

Update on IRS Programs

By Jerrold D. Rosen, CPA

At the AICPA National Tax Conference this past November, representatives from the Internal Revenue Service (IRS) discussed their new and ongoing programs in compliance, collections and taxpayer education. This article provides highlights of their presentations.

Fresh Start Initiative

Faris Fink, commissioner of the IRS Small Business/Self-Employed Division, reviewed the new Fresh Start Initiative, which is a streamlined process to make it easier for taxpayers to address their tax responsibilities during the economic slowdown. Among the policies under Fresh Start, the threshold for filing of liens will be increased from \$5,000 to \$10,000. Also, the IRS will institute a procedure in which a lien imposed on a taxpayer can be withdrawn (rather than merely released) in certain circumstances. The IRS indicated it is doing this so taxpayers can maintain better credit scores following a settlement because a lien release (as distinguished from a withdrawal) has a continuing effect on credit. A taxpayer must request that the lien be withdrawn on Form 12277. Withdrawal requests apply to individuals, businesses with only an income tax liability, and certain non-business entities.

Compliance Issues

The revenue service is concerned about sham businesses that claim expense deductions and generate losses, a scheme involving filing false 1099-OID forms and seeking refunds for money not remitted to the IRS, and abusive Schedule A (Form 1040) deductions.

The IRS is also instituting a program aimed at high income/high wealth individuals, defined as those individuals with income in excess of \$250,000. With these audits, the IRS plans to take an "enterprise" approach, not just looking at the single entity or individual, but all the holdings and businesses of the owner, to get a clearer perspective on the activity and most likely resulting in expansion of the entities audited.

Also, the IRS is instituting a Voluntary Classification Program for the proper treatments of workers as employees or independent contractors. The program will allow the taxpayer to reclassify workers for future periods, paying no more than 10 percent of their back employment tax liability with no penalties and interest. To be eligible, the taxpayer must have filed 1099s for at least three prior years for the workers in question, have been consistent in treatment of the workers,

and not currently under audit by the IRS, Department of Labor or a state agency. To apply for participation, the taxpayer will file Form 8952 with the IRS.

Procedural Issues

The IRS noted that rather than providing guidance through revenue procedures, revenue rulings, or notices, the IRS has been issuing guidance in the form of frequently asked question (FAQs). FAQs are issued to assist the taxpayer's understanding of the rules and procedures on a timely and expedited basis. While FAQs are issued by the IRS, they do not go through the same review process as rulings or procedures and are able to be issued quickly. While helpful, they do not carry the same weight as other IRS pronouncements and are subject to change by the IRS.

There is a new program to assist identity theft victims with respect to their tax records. Many of the theft issues involve use of a taxpayer's social security number to file multiple returns, file false W-2s and claim refunds. The IRS program for victims will include the use of a special PIN number given to the victim to be used on the 1040 that they file.

The IRS acknowledged budget cuts will most likely increase waiting time on telephone calls, but it will continue to process refunds and receipts daily. Regarding correspondence exams for individuals, which constitute about 86 percent of audits conducted, the IRS believes that the taxpayer or a practitioner should be able to call an examiner to settle a matter, but right now that ability to call is not easily available.

And regarding the ability to email information to the IRS rather than use a fax or regular mail, the IRS is continuing to work on a system that would not only maintain privacy but would provide for authentication of parties. However, it looks as if there is a two-year timeframe for the development of a system that will accept full email correspondence.

These are just some of the areas the IRS is addressing. Follow the latest developments in upcoming pronouncements and at www.irs.gov.

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