To hear your choices again, press 9.

6. Change text (page 6), found on EITC1; Qualifying Child Menu (from EITC Menu), to:

- For each child you have listed on your return, three things have to be true. The child must have lived with you. The child must be related to you. The age of the child has to fit the rules.
- If you need to know how to show the child lived with you, press 1.
- If you need to know how to show the child is related to you, press 2.
- If you need to know how to show the child's age fits the rules, press 3.
- To go back to the previous menu, press 8.
- To hear your choices again, press 9.

7. Change text (page 7), found on EITC1.1; Residency Announcement (from EITC1 Menu), to:

- At the top right of your letter from us, your tax year is shown. The child needs to have lived with you for more than half of that year. The months do not need to all be one after the other. If the child did not live with you more than 6 months in that year, you do not qualify for EITC for that child.

- If the child did live with you more than six months in that year, please send us proof. There are many kinds of proof, and you may need more than one kind. Proof can consist of photocopies of school records, medical records and records from childcare providers. Each must have the child's name and address, and show the dates the child lived with you. The records must also list you as parent or guardian.

- Do not send any proof that has a different address for the child from yours. Do not send any proof that does not list you as the child's parent or guardian.

- The Form 886-H-EIC has examples of proof. Even if you don't have records to prove the child lived with you, you still have rights. Those rights are listed in the publication we sent you with your letter, Audits by mail, Publication 3498A.

8. Change text (page 8), found on EITC1.2; Relationship Announcement (from EITC1 Menu), to:

- To get your refund, you need to send us photocopies of proof that the child is related to you. The Form 886-H-EIC included with your letter lists all possible relationships.

- The child can be related to you by blood, such as grandchild, brother, sister, niece or nephew, or other blood connections. This includes by adoption, as a foster child, and through marriage, like a stepchild.

- A birth certificate with the child's name and your name is one such proof.

- If a birth certificate with the child's name and your name is not available, then you need to send us other proof. The Form 886H-EIC has examples.

- Even if you don't have records to prove the child is related to you, you still have rights. Those rights are listed in the publication we sent you with your letter, Audits by mail, Publication 3498A.

9. Change text (page 9), found on EITC1.3; Age Announcement (from EITC1 Menu), to:

- At the top right of your letter from us, your tax year is shown. If the child is younger than 19 at the end of your tax year, you don't need to send us anything.

- If the child is 19 or older at the end of your tax year, you need to send us additional records. If the child was in school for at least five months, send us proof of that.

- If the child is 19 or older, but younger than you, and the

child is permanently and totally disabled, send us proof of that.

- The Form 886-H-EIC included in your letter lists the proof you need to send.
- If you don't have the proof, you still have rights. Those rights are listed in the publication we sent with your letter, Audits by mail, Publication 3498A.

10. Change text (page 10), found on EITC2; Dependents (from EITC Menu), to:

- At the top right of your letter from us, your tax year is shown. For each child you have listed as a dependent on your return, four things have to be true. The child must have lived with you. The child must be related to you. The age of the child has to fit the rules. And you must have provided more than half of the child's support for the tax year.
- If you listed the child on your Schedule EIC, you can use that proof. But you also need to prove support. The Form 886-H-DEP helps you figure this out.
- Money from state, local and other social service agencies does not count as support by you. It also does not count as support by the child.
- If you don't have the proof, you still have rights. Those rights are listed in the publication we sent with your letter, Audits by mail, Publication 3498A.

11. Change text (page 11), found on EITC3; Filing Status (from EITC Menu), to:

- If you did not file as Head of Household, press ___ to return to the previous menu.
- At the top right of your letter from us, your tax year is shown. To file as Head of Household, there are three tests.
- The first test is the marriage test. You must be single or separated from your spouse. If you are single, you don't need any other proof. If you are separated from your spouse, you must have lived apart at separate addresses from July 1 through December 31 of your tax year.
- If you were divorced or legally separated by December 31 of your tax year, send us photocopies of your divorce decree or separation papers.
- The second test is the child test. You must have a qualifying child. You can use the proof you use for Earned Income Tax Credit or for the child as a dependent. Form 886-H-EIC, included with your letter, lists these kinds of proof.
- The third test is the cost of keeping up a home test. This means you must have paid more than half of the cost of the place where you lived with the child or children. For example, rent receipts, heat and power bills, mortgage payments, and other kinds of expenses can be proof. Form 886-H-HOH lists the kinds of things that are proof.

• If you don't have the proof, you still have rights. Those rights are listed in the publication we sent with your letter, Audits by mail, Publication 3498A.

12. Change text (page 12), found on EITC3; Assistor Menu, to:

- If you still have questions, and want to talk with a representative, press 2.

- To go back to the previous menu, press 8.

- To hear your choices again, press 9.

Also, change text (page 12), found on Announcement 56128, to:

- Thank you for calling. This ends the call. Goodbye.

13. Change text (page 13), found on EITC3; Assistor EnRoute, to:

Your letter tells you what proof you need to qualify for the Earned Income Tax Credit, EITC. You need to mail or fax us this proof. If you have questions, and want to talk with a representative, please stay on the line. Someone will answer, as soon as possible.

<p>TAP Issue ID: 32122 Elevated Date: 4/8/2015</p>	<p>Committee Name: Tax Forms and Publications Committee</p>
<p>Title: Evaluate Form 4797 (Sales of Business Property) & Instructions</p>	
<p>Project Statement</p>	<p>Review Form 4797 and Instructions for Form 4797 to determine: (a) User friendliness of (Ease of following) Form 4797 & Instructions for Form 4797, (b) Connectivity or applicability of Instructions to Form 4797, (c) Review relevant forms and other publications referred to in the Form 4797 and Instructions thereto, (d) Make recommended changes to the Form 4797 and Instructions thereto.</p>
<p>Goal Statement</p>	<p>N/A</p>
<p>Proposed solution</p>	<p>Form 4797 Instructions: Change: 1. Add Appendix "A" to clarify all properties of sections 1245, 1250, 1252, 1254 and 1255 with specific examples and add entire list of properties qualified under each section. Also, define "mark-to-market". 2. Add Appendix "B" to include FAQ which would respond to questions such as listed herein, as well as indicating in what part of Form 4797 they should be recorded: 3. Add "Frequently Asked Questions" with proper responses with examples in the Instructions publication. Questions mentioned herein should be addressed: • What is Section 126 (referred to in Line 23 instructions) property and how it is treated, along with other properties, when sold? • What is section 1252 property and how is it treated when sold? • How is the sale of a sole proprietorship reported? When should Schedule D (or Form 8949) be used rather than Form 4797? • What are the tax consequences for a day trader who makes the mark-to-market election, and where on Form 4797 are day-trading transactions reported? • Is gain on the sale of uncut Christmas trees capital gain or ordinary income? • When and how do the section 1255 recapture rules apply? • What is unrecaptured section 1250 gain and how is it reported? • What type of income does the seller recognize when the buyer defaults and the seller keeps the deposit? • What is the character of gain recognized by a partner who sells his partnership interest?</p>

- When is the Section 179 deduction subject to recapture?
 - What are section 1231 gains and losses?
 - What is “mark-to-market?”
4. Add Appendix “C” to include a brief review and specific applicability of the forms and schedules that are associated with Form 4797.
 5. Page 6 “Worksheet Instructions”. This section should direct taxpayers to fill out applicable forms (either Form 6252 or Form 8824) prior to working on Form 4797. The worksheet as well as Instructions thereto should be re-written. This may require some modifications to Forms 6252 and 8824, and instructions thereto.
 6. Need to expand on instructions for Line 10 with specific examples.
 7. Need to expand on instructions for Line 10 with specific examples
 8. Need specific instructions for Line 12. Note that the Line instructions within the Line 9 on the form bypass Line 12 when the instructions within the Lines 7 and 9 are followed since Line 12 is only for gains. An example in instructions may clarify the intent if anything other than gains since Line 8 mentions only losses.
 9. Instructions for Line 23 need to be clarified or modified since the Line 23 is clear in the Form itself. Also, it will be helpful to clarify how it relates to Line 29 since Line 29 is specifically for section 1255 Property and the instructions for Line 23 refer to section 1255 property.
 10. Page 11 of the instructions: Revise the hours for "Learning about the law and the form & the Instructions" from listed 2 hours and 52 minutes to 13 hours for non-tax professionals.
 11. Part I:
 1. Line 5: Add “, Line 22” after words “Form 8824.”
 2. Line 6: Add “of Form 4797” after words “from line 32”
 12. Part II:
 1. Add “Properties Held for 1 Year or Less” into the Title of this Part II.
 2. Line 13: Add “of Form 4797” after words “from line 31”.
 3. Line 16: Add “, line 21” after words “from Form 8824”.
 13. Part III:
 1. Line 19 (a): Add "For definition of section 1245, 1250, 1252, 1254 and 1255 property refer to Appendix "A" “.
 2. Line 32: Divide Line 32 as follows:
 - 32 a. Subtract Line 31 from Line 30. _____
 - 32 b. Enter the portion from casualty on Form 4684, Line 33. _____
 - 32 c. Enter the portion from other than casualty or theft from Form 4797, Line 6. _____
 34. Add lines 32 a, 32 b, and 32 c. _____