

# TAX HINTS

## A guide for tax practitioners

INTERNAL REVENUE SERVICE • AUSTIN SERVICE CENTER

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Welcome to the latest edition of **Tax Hints**. In the past, we have updated this publication annually and mailed it to practitioners in the areas served by the Austin Service Center — specifically those in Texas, Kansas, New Mexico and Oklahoma. (See page 6 for a breakdown of distribution of processing and compliance work among centers.) But because of continuing flat printing budgets, this year's **Tax Hints** will contain only generic information about your dealings with the Austin Service Center. It will *not* be reprinted every year, so plan to keep this copy. We will publish a newsletter each year highlighting new procedures for the filing season. The guide will also be available electronically on various practitioner organizations' Web sites so

you will be able to download and print extra copies.

For those of you who are receiving this guide for the first time, welcome. We hope it will be a valuable resource in your practice. It is designed to give tax practitioners a better understanding of how Service Center procedures affect them and the clients they represent. As a result of the 1996 merger with the Austin Compliance Center, this edition of **Tax Hints** includes compliance information formerly available in the Compliance Center's **C:NOTES**.

If you have comments, please write to the editor at **PO Box 934, Stop 1020 AUSC, Austin, TX 78767** or send e-mail to **barry.cline@ccmail.irs.gov**.

## Meet the new Commissioner: Charles O. Rossotti

Charles O. Rossotti was sworn in as the 45th Commissioner of Internal Revenue on November 13, 1997, pledging to turn the IRS into an organization that will consistently provide first-rate service to the American public.

He believes the IRS has one of the most demanding jobs in the world and that the Service needs to follow the lead of successful private sector corporations, which have dramatically improved the way they serve customers and collect money due them. Mr. Rossotti believes the public today expects government to meet this higher standard of customer service and that, over time, the IRS can attain this goal.

Mr. Rossotti's management experience has given him a strong personal belief in the power of open, honest communication. He is committed to acknowledging



Charles O. Rossotti

# A message from the Director

**T**he last few years have been interesting and challenging ones for the Internal Revenue Service, but I am confident that the years ahead, under the leadership of our new commissioner, will bring positive changes.

Many challenges still lie ahead for the IRS. We desperately need to modernize our aging computer systems so that we may better serve our customers, both in person and on the phone. The sheer volume of paper that flows into our service centers each year is overwhelming, so we must somehow get millions more people to file their returns electronically or via telephone. And, we must make all our computer systems year 2000 compatible as we begin a new century.

We don't know what our budgets will be in future years, but we have had to live with shrinking budgets for the last several years. We will continue our efforts to offer the best service to our customers with the resources we are

given, and I am confident that the employees of the Austin Service Center will continue to get the job done. If we are not getting the job done to your satisfaction, I hope

you will let us know. Any ongoing or long-term problems you experience should be directed to the Taxpayer Advocate's Office.

I look forward to meeting and working with many of you as we face the challenges of the years to come. I wish each of you a very successful filing season.



*Tom Dega*

A handwritten signature in cursive script that reads "Thomas H. Dega".

## Meet AUSC Director Tom Dega

**T**homas H. (Tom) Dega became the Austin Service Center's seventh Director on August 3, 1997. He came to AUSC from Headquarters where he has served as the Executive Officer for Service Center Operations, the principal adviser to the commissioner and the chief operating officer on matters relating to service center operations.

Tom began his IRS career in 1964 as a tax technician in the Milwaukee District. In 1966 he moved to Detroit where he was a computer programmer, systems analyst and systems development team leader at the Detroit Computing Center. In 1973, he became Assistant Chief, Data Conversion, Accounting and

Taxpayer Service Divisions, in the Kansas City Service Center. He moved to Andover in 1975 where he served as Chief of the Processing and Information and Accounting Divisions until 1986. At the National Office, Tom was the Director of the Offices of Electronic Filing and Input Processing.

Tom, a 1990 graduate of the IRS Executive Development Program, began his executive career as the Assistant Director of the Martinsburg Computing Center. He then served as Director, Case Processing Division, in the Taxpayer Service organization and as the Submission Processing Site Executive in the office of the Associate Commissioner of Modernization.

# AUSTIN SERVICE CENTER

## Taxpayer Bill of Rights (1988)

### Form 911 — Application for Taxpayer Assistance Order to Relieve Hardship

**T**he Taxpayer Bill of Rights contains a statutory provision that authorizes the taxpayer advocate to issue a Taxpayer Assistance Order if the taxpayer is suffering or about to suffer a significant hardship that the IRS can relieve. Enforcement action alone is not a hardship without additional factors.

A taxpayer or representative may ask

for help by submitting a Form 911, *Application for Taxpayer Assistance Order to Relieve Hardship*, to the Taxpayer Advocate Office in the district where the taxpayer resides or by calling the IRS toll-free telephone number. Forms 911 received by the Service Center are immediately forwarded to the Taxpayer Advocate Office for action. Always put the Form 911 on top of any tax return or docu-

ment you send so that it will receive immediate attention.

Upon determining that a significant hardship exists, the taxpayer advocate will suspend any enforcement of action while the case is being reviewed. The taxpayer advocate will then notify the taxpayer of any changes made or any relief that has been provided to the taxpayer.

## Taxpayer Bill of Rights II (1996)

**T**he second Taxpayer Bill of Rights (TBORII) was signed into law by President Clinton on July 30, 1996. This law amplifies and extends taxpayer rights and protections included in the original Taxpayer Bill of Rights passed in 1988. It also provides intermediate sanctions on tax-exempt organizations, giving the IRS less severe measures than complete revocation of exempt status for certain violations.

### The key taxpayer protection provisions of the bill include:

- Establishment of a Taxpayer Advocate within the IRS (replacing the Taxpayer Ombudsman) and expanded authority to issue Taxpayer Assistance Orders.
- The ability to modify installment agreement provisions when agreements are terminated.
- Expanded authority to abate interest and review procedures when the IRS does not abate interest.
- Modifications of lien and levy provisions.
- Authority to award costs and certain fees in taxpayer disputes with the IRS.
- Relief from retroactive Treasury Department regulations.

- A requirement that the IRS report annually to the House Ways and Means and Senate Finance committees on allegations of misconduct by IRS employees.
- Authority for the Treasury Secretary to expand the timely-mailing as timely-filed rule of Section 7502 to include private delivery services in addition to the currently recognized postmark of the U.S. Postal Service.

### Intermediate sanctions in the bill include:

- Extension of private inurement prohibitions to social welfare organizations exempt under Section 501(c)(4).
- Authority to impose penalty excise taxes in cases where organizations exempt from tax under Section 501(c)(3) and 501(c)(4) engage in an excess benefit transaction.
- Additional filing and public disclosure requirements, with penalties for failure to file timely returns.
- Penalties for failure to allow public inspection or to provide copies of certain documents.

## The Digital Daily

The IRS Web site

[http://  
www.irs.ustreas.gov](http://www.irs.ustreas.gov)

- Download forms and publications.
- Ask tax-related questions.
- Read summaries of tax regulations in plain English.
- Check out news releases.
- Send your comments directly to the IRS online.
- Download statistics of income database.
- Learn about electronic services.
- W-4 Calculator to figure deductions.
- Tax Professional's Area for practitioners.
- Digital Dispatch — an email newsletter.

## Taxpayer Advocate Offices

### Austin Service Center

PO Box 934  
Stop 1005AUSC  
Austin TX 78767  
(512) 460-0816

### Southwest District

210 E. Earll Dr  
Stop 1005PX  
Phoenix, AZ 85012-2623  
(602) 207-8240  
Albuquerque  
(505) 837-5505

### South Texas District

300 E 8th St  
Stop 1005AUS  
Austin TX 78701  
(512) 499-5875

### North Texas District

1100 Commerce St  
Stop 1005DAL  
Dallas TX 75242  
(214) 767-1289

### Houston District

1919 Smith St  
Stop 1005HOU  
Houston TX 77002  
(713) 209-3660

### Arkansas-Oklahoma District

55 N. Robinson  
Stop 1005OKC  
Oklahoma City OK 73102  
(405) 297-4055  
fax: (405) 297-4056  
Little Rock (501) 324-6144

### Kansas-Missouri District

PO Box 66776 Stop1005STL  
St Louis, MO 63166  
(314) 539-6770  
fax: (314) 539-2362  
Wichita (316) 352-7506

## Problem Resolution Program Operation Link

If you have a tax problem that you have not been able to resolve through normal channels, call **1-800-829-1040** and ask for Problem Resolution or write to the Taxpayer Advocate Office at the Service Center. *(See address at left.)*

Along with your letter, submit copies of any notices the taxpayer has received and any prior correspondence the taxpayer sent to the IRS. If you would like us to respond directly to you, you will also need to send a valid Power of Attorney signed by the taxpayer authorizing you to receive information.

All practitioners should have a copy of Publication 1320, *Operation Link*, which contains a complete list of the district office taxpayer advocates' names, addresses and telephone numbers.

## Priority Case Procedures

The Austin Service Center has Priority Case procedures for handling tax practitioner problems that do not meet PRP criteria but that the practitioner believes require special handling. Priority procedures can be used for:

- Cases the practitioner believes cannot be resolved through normal channels because of their complexity. These may include requests for adjustments or credit transfers to multiple tax periods or types of tax.
- Follow-up inquiries which do not meet PRP criteria, but involve cases where returns or documents were filed with more than one service center, or cases previously handled by the Service Center technical function if they involve the same type of tax and are for the same tax period.

Final responses to Priority Cases will be made within 14 days of the IRS received date. If this is not possible, acknowledg-

**The taxpayer advocate can help with a complaint or inquiry which meets any of the following conditions:**

- Any contact on the same issue at least 30 days after an initial inquiry or complaint (unless a timely interim letter was issued) or the second contact after 60 days from filing an original or amended return or claim.
- Any contact that indicates the taxpayer has not received a response by the date promised, including commitment dates on IRS forms.
- Any contact that indicates established systems have failed, or it is in the best interest of the taxpayer and the Service that the case be worked in the Problem Resolution Program (PRP).

ments will be mailed within 14 days to advise the practitioner when to expect the final response.

All supporting documents should accompany the initial inquiry, including copies of:

- Tax return for the account in question.
- Applicable letters or notices.
- Front and back of pertinent checks.
- Amended returns.
- Extensions.
- Forms SS-4.
- Penalty Abatement requests.
- Letters that were received concerning the matter.
- Power of attorney authorization.

The Priority Case address is:

**Internal Revenue Service  
Priority Case  
PO Box 934 Stop 6800AUSC  
Austin TX 78767**

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# AUSTIN SERVICE CENTER

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## Use a valid identifying number for non-U.S. citizens

If you have clients who are non-U.S. citizens and do not have and cannot get a Social Security Number (SSN), please urge them to apply for a new Individual Taxpayer Identification Number (ITIN) as soon as possible. Tax returns without a valid SSN or IRS-assigned ITIN will delay processing and the issuance of any refunds. *Temporary identifying numbers previously issued are no longer valid.*

Clients must also get an ITIN if they are claimed as a dependent of a U.S. citizen on their U.S. tax return, are married to a U.S. citizen who files a joint U.S. tax return, can be claimed as an exemption on their spouse's U.S. tax return or are filing a U.S. tax return only to claim a refund.

U.S. citizens and foreigners legally entitled to work in the U.S. can obtain an SSN from the Social Security

Administration by filling out Form SS-5, *Application for Social Security Card*. All others need to complete Form W-7, *Individual Application for IRS Taxpayer Identification Number*. To order a Form W-7, taxpayers can call **1-800-829-FORM (3676)** or download the form from the IRS bulletin board (modem number **703-321-8020**) or from the IRS Web site at <http://www.irs.ustreas.gov/>. They may also visit their local IRS office.

## What to do if your client doesn't have an ITIN

It's early April and a non-U.S. individual, who does not have and cannot get an SSN, comes into your office for help in preparing their tax return. There is not enough time to secure an ITIN before the April 15 filing deadline. What should you do?

- Prepare the return and compute the tax or estimate the tax.
- Prepare IRS Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*. If the taxpayer has a previously issued IRS temporary number (IRSN), write the IRSN in the box designated for the SSN. If the taxpayer has no previously issued IRSN, write *ITIN Applied For* in the SSN box. Attach a photocopy of the completed Form W-7 to the extension request and write **COPY — DO NOT PROCESS** across the face of the W-7. An extension will be granted under the old IRSN or under a new IRSN, if the taxpayer does not have an old IRSN.
- Remember, anticipated tax due should be paid with the extension request.
- If no estimated tax is due, keep a copy of the Form 4868 and send the original to the IRS by certified mail

or visit a walk-in office to have the extension stamped *received*.

- Wait a few days, then either bring the completed Form W-7 (with substantiating documentation) to an IRS walk-in office or mail it to:

### IRS

**W-7 Unit, PO Box 447  
Bensalem, PA 19020**

- Attach a copy of the extension request to the Form W-7. This is important because it notifies the W-7 Unit to look for an extension request on IRS computer systems when processing the W-7. If the extension request has been properly requested and processed, there should be a computer record indicating an extension for the individual under an IRSN. When the ITIN is issued, the new ITIN number will be merged with the IRSN under which the extension was granted.
- When the ITIN is received, file the tax return at the location you normally file. **Note:** Tax returns should not be filed without an SSN or ITIN or with W-7s attached.

The Form W-7 is an information form and requires documentation substantiating foreign/alien status and true identity. The documentation, along with the Form W-7 can be mailed to the Philadelphia Service Center (PSC) or presented at an IRS walk-in office. Please tell your clients **not** to attach the Form W-7 to their tax returns when they file.

Documents they can use when they file Form W-7 include passports, national identity cards, foreign voter registration cards (if a photo is included), foreign military identification cards, U.S. visas or border crossing cards (for Canada and Mexico only), INS documents, baptismal, birth and marriage certificates, driver licenses or state IDs or school documents.

Please remind your clients that the ITIN is for *tax purposes only* and does not take the place of an SSN or qualify them for Social Security benefits. It does not affect their immigration status or give them the right to work in the U.S. or give them the right to the Earned Income Credit (EIC). Also, if the qualifying person for the Child Care Credit or the care provider does not have a valid SSN, ITIN, or Employer Identification Number (EIN), the Child Care Credit may be reduced or disallowed at the time the return is processed.

# AUSTIN SERVICE CENTER

## Processing and collection may be performed at different centers

**D**ue to the realignment of district offices, the service center that processes your return may not be responsible for any future action on that return. The service center that *processes* the return will issue the first notice which will include the correct telephone number or address you should use if you need to contact the IRS about a balance due reflected in the notice. After the first notice has been issued, all future contact will be with the service center that has *collection* responsibility. Refer to the chart at right to determine which service center processes your return and which service center has the

collection responsibility. Always use the telephone number and address provided in the notice.

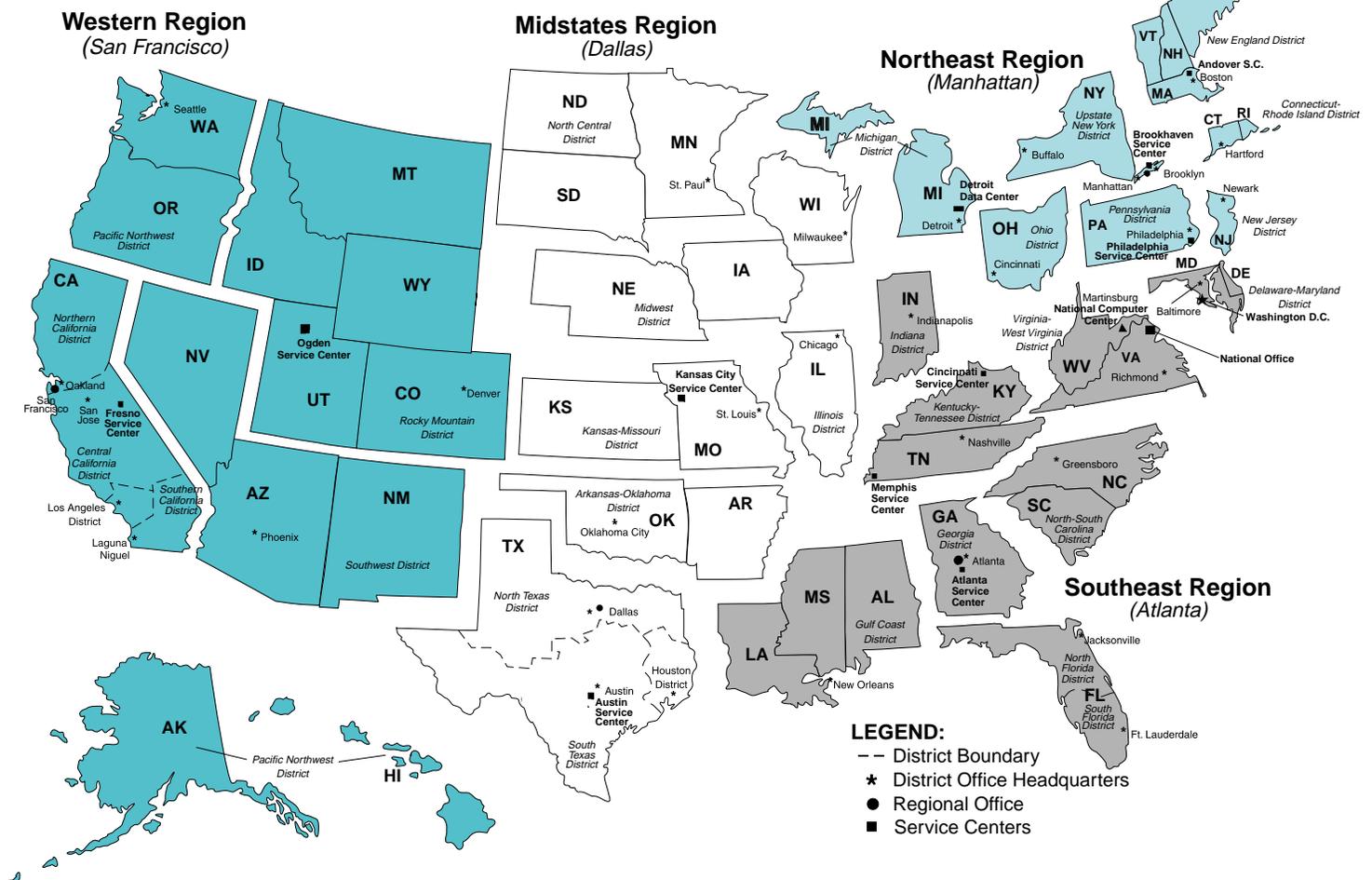
**Note:** When you respond to any correspondence you receive requesting information necessary to complete the

processing of a return, you should send it to the service center where you filed the return. Again, refer to the telephone number and address provided in the correspondence.

### Which service center handles your return?

State	Processing	e-file	Compliance
Arkansas	Memphis	Memphis	Austin
Kansas	Austin	Austin	Kansas City
New Mexico	Austin	Austin	Ogden
Oklahoma	Austin	Austin	Austin
Texas	Austin	Austin	Austin

## Internal Revenue Service Reorganization of Regions and Districts



# AUSTIN SERVICE CENTER

## IRS implements Electronic Federal Tax Payment System (EFTPS)

**B**usinesses withhold or pay a variety of federal taxes, such as FICA, FUTA and corporate income taxes. Historically, these businesses have been required to deposit their tax payments in a government depository such as a commercial bank or savings institution and accompany each deposit with a paper coupon. This system of tax payments has worked well in the past, but it is a labor- and paper-intensive process.

Today, the banking industry does most of its commerce electronically. The Treasury Department has joined the banking industry's electronic commerce network by processing tax payments electronically through a system called EFTPS, the Electronic Federal Tax Payment System.

To make EFTPS possible, the Treasury Department contracted with Nations Bank and First National Bank of Chicago to manage and operate EFTPS. The two banks enroll taxpay-

ers in EFTPS, provide customer service and initiate payments only upon a taxpayer's explicit direction. Thus, the commercial banking industry largely runs EFTPS. The IRS merely receives tax payment information to update taxpayer accounts. The bank processes the coupon information and forwards it to the federal government.

All taxpayers may participate in EFTPS, but they must first enroll in the program. To enroll in EFTPS, a taxpayer must fill out Form 9779, *EFTPS Business Enrollment Form*, and send it to the address below. This form can be ordered by calling **1-800-829-FORM (3676)**. It is *not* available at IRS service centers or banks.

**EFTPS Enrollment Processing  
Center  
PO Box 4210  
Iowa City, IA 52244-4210**

## Direct deposit of refunds is faster and easier

**T**he IRS has incorporated information about direct deposit of refunds near the refund/balance due area on the tax form.

Remember to correctly enter all the required information to insure the refund is credited to the proper account. The IRS cannot honor direct deposits if the bank routing transit number is illegible or incomplete. In the event the IRS cannot process the request, any refund due will be sent in paper check form.

Taxpayers will receive a paper refund check and a notice if:

- Required information is missing or incomplete.

- RTN (Routing Transit Number) does not match the master list of valid RTNs.
- RTN is for a foreign bank.
- Power of attorney is present.
- Return is a decedent return.
- Return is for a prior year.
- \$10,000 or more in withholding and zero tax is owed.
- Math error of more than \$50.
- More than two direct deposits are requested for the same account.

## Electronic information services from the IRS

### The Digital Daily — the IRS' Web site

- The IRS has tripled the capacity of its Internet site to provide faster, better and easier access to information provided on the site. Check it out at <http://www.irs.ustreas.gov>
- The IRS has developed fill-in-the-blank versions of many of the most popular tax forms. Once you have downloaded the forms from the Web site or the IRS CD-ROM, you can complete the forms right on your own PC and print them out.
- The Tax Professional Area on the Web site was created with help and guidance from members of the Commissioner's Advisory Group.
- The Digital Dispatch is an e-mail newsletter. The news and drop notices (advance releases of technical advice to be issued in the Internal Revenue Bulletin) will be sent to you as they are released.
- Find out how many deductions to take with the W-4 Calculator. This application was created with the testing and feedback help from both payroll managers associations in the Commissioner's Advisory Group (i.e., Association for Payroll Managers and the American Society for Payroll Managers).

### CD-ROM for Practitioners

The IRS CD-ROM has fill-in-the-blank tax forms, portions of the IRM, market segment guides and tools for the tax professional. It also includes a free SGML browser and Publication 1345.

### TaxFax

Get tax forms by fax. Call **(703) 368-9694** from the handset of your fax machine and follow the instructions.

## Remember:

Before filing income tax returns, taxpayers should apply to the Social Security Administration (SSA) and request a number for themselves and their dependents if they don't already have one. An SSN is required for all qualifying children listed on Schedule EIC, regardless of age. They should also resolve with the SSA any problems with an invalid SSN and verify that they are the correct person to claim a dependent.

## Mission of the Internal Revenue Service



The purpose of the Internal Revenue Service is to:

- collect the proper amount of tax revenue at the least cost;
- serve the public by continually improving the quality of our products and service; and
- perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness.

## Earned Income Credit

In order to claim the Earned Income Credit (EIC), a taxpayer must furnish the Social Security Number (SSN), year of birth and the number of months a qualifying child lived with them during the tax year. The EIC is denied to individuals who are *not authorized* to work in the U.S. or who fail to include their SSN or the SSN of their spouse on their return. The SSN must be issued to the taxpayer, their spouse and their EIC qualifying children by the Social Security Administration. The IRS will deny EIC when a correct SSN is not provided on the return or when a taxpayer claims the EIC based on self-employment earnings when the self-employment tax has not been paid.

A qualifying child must meet three tests — relationship, residency and age. Specific details of these three tests can be found in *Publication 596* and in the Schedule EIC instructions.

### Person with a qualifying child:

- Child must live with you in the United States for more than half the year (a whole year for an eligible foster child).
- Must submit proof of earned income.
- Earned income and adjusted gross income must not exceed certain limits.
- Return must cover 12 months.
- Filing status cannot be married filing separately.
- EIC qualifying child cannot be EIC qualifying child of another taxpayer.
- Qualifying child cannot be the qualifying child of another taxpayer whose adjusted gross income is more than yours.
- If you claim a child who is married as an EIC qualifying child on your return, you usually must also claim that child as a dependent.
- Must not file Form 2555 EZ, *Foreign Earned Income Exclusion*.

- Must provide valid and correct SSN for EIC qualifying child or children.



### Person without a qualifying child:

- Must have earned income that is \$9,700 or less.
- Earned income and adjusted gross income must not exceed certain limits.
- Return must cover 12 months.
- Filing status cannot be married filing separately.
- Cannot be the EIC qualifying child of another taxpayer.
- The taxpayer (or spouse, if filing jointly) must be at least 25 but under 65 years old before the close of the tax year.
- Cannot be eligible to be claimed as a dependent on anyone else's return.
- Main home must be in the United States for more than half the year.
- Must not file Form 2555, *Foreign Earned Income*, or Form 2555 EZ, *Foreign Earned Income Exclusion*.

**Beware: False EIC claims could prohibit the taxpayer from getting the credit for up to 10 years.**

## Commissioner Rossotti

*Continued from page 1*

problems and mistakes when they occur, as an essential first step to adapting and improving the performance of the IRS. He regards improving customer service as a long-term goal, requiring the IRS to focus less on internal operations and more on how to best help taxpayers meet their tax obligations. He believes that modernizing the IRS' organization and technology will take several years and require a commitment of management time and money.

Mr. Rossotti comes to the IRS from American Management Systems, Inc., an international business and information technology consulting firm, which he helped found in 1970.

# AUSTIN SERVICE CENTER

## E-file offers full-service system

**P**ractitioners who participate in the Electronic Filing Program — E-file — can offer their clients a full-service system that ensures the high quality of every return it accepts. Electronic return originators can provide more complete service to their customers whether they owe a balance, are expecting a refund or need to file both state and federal returns.

### **Balance due returns.**

Taxpayers can file early and make payments on balance due returns by April 15 using the 1040-V and mailing it to the St. Louis lockbox.

**Extensions and Installment Agreements.** Form 4868, *Application for Automatic Extension of Time to File*, and Form 9465, *Installment Agreement Request*, can also be filed electronically.

### **Preparing and filing Form 8453**

Form 8453 is the signature document for electronic filers and is also used to authorize direct deposit of refunds. Form 8453 must be submitted by the next business day after the filer receives acknowledgment that the IRS has

accepted the return. It is extremely important that all Forms 8453 are timely and accurate.

### **To speed processing and ensure the accuracy of Form 8453:**

- Have the taxpayer sign the form *before* the return is transmitted but mail it only *after* the return is accepted by the IRS.
- Enter the primary Social Security Number first on the Form 8453.
- Don't write or staple anything in the upper right-hand corner of the form. The IRS uses that area to print a Document Locator Number.
- Attach Forms W-2, W-2G and 1099-R to the middle left-hand side of the Form 8453.
- Don't staple groups of Forms 8453 together; turn them all in the same direction.
- Do not send unnecessary information such as Refund Anticipation Loan agreements, Social Security cards or copies of an electronically-filed return with Forms 8453.
- To correct a Form 8453 that has already been mailed, call the Austin Service Center Electronic Filing Branch at (512) 460-8900.
- Make sure that the address on the Form 8453 is the same as the address transmitted on the electronic return.



### **How to apply to participate in the E-file Program**

- **Submit Form 8633, *Application to Participate in the Electronic Filing Program*.**
- **Apply early! It takes up to 60 days to process applications, which are accepted only from September 1 through December 1.**
- **Forms 8633 are processed at the Andover Service Center. For more information, call (978-474-1499) or contact your local district Electronic Filing Coordinator. (See page 43 for the name and phone number of the E-file coordinator for your district.)**

**For the latest information on E-file, check out The Digital Daily The IRS Web site**

**http://  
www.irs.ustreas.gov**

## Avoid extension problems

**P**rocessing delays continue to cause problems for extensions. If you file multiple Forms 2688, be sure to complete Item 3, the explanation of why the extension is needed, for *each form*. Do not write a single cover letter of explanation for multiple forms. The forms are separated during processing, and all but one form is missing information necessary for approval. **Be sure to write SSNs on all extensions and Installment Agreement Requests.**

A similar problem arises when the Form 4868 or Form 2688 is submitted with a copy to be date stamped and returned. When these are not stapled together, they become separated and sometimes an attempt is made to process both. A preaddressed envelope included with the copy will expedite the request for acknowledgment. Please enter the zip code in the address area at the top of the form, directly under the word "zip code." This insures that the zip code is visible through the window envelopes the IRS uses and will expedite delivery to the taxpayer.

There are three extension forms for returns other than the 1040 series, and they are not interchangeable. **Be sure you are using the correct extension form.** *Form 8736* is used for extensions for Forms 1065 and 1066 and Form 1041, when it is used for a trust. *Form 7004* is used for Forms 1120 and 990T. *Form 2758* is used for a variety of excise and income tax, information and other returns, including Form 1041 when it is filed for an estate. When filing one of these requests, be sure to check one of the boxes near the top of the form to indicate the type of return for which you are requesting an extension. Blanket extensions are not granted. Separate forms must be filed for each return.

## Extensions and Installment Agreements

**T**axpayers who file extensions by April 15 but are unable to pay the full amount will not be penalized if they pay 90 percent of the total tax due at the time they request the extension. Regulations require that the tax liability reported on Form 4868, *Application for Automatic Extension of Time to File*, be properly estimated based on available information. The extension may be disallowed and a late filing penalty assessed if the taxpayer does not properly estimate the tax due and attach it to the request. Form 4868 is in voucher form again this year and can be sent electronically. Balance due Forms 4868 should be sent to the St. Louis lockbox. (See page 43.)

If a client cannot pay the taxes owed at the time of filing of the return, you can file a Form 9465, *Installment Agreement Request*, with the tax return. This form allows the taxpayer to request a monthly payment plan specifying the monthly payments.

There is a processing fee of \$43 for entering into an installment agreement and \$24 for restructuring or reinstating an installment agreement. **Do not send the \$43 when you send the Installment Agreement Request.** We will send you a notice for the fee once the agreement has been approved. Form 9465 can be transmitted electronically by itself or accompanying an electronically filed return.

Attach Form 9465 to the front of the return so it can be detached and processed separately. Attach Forms W-2, W-2-G and 1099R separately so they will not be inadvertently detached with the Form 9465.

## Custom envelopes accepted

**T**ax practitioners can have substitute tax return envelopes printed by private contractors. The IRS has produced position sheets for substitute envelopes. The reproduction proof, with position sheet specifications, has an OCR readable address with the appropriate ZIP+FOUR code and Postnet bar code. The design accommodates the sorting needs of both the IRS and the U.S. Postal Service. Each position sheet includes bar codes for the

14 most commonly used tax forms. The specifications are for a No. 10 4  $\frac{1}{8}$ " by 9  $\frac{1}{2}$ " commercial envelope. Further information can be found in Publication 1167, *Substitute Printed, Computer-Prepared, and Computer-Generated Tax Forms and Schedules*. Sheets are \$2.00 each and can be ordered from the above address with the accompanying payment.

The Internal Revenue Service  
EADC  
Attn: Reproduction Proof Coordinator  
4300 Carolina Ave  
Richmond VA 23222



## Automated mail processing

**T**he Composite Mail Processing System (COMPS) machines can process 450,000 pieces of mail per shift, or 32,000 envelopes per hour per machine.

Just as the supermarket scanner reads the bar codes on groceries telling the computer that a can of green beans, a quart of milk and a bottle of shampoo have been passed over it, the COMPS reads the form type and the program area (for example, Adjustments) which should receive that piece of mail and sorts envelopes accordingly. In addition to reading bar codes, COMPS recognizes the magnetic ink used in printing checks and money orders and can identify envelopes containing remittances. (*For an explanation of*

*how to arrange for custom bar-coded envelopes, see the Custom Envelopes story on page 10.*)

COMPS is designed to handle outgoing and incoming mail. The presorting of outgoing mail provides a postage discount of up to 5.1 cents for each bar-coded piece of mail with a 12-digit ZIP code.

This efficient system works only if the coded envelopes are used by taxpayers or their tax practitioners. Quick routing of your correspondence to the appropriate area will greatly reduce the chances of action on it being delayed.

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## Reasonable cause abates penalties

**I**f you ask for relief from paying penalties, you must follow specific guidelines. Internal Revenue Code, Section 6651, authorizes the abatement of penalties for failure to file tax returns and for failure to pay tax if the failure is due to reasonable cause and not willful neglect. Individuals requesting reasonable cause consideration for a penalty abatement normally must submit a written supporting statement to their service center.

CFR Section 301.6651 requires a written statement made under penalty of perjury that explains the facts related to the reasonable cause and is signed by the taxpayer or a representative having power of attorney. However, in the interest of fairness, the Service accepts unsigned and oral requests (if the penalty is \$250 or less) with the appropriate documentation by the employee handling the case when no reason exists to question the legitimacy of the request.

Reasonable cause determinations are based on the facts and circumstances of each case. Generally, if the taxpayer exercised ordinary business care and prudence and was still unable to file the return on time, the delay is considered due to reasonable cause. A failure to pay also may be due to reasonable cause if the taxpayer exercised ordinary business care and prudence, yet could not pay the tax liability in a timely manner. The tax due must be paid before a late payment penalty will be abated. If the IRS determines that failure to file was due to reasonable cause and not willful neglect, the penalty will be abated. The taxpayer is still responsible for the tax owed plus interest.

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## Payment tips

**Y**ou can help your clients ensure that their payments are properly credited by stressing the importance of writing the following information on their *checks* or *money orders*:

- **SSN or EIN.**
- **Tax period covered by the payment.**
- **Correct name of the tax account.**
- **Current mailing address.**
- **Type of tax form associated with the payment.**
- **Spell out *Internal Revenue Service on the Payable to line of the check or money order.***

It is even more important to provide identifying information if you use a money order.

---

## File Schedule H with Form 1040 for household employees

**T**he Social Security Domestic Employment Reform Act of 1994 made two major changes in the rules applying to household workers. Household employers are no longer liable for FICA taxes for any employee to whom they pay less than \$1,000 during the year. Wages paid for domestic services in the home of the employer by an individual under 18 years of age (provided the service is not the principal occupation of the employee) are exempt from FICA taxes.

Household employment taxes must now be added to the employer's income tax return. Taxpayers are reminded to attach Schedule H to their Form 1040 — not to send Schedule H and a payment separately.

## Being consistent with name and TIN reduces processing time

It is very important for taxpayers to enter their names on their tax returns exactly as they are registered with the Social Security Administration (SSA) and as they appear on their Social Security cards. If there is an error on the card or if a name has changed because of marriage, divorce or adoption, both SSA and the IRS should be notified so that the records of both agencies agree. Future benefits may be affected if the records are not accurate.

Consistency in the styling of surnames or business names is very important. Joint filers with different last names should be consistent in the way their names are entered on their tax returns from year to year. Hyphenated names such as John Wolf and Mary Fox-Wolf should always contain the hyphen.

Business filers should also be consistent in entering the business name on their tax returns to eliminate delays.

Another source of processing delays is the incorrect entry of the Social Security Number (SSN) or the Employer Identification Number (EIN) on tax returns. We refer to the SSN and EIN as a Taxpayer Identification Number (TIN). Transposition of digits in the TIN or the use of an incorrect TIN can cause processing delays and delays in refunds. These delays occur when the IRS Master File fails to identify an account. The IRS Master File compares stored data to the information on the tax return for a match. These delays can be lengthy, as the resolution involves research by a customer service representative. Therefore, it is important to correctly enter the TIN on all forms and schedules of the return.

## Assembling forms in order will speed processing

When returns are not assembled in the order in which they are transcribed, they must be pulled apart and reassembled. Although tax examiners take care to reattach all the pages, important documentation sometimes gets detached in the process.

Form 9465, *Installment Agreement Request*, and Form 911, *Application for Taxpayer Assistance Order to Relieve Hardship*, should be attached to the front of the return. Attach other forms and schedules at the end of the return in order of the attachment sequence number that is shown below the year in the upper right corner of the form or schedule. Attachment sequence numbers are not in the same order as form numbers. For example, Form

8801 has attachment sequence No. 74 and Form 8814 has No. 40.

IRS forms and schedules without attachment sequence numbers follow next in numerical order. ***Please attach separate statements at the end of the return — not between forms and schedules that are in sequence.*** If these relate to previous correspondence, refer to the IRS customer service representative by name, ID number, and mail stop number, where possible. *Copies of approved extensions of time to file should be attached following the IRS forms.* (Ignore the sequence number on Form 2688.) The remittance should be attached to the front of the return on top of the Form W-2.

**Encourage your clients to voluntarily comply**

**If you determine that a client has not filed, encourage them to do so before the IRS takes action. Working with the client and the IRS, you can establish a fair installment plan if one is justified. Encourage the taxpayer to obtain Forms W-2 and 1099 from known sources of income if necessary.**

**If these efforts are unsuccessful, you can help the taxpayer prepare substitute W-2s from pay statements and other information. Returns submitted before the IRS contacts the delinquent taxpayer will not automatically be audited but be subject to the normal review and selection criteria.**

**Visit  
The Digital  
Daily  
The IRS Web site  
[http://  
www.irs.ustreas.gov](http://www.irs.ustreas.gov)**

**Your best source  
for IRS forms and  
publications.**

# AUSTIN SERVICE CENTER

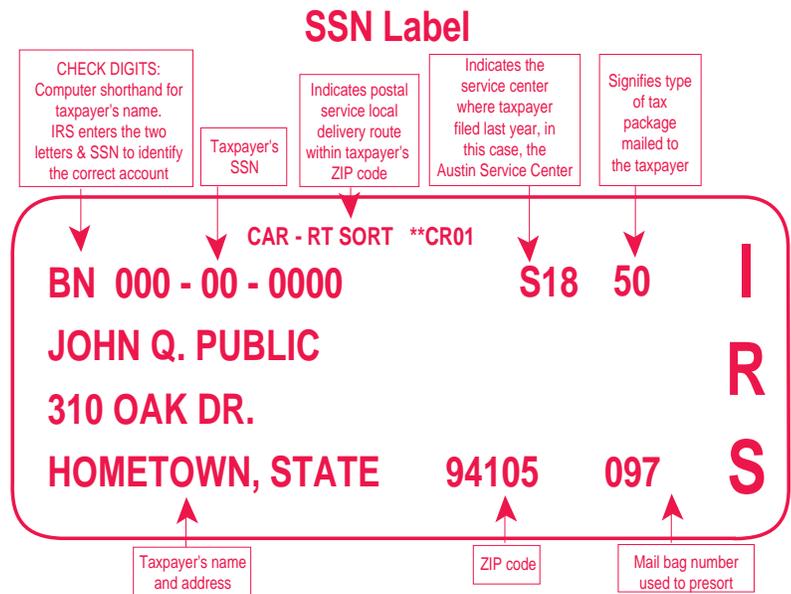
## Using preprinted labels helps reduce errors

Using the preprinted label on a client's tax return reduces the chance for errors. Each preprinted label contains a two-letter code called the check digits (*See the exhibit of IRS labels to the right*). This two-character code, when used with the Social Security Number (SSN) or Employer Identification Number (EIN), is computer language that identifies the client's tax account and ensures the accuracy of the SSN.

With the preprinted label, it takes the data transcriber only 12 key strokes to access the tax account and input the data needed to process the tax return.

In contrast, if the return does not have the preprinted label, the data transcriber must make about 35 key strokes — nearly three times as many key strokes than when the preprinted label is used.

Correcting the preprinted label is a simple procedure. Draw a line through the incorrect information and write in the new information.

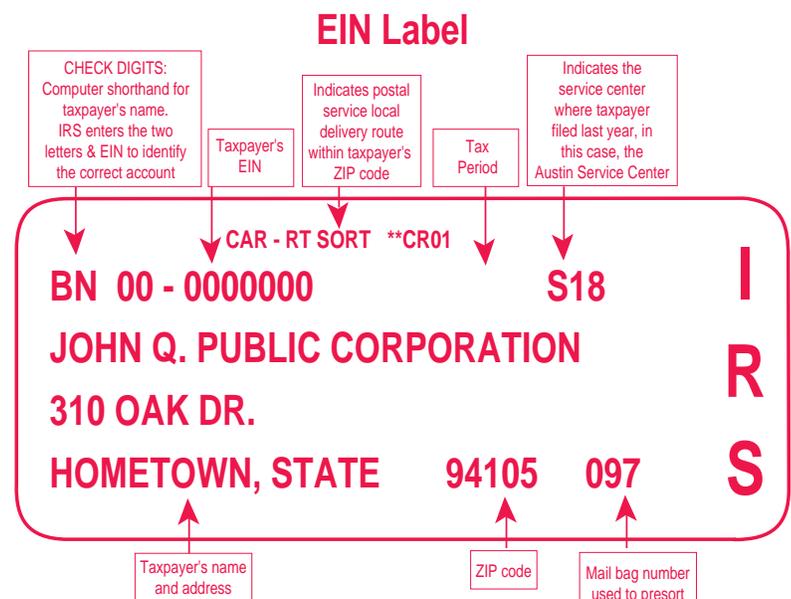


## Remember: Using labels saves time and increases efficiency. No information on IRS preprinted labels affects whether taxpayers are audited.

When preparing business forms, including Forms 990, 1120, 1065 and 943, use preprinted labels when possible. The labels reflect the data established by the IRS when the application for an EIN was received. The correct tax period is also shown on the preprinted label.

If you have established a taxpayer's identifying information on a computer system, be sure it reads *exactly* like the preprinted label, including the *check digits*. Abbreviations and minor changes to the name line, such as omitting a hyphen, can cause the business to be assigned a duplicate EIN or cause the processing of an individual return to be delayed.

**Note:** A label with heavy black bars or dotted lines is an indication to us that the address has been verified by the U.S. Postal Service.



Time is money . . . and now  
you can save both . . .  
thanks to the IRS

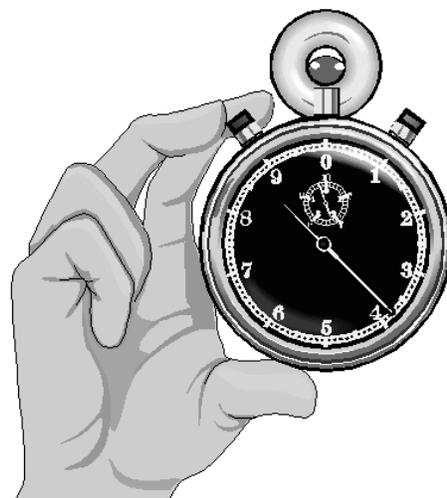
## The Tax Return Transcript

### What is a tax return transcript?

Do you need a copy of tax return information for a loan, scholarship or other financial aid? Here is a quick way to verify your tax information from the IRS — a line-by-line printout of the information on the original tax return.

### It's fast, easy and free.

- Dial **1-800-829-1040**. If you reach a customer service representative, tell them you wish to order a transcript of your tax return.
- If you reach an automated voice message, you will hear a menu of options. Listen for the option that includes “. . . for questions about your personal tax records . . .” Press the number for that option.
- Continue to follow the voice prompts until you are asked to enter your Social Security Number (SSN). (If you filed a joint return, enter the first SSN that you entered on the return.)



- You will hear a voice prompt “. . . to request a transcript of your tax return . . .” Press the number for that option.
- Your transcript should arrive by mail within 10 to 15 days.

### Paper request for a transcript

Complete IRS Form 4506 (Rev. May 1997), *Request for Copy or Transcript of Tax Form*. (Form 4506 is available from the IRS web site at <http://www.irs.ustreas.gov/> or by calling **1-800-829-3676**.) The taxpayer's signature is required. For even faster service, fax your request to us at **(512) 460-2354**. Remember, there are no charges for tax return transcripts — they're **free**.

## How to request copies of tax returns

**R**equests for copies of tax returns may *not* be submitted via fax. Full payment — **\$23.00 per return** — along with the completed, signed and dated Form 4506, should be mailed to the Service Center. Allow 30 to 60 days for delivery.

### Other important information

- Allow at least 10 weeks processing time after the original return is filed before requesting a copy or other information.
- Allow at least 30 days for a delivery

- when requesting prior year returns.
- Form W-2 information is available nine months after the end of the tax year, and requests take six to eight weeks to process.
- Form 1099 information cannot be requested with Form 4506 and should be obtained from the payer if possible.
- To request tax account information, **do not** submit Form 4506. Instead, write or visit the nearest IRS office. Tax account information shows any later changes that you or the IRS made to the original return.

- Requests for copies of tax returns will not be processed without the appropriate payment attached.

**Remember:** *The Freedom of Information Act and Privacy Act do not provide any greater access to confidential tax information than is otherwise available under the Internal Revenue Code. Copies of returns, as filed, can be requested by submitting a completed Form 4506 and are available under the Internal Revenue Code Section 6103(c) and (e).*

## Power of Attorney processing and CAF procedures

**P**owers of Attorney (POAs) are entered on the Centralized Authorization File (CAF) from Form 2848, *Power of Attorney and Declaration of Representative*. Non-IRS forms, such as civil powers of attorney, are not entered on the CAF unless they are accompanied by a completed Form 2848. Authorizations to receive information are entered on the CAF from Form 8821, *Tax Information Authorization (TIA)*. Processing of TIAs includes proper recording on the CAF and notation on the taxpayer's Master File account to ensure that copies of notices and letters are sent to both the taxpayer and the representative.

If the taxpayer is not listed on the Master File as a primary taxpayer (an individual filer or the one whose name is listed first on a joint return), then the power of attorney indicator will not be recorded and notices and letters will not be sent to the representative. This will also happen if the maker of the POA is not required to file a return, no account has been established, or the account has been removed from the Master File because of inactivity. This failure to issue notices in certain cases is a definite limitation of the present system. However, a tax examiner working a case can access the CAF to verify that a POA has been processed.

POAs allow practitioners access to specific tax returns and account information in order to serve clients. A POA is not needed when a taxpayer's representative is furnishing information relevant to a tax return or account. Example: when payment information is furnished by a practitioner in order to change a balance due status on a client's account.

### Forms 2848 and 8821

Form 2848 is generally used to give an attorney, certified public accountant, enrolled agent, actuary or other authorized representative substantial authority to act in the taxpayer's behalf. Unenrolled return preparers may also use Form 2848, but their practice before the IRS is limited.

Form 8821 grants access to tax information without giving permission to act on behalf of the taxpayer. Form 8821 must be received by the IRS within 60 days of the signature date. Taxpayers who file joint returns need to provide only one spouse's signature on the Form 8821. Partnerships and corporations as well as individuals may qualify to receive information on behalf of a taxpayer.

### Purpose

The CAF system safeguards information provided to the IRS by taxpayers pursuant to their tax obligations. Tax returns are confidential and may be provided to third parties only under the provisions spelled out in the Internal Revenue Code.

Congress considers the privacy of tax information so important that violators may be charged with a felony. The maximum penalty is a \$5,000 fine and five years in prison.

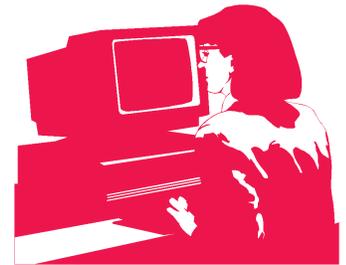
CAF numbers are assigned to representatives to help in the processing of Forms 2848 and 8821, but they do not indicate that a representative is qualified to practice before the IRS. The IRS can contact a taxpayer directly, even though the taxpayer has appointed a representative, when the representative unreasonably delays or hinders an examination, investigation or collection proceeding.

The name line on the Form 2848 identifies the taxpayer who is appointing the representative. If husband and wife are named, they both must sign and date the Form 2848. Either spouse may file a separate Form 2848 for a specific tax year, but only the spouse who signs should be named in the name line with his or her Social Security Number.

A new Form 2848 for the same tax matters and tax periods will revoke all prior POAs unless you specifically indicate otherwise. A new Form 2848 does not revoke a previously filed Form 8821.

### Universal Access

Universal Access allows any IRS employee with IDRS to access any Central Authorization



File nationwide for research purposes. This reduces the response time for providing information to practitioner inquiries about their client's accounts located in any service center's CAF.

### Processing

When a POA is sent to the Austin Service Center, it is identified in the Receipt and Control Branch or in the Document Perfection Branch where returns are coded and edited for transcription. It is separated from the tax return or correspondence unless otherwise indicated on the form and sent directly to the CAF Unit for processing. If a district office receives a Form 2848, they keep a copy for

*Continued on page 16*

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# AUSTIN SERVICE CENTER

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*Continued from page 15*

handling the account and immediately forward the original Form 2848 to the Service Center for processing. Once the Form 2848 is received in the CAF Unit, it will be processed within five workdays unless correspondence is required before processing can begin. During peak periods, the processing time may be extended to 10 workdays. Faxed Forms 2848 and 8821 are accepted to speed up the process. The fax number is **(512) 460-0176**.

Processing is delayed when Form 2848 is not properly completed by the taxpayer or the representative. Delays also occur when the forms are not readily identifiable when sent to the Service Center. For example, a Form 2848 placed between the schedules of a return may not be found when the return is processed.

Taxpayers' representatives and appointees must notify the Service to report any change of address in writing (or fax), specifically requesting that the CAF be updated.

## Revocations

Form 2848 or 8821 can be submitted to revoke a previously filed Form 2848 or 8821. The word **REVOKE** should be written across the top of the document in bold letters. The signature and date on the revocation must be current. If a copy of the previously submitted authorization is used for this purpose, it must be resigned and dated.

Representatives may remove themselves by the same procedure, but all representatives from the same firm must supply a current signature and date in Part II, *Declaration of Representative*. A Form 2848 or 8821 may also be revoked by a letter signed and dated by the taxpayer or the taxpayer's representative.

## Non-IRS POAs can be processed to the CAF Special reminders from the CAF Unit concerning POAs

Normally, general/durable POAs (non-IRS POAs) are not accepted by the CAF Unit for processing onto the CAF. Many of these POAs do not include the specific information required to process them such as the type of tax involved and/or the period(s) involved, and they do not contain a declaration of representation.

However, to ease the burden to the taxpayer, the CAF Unit will accept a non-IRS POA attached to a completed Form 2848, *Power of Attorney and Declaration of Representative*, executed by the attorney-in-fact appointed in the non-IRS POA. The attorney-in-fact can execute the Form 2848 if the original non-IRS POA authorizes the attorney-in-fact to handle *federal tax matters* or *perform any and all acts*.

The attorney-in-fact has to complete the Form 2848, (showing specific periods and forms) and attach the non-IRS POA to it. Also, a statement must be attached that states the original non-IRS POA is valid under the laws of the state of jurisdiction. The attorney-in-fact signs and dates the Form 2848 for the taxpayer. If the attorney-in-fact is appointing himself as the representative on the Form 2848, he must also complete, sign and date the Declaration of Representative on page 2 of the Form 2848. The attorney-in-fact can also appoint a practitioner, and that practitioner would sign and date the declaration.

Additional information may be found in IRS Publication 216, *Conference and Practice Requirements*, 601.503. To order, call **1-800-829-FORM**.

Tax examiners in the Austin Service Center's CAF Unit offer a number of reminders for practitioners dealing with powers of attorney:

- Notices are automatically sent to the first representative listed on Form 2848 unless there is an indication to the contrary on the form. No more than two persons may receive notices.
- Only three future years and only three representatives (one for Form 706, *U.S. Estate Tax Return*) can be recorded on the CAF.
- A taxpayer may have a representative for any issue, but only POAs that are related to a return for a given tax period can be included on the CAF. Specific use issues such as 100 percent penalty issues are not entered on the CAF and should not be submitted to the CAF Unit.
- Do not attach a list of subsidiaries to a consolidated corporate Form 2848. Subsidiaries must file their own Forms 2848 for returns that are required to be filed separately from the consolidated return.
- A copy of the POA, Form 2848, should be submitted with the return every tax year.
- Provide your CAF number with all correspondence. If you do not know it, request it from the CAF Unit:

**Internal Revenue Service  
Attn: CAF Unit  
PO Box 1231, Stop 6737AUSC  
Austin TX 73301**

If you have the Fax-TIN number programmed on your fax machine or other fax system, make sure it is the correct number. The Fax-TIN number is (512) 460-8000

## IRS Integrity Hotline

The IRS expects its employees to conform to the highest standards of integrity. If you have reason to believe that an IRS employee is engaging in misconduct, call IRS Internal Security at:

1-800-752-7001  
ext. 968



## Fax-TIN: EINs by fax

**T**axpayers can request Employer Identification Numbers (EINs) by fax from the Austin Service Center Fax-TIN Program. They should first complete a Form SS-4 and then fax the form to (512) 460-8000 24 hours a day. An IRS representative will input the information from the Form SS-4 and assign an EIN within three workdays and fax it back to you. (Be sure to provide us with your fax number so we can fax the EIN to you.)

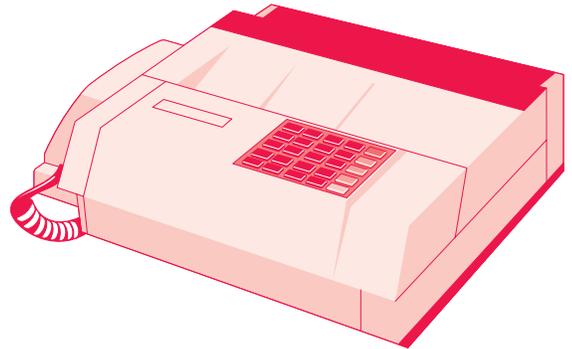
Fax-TIN is the safest, easiest and most accurate method of obtaining an EIN, but in an emergency you may also request an EIN by phone. Our resources allow us to have a limited number of people available to answer the phone, so we can better serve you if you fax us the EIN request. When you fax your request as opposed to calling on the phone, you can avoid busy signals or long periods of time on hold during peak times.

If you must telephone us, complete the Form SS-4 and then call (512) 460-7843 any weekday between the hours of 7:30 a.m. and 5:00 p.m. (Central Time). The EIN will be assigned immediately. After the EIN is assigned, you must still mail the completed Form SS-4 to the Service Center's Entity Control Section within 24 hours. (Be sure the Form SS-4 is completely filled out and signed by a duly authorized person.)

### EIN disclosure laws

The Fax-TIN/Tele-TIN function is limited by strict disclosure laws, and an EIN can be given out to a *duly authorized person only*. A duly authorized person for the following types of organization is:

- Sole proprietorship – owner.
- Corporation – president, vice-president or other principal officer.
- Partnership – a partner.



- Estate or trust – administrator, executor, fiduciary or trustee.
- Other unincorporated organizations – a responsible and duly authorized member or officer of the organization.

Remember, a third party *must* have proper written authorization such as a *Power of Attorney*, Form 2848, (*See page 15.*) before newly assigned EINs can be released to them.

The guidelines for sole proprietorship EINs are now more stringent. These EINs are issued primarily to individuals who have employees (or file any other federal returns or documents); individuals who issue Forms 1099 for contract labor; or those who are required to have an EIN by the Bureau of Alcohol, Firearms and Tobacco.

### Common Fax-TIN problems

- Taxpayer faxes Form SS-4 and then calls Tele-TIN to request an EIN. This could cause duplicate EINs to be issued.
- Form SS-4 is not completely filled out.
- Taxpayer is uncertain about the type of entity being established.
- Callers sometimes are unable to establish that they are authorized to request an EIN for the entity they represent. *An EIN can be released to duly authorized individuals only.*

## Lockbox processing

**T**ax practitioners should mail all types of 1040 returns (1040, 1040A and 1040EZ) that contain a remittance to the lockbox. Procedures in Package X for preparation and mailing of the 1040-Voucher contain lockbox mailing instructions and addresses. These procedures not only provide for expanding lockbox volumes but also provide consistent procedures for tax preparers. Installment Agreement payments and fees should also be mailed to the appropriate lockbox address. Not all individual tax packages received by taxpayers contain lockbox mailing instructions.

The individual tax packages will still be limited in scope regarding which taxpayers will receive the lockbox two-label envelope. Other taxpayers will receive the usual

service center address envelope. Regardless of the package received by your clients, please mail your 1040 remittance returns to the lockbox address. If your clients receive a preprinted 1040 postcard package, please encourage them to use the preprinted 1040-V with 1040 remittance returns. The preprinted voucher can be read through high-speed computer scanning equipment, eliminating the need for data entry, thus ensuring fast and accurate posting of the payment information.

Forms 4868, *Extension Requests*, with remittances are processed at the lockbox. (See the list of lockbox addresses on page 43.)

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## Form 1040X Processing

**F**orm 1040X processing is slower than original processing because we have to associate and compare the amended return with the original.

Please include complete documentation and an explanation for each change to the tax return. This will allow us to process the claim without contacting you or your client for additional information.

Amended return processing is costly. Please make every effort to ensure that your clients provide you with complete information during the preparation of the original return.

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## Information about decedent returns

**D**elays in processing returns filed for deceased taxpayers can be reduced or eliminated by writing the decedent's name, the word *deceased* and the date of death in the top left-hand margin of page 1, Form 1040. Also include a completed Form 1310 if required. See Publication 559, *Tax Information for Survivors, Executors and Administrators*, for additional information. Including all of the required information will eliminate delays caused by corresponding for missing or incomplete information.

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## Proper assembly of a return package

- Secure the return package with one staple in the top left corner. Do not use tape. Use binder clips or garter bands for large documents.
- Keep the upper right portion of the front page blank and free of staples. The Document Locator Number (DLN) is printed in that area. A staple can cause the DLN to be printed illegibly and can even damage the imprinting equipment. Some practitioners stamp or print a message such as "IRS File Copy" in that area in large letters which obscure the DLN.
- Do not use binders or plastic covers; these must be removed for processing and are discarded.
- Do not staple shut the envelope in which the return is mailed.

### Tips for filing multiple returns

- **When mailing several returns in a box or large mail container, mail them flat — do not fold them separately or place them in separate envelopes.**
- **Turn documents the same way in the package.**
- **Do not staple different tax returns together.**
- **Separate returns with remittances from returns without remittances.**

# AUSTIN SERVICE CENTER

## Service Center Recognition/Image Processing System

The Service Center Recognition/Image Processing System (SCRIPS) speeds the processing of many simple tax returns. SCRIPS was introduced not only to replace outdated equipment but to upgrade the Center's capacity to scan tax documents. This system can *read* the data much like a photocopy machine, and, with properly prepared documents, can triple processing rates. SCRIPS can scan in excess of 5,000 documents per hour as opposed to 1,750 documents per hour under the old system.

Like all computer-related equipment, this system can process documents only if entries are legible and properly placed. Scanned documents and returns can be processed quickly and accurately if you follow these tips:

### Form 1040EZ:

- Always use IRS mailing labels and clearly indicate any changes.
- Limit the use of paper clips and staples. One staple is sufficient to secure the W-2 to the return. One paper clip will hold all documents.
- Avoid unnecessary markings on the form which can cause inaccurate optical scan readings.

## Remember:

**Treasury Department Circular No. 230 contains the rules governing the practice of attorneys, CPAs, enrolled agents, enrolled actuaries, appraisers, and other persons representing taxpayers before the IRS. It authorizes the Director of Practice to grant or deny enrollment and to institute disciplinary proceedings.**

- Follow the example shown on the form when printing numerals.
- Be sure to stay within the boxes and do not let characters touch or overlap.
- Do not send a photocopy. Send the original return only.
- If the money fields should be blank, leave them blank. Do not write or type in *none* or draw a line.

### Form 1099:

- Type the information in black ink.
- If the money fields should be blank, leave them blank. Do not write or type in the word *none* or draw a line.
- Do not send a photocopy. Send the original return only.
- Submit a separate transmittal, Form 1096, for each type of Form 1099.

## FTD Checklist

Helpful hints for preparing Forms 8109 and 8109-B, *Federal Tax Deposit (FTD) Coupons*.

- Enter the dollar amount without dollar signs, commas or decimal points. If the deposit is for whole dollars only, enter a pair of zeros in the *Cents* boxes.
- Be sure your entries on the coupons are legibly made in ink so that the optical scanning equipment can read them.
- Follow coupon book instructions to make a change or correction to the coupon and reorder form. Mark an X in the box if there is a change to the EIN or the name.
- Use the exact name as shown on the client's tax account and be sure the EIN is correct. (Check the label.)
- Fill in only one bubble to the left of type of tax and tax period — the tax period in which the liability was incurred, not the one in which it is deposited.
- Never use another taxpayer's preprinted coupon.
- Do not use nonstandard, photocopied or computer-prepared coupons because they cannot be read by the scanning equipment that processes FTD coupons.
- Do not use an FTD coupon to deposit delinquent taxes. These should be mailed to the service center that assessed the taxes. Enclose copies of related notices.
- When making a deposit on the date it is due, be sure it is delivered before the daily posting cutoff time set by your bank.
- Make sure that the bank where you are making your deposit is authorized to accept FTDs.

# AUSTIN SERVICE CENTER

## Document Locator Number

FILE LOCATION CODE	TAX CLASS	DOCUMENT CODE	JULIAN DATE	BLOCK NUMBER	SEQUENCE NUMBER	YEAR DIGIT
18	2	22	074	000	03	6

## Document Locator Number

The Document Locator Number (DLN) is a unique identifying number assigned to every tax document as it enters pipeline processing. The same number is stamped on the backs of the checks submitted with remittance returns processed through the Remittance Processing System.

The DLN can be broken down into seven smaller groups of numbers that identify the type of tax and the return to which the payment was credited. For example, a practitioner's client receives a bill, and he knows he has paid the tax. Using the cancelled check and the DLN printed on the back, the practitioner can determine not only that the IRS received payment and when, but also whether or not it was credited to the proper tax account. This will help the IRS correct the problem more quickly.

Form **1040** Department of the Treasury—Internal Revenue Service  
**U.S. Individual Income Tax Return (x)** **PROOF** **18222074000036**  
 IRS USE Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31 1996, or toher tax year beginning . 1996, ending . 1996 OMB No. 1545-0074

**Label** (See instructions on page 10.)  
 Use the IRS label. Otherwise please print or type.

**Presidential Election Campaign** (See page 10.)

Your first name and initial Last name  
 If a joint return, spouse's first name and initial Last name  
 Your social security number  
 Spouse's social security number  
 Home address (number and street). If you have a P.O. box, see page 10. Apt. no.  
 City, town or post office, state, and ZIP code. If you have a foreign address, see page 10.  
 For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Do you want \$1 to go to this fund? . . . . . Yes No  
 If a joint return, does your spouse want \$1 to go to this fund? . . . . . Yes No  
 Note: Checking "Yes" will not change your tax or reduce your refund.

## Taxpayer's Cancelled Check (Back View)

(SUBSEQUENT COLLECTING BANK)	(DEPOSITARY BANK)	(PAYEE)
> 123456789 < ABC BANK ANYTOWN, USA		
MART 18222074000036 6703098	76543208812010190	

Document Locator Number

## Refund returns sent back to taxpayers

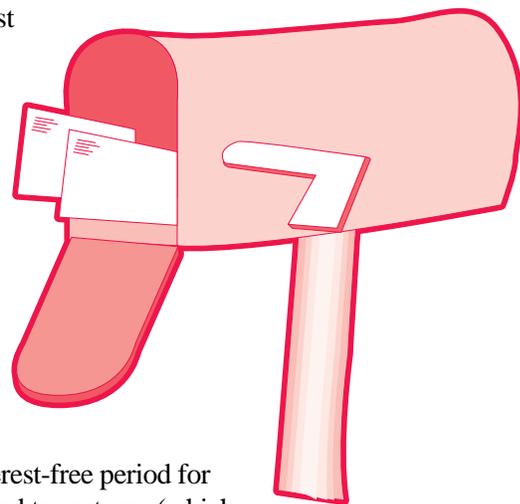
Every filing season, many unprocessable refund returns are returned to taxpayers for a variety of reasons. The most common reasons are:

- Missing signature. (Facsimile and photocopies are not acceptable.)
- Missing Forms W-2.
- Missing or incomplete Schedule EIC.
- Incorrect or missing Social Security Number.
- Missing date of death of deceased taxpayer and incomplete Form 1310 or missing documentary evidence on refund return of deceased taxpayer.
- No entry on Line 13c of Schedule R.
- Physician's statement missing from Schedule R filed for a disabled taxpayer under 65.
- Missing Form 2441 from Form 1040 or missing Schedule 2 from Form 1040A, claiming the credit for child and dependent care.
- Missing Social Security Number of the recipient of alimony.
- Documentary evidence (including Power of Attorney or court certificate of legal representative) missing from a return not signed by the taxpayer.
- Inconsistencies concerning the standard deduction.

If a payment is included with a return that lacks needed information, the IRS will correspond with the taxpayer rather than return the documents. Missing information may also be requested further along in the processing of the return when examiners review the return and pinpoint needed information or documents.

Among the most frequently encountered situations regarding correspondence are inconsistencies concerning adjustments to income, filing status and exemptions.

The 45-day interest-free period for processing refund tax returns (which normally begins on April 15) does not begin until the IRS receives a return that is processable.



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# AUSTIN SERVICE CENTER

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## Fax facts

**T**he Austin Service Center uses high-speed fax machines for the rapid transmission of information between the Service Center and taxpayers, tax practitioners and district offices.



being faxed. The Austin Service Center no longer has a *main* fax number. Each functional area has its own fax number: **(512) 460-8000** to fax a Form SS-4 to the Tele-TIN Office; **(512) 460-0176** for the CAF Unit; and **(512) 460-2354** for requests for tax return transcripts

Items transmitted should consist of material directly related to cases on which additional data has been requested. Powers of Attorney are also accepted by fax. When you transmit via fax, attach a cover sheet with the following information:

- To:** Tax examiner name or ID number  
(10-digit number at the upper right of IRS correspondence)
- Stop Number:** (If provided by IRS representative)
- Taxpayer Identification Number:**
- Subject Matter:**
- Sender Information:** Name, address, and telephone number

Accurate cover sheets help expedite delivery. Be sure yours is complete and transmitted as the first page of the material

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## Statute of Limitations

**G**enerally, claims for refund must be filed on or before the Refund Statute Expiration Date (RSED). A claim for refund must be filed within three years from the date the original return was filed or two years from the date the tax was paid, whichever is later. Exception: An original delinquent return with prepaid credits must be received by the Service within three years from the return due date, including any approved extensions of time for filing, to receive a refund or credit of any prepaid credits. Prepaid credits include ES payments, credit elect, excess FICA, WPT, EIC, Federal Tax Deposits, withholding, other refundable credits and payments made prior to the return due date. Refunds or offsets of prepaid credits will not be allowed after the RSED. Credits paid on or before the due date (prepaid) of Forms 941, 942, 943, 945 and 1040 are considered to be paid on April 15 of the following year.

The Collection statute expiration date is normally 10 years from the date of assessment of tax. If no return is filed for a tax period, the expiration date cannot be computed and will not expire. The statute period for assessing the failure to pay penalty and interest is also 10 years.

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## Disaster Claims

**N**atural disasters or emergencies may warrant taxpayer relief. During these situations, both taxpayers and practitioners may require disaster/emergency relief measures to enable them to meet their tax obligations without being penalized. Also, certain compliance actions may be temporarily suspended. Specific questions concerning AUSC disaster processing should be directed to the Center's Natural Disaster Coordinator at **(512) 460-7225**.

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## Change of address and lost refunds

**I**f your clients move after filing their income tax returns, use Form 8822, *Change of Address*, to notify the IRS of the new addresses. Send Form 8822 to the same service center where you filed the return. If a taxpayer files a tax return or a claim for a refund and then moves without leaving a forwarding address, the refund check will be returned to the service center. For the refund check to be reissued, the service center must be notified of the new address.

If the refund check was issued and not received by the taxpayer, but has not been returned to the service center because it is stolen or lost, a Form 3911, *Taxpayer Statement Regarding Refund*, or a detailed letter, must be completed and sent to the service center. If a check was issued for a joint return, both signatures normally are necessary on the Form 3911 or letter to reissue the check. The IRS and the Financial Management Service determine if the check has been cashed. If it has not been cashed, a replacement check will be issued. If the check has been cashed, a photocopy of the check will be mailed to the taxpayer with a Claim Form 1133. This form should be completed and returned to the Financial Management Service for a determination concerning reissuing the check.

The investigation involved in tracing a lost or stolen refund check is time-consuming. It can take three months to a year before another refund check is issued.

## Tips for preparing Forms 1045 and 1139

General reasons why applications for tentative refunds are returned:

- Incorrect tax year.
- Tax doesn't match, or a detailed tax computation is not attached. (Includes changes to Recapture Tax and Alternative Minimum Tax.)
- Not filed on time.
- Gain year not filed.
- No signature, joint application with only one signature, or Power of Attorney missing.
- Tax shelter question not answered or answered **YES**, and Form 8271, *Investor's Reporting of Tax Shelter Registration Number*, not attached.
- Using old revision of the form that does not include tax shelter question.
- Required forms or schedules missing.

### Form 1139, Corporation

#### Application for Tentative Refund:

- Filed for a consolidated corporation but not all EINs are provided.
- Gain year overlooked. Taxable income must be eliminated on all gain years whether or not an overpayment will result.
- Simultaneously filed amendments and carrybacks were separated. Securely fasten one to the other.
- Detailed computation of the credit claimed and the amount that is applied to each year is not attached.
- Prior carryback or adjustment not considered.
- Failure to carryback to the third year first.
- Taxpayer receives notice from Audit of additional assessment and submits Form 1139 before the Service Center sends notification that the tax has been assessed.

### Form 1045, Application for Tentative Refund, Carryback Claims:

- Carryback from a joint return to a year with a different spouse or a year when the taxpayer filed separately. Allocation schedule not attached or incomplete.
- SSN of former or deceased spouse not indicated on the application.
- Net Operating Loss computation incomplete or not attached. Lines 4 through 9 not completed on Schedule A, Form 1045.
- Detailed computation of the Net Operating Loss or credit and the amount that is applied to each year not attached.
- Pages 1 & 2 and Schedule D of the loss year not attached.

## Five reminders for Form 1045 filers

1. To be processable, all carryback claims must have the following items attached:
  - Copies of pages 1 and 2 of Form 1040 or page 1 of Form 1120, and Schedules A, C, D, K-1; Form 3800 and any other credit computation form, if applicable, from the *loss year* return.
  - All Forms 8271, *Investor Reporting of Tax Shelter Registration Number*, for the year of the loss or unused credit.
  - Copies of any forms or schedules for items recomputed in the carryback/gain years.
  - Allocations for taxpayers with



filing status changes between the loss and gain years.

- The taxpayer's computation of the Net Operating Loss, Form 1045, Schedule A and intervening years modifications on Schedule B, for losses that are not fully absorbed in any gain year.

2. Put the most recent correspondence on top. This will expedite referral to the correct area in the Service Center.

3. Remember that credits can initially only be carried back, not forward. If there is no tax to carryback against,

a statement must be provided when carrying forward. A credit must be substantiated by the proper form.

4. Schedules substantiating pages 1 and 2 of Form 1040 attached to Form 1045 should be clearly marked:

**Information only. Do not process. Attachment to Form 1045.**

5. Attach copies of only those schedules actually being changed.

### Note:

**These reminders apply equally to all claims for a carryback including those filed on Forms 1040X and 1120X.**

## Hints from Service Center employees

**T**ax examiners, customer service representatives and program analysts were asked to identify recurring procedural problems with cases they work. The following tips were assembled from their responses:

- Remember to claim estimated payments on tax returns. Claim the payments separately from withholding.
- Review the impact of nontaxable earned income such as deferred income, combat pay, military subsistence allowances and quarters allowances on the Earned Income Credit.
- Inform clients that the interest on overdue balances is charged from the due date of the return. This is of particular significance when an amended return showing a balance due is filed after the due date of the original return (without extensions).
- If the name on the W-2 does not match the name on the return, include a note of explanation.
- Mail all tax returns and correspondence for the Austin Service Center to **Internal Revenue Service, Austin TX 73301**, except when specifically instructed otherwise or you are provided with a special envelope.
- When submitting photocopied material, take care that both sides of two-sided forms and schedules are copied.
- A new business should arrange for an EIN before submitting returns. The EIN on the returns should match the EIN on Form SS-4.
- The date of death must be documented for deceased taxpayers.
- Do not bracket numbers that are to be subtracted from preceding numbers. Bracket negative amounts (losses) only.
- Remember that Social Security and Medicare taxes are computed on different wage bases and must be reported separately on Form 941.
- Do not annotate *See Statement* instead of filling in line items. This will cause processing delays and may require correspondence with the taxpayer to clarify what line item is intended. This problem has been especially common with computer-generated Forms 1120.
- Check, double check and recheck the Social Security Number (SSN). It is absolutely critical for taxpayer identification to be entered on every page of a return. Watch for transposition of digits, switching spouses' SSNs or simple misreading. This is especially important if the taxpayer has moved into our service area since they last filed a return.
- Write on all checks the taxpayer's identification number (SSN or EIN), type of tax and tax year (calendar or fiscal) for which the payment is intended.
- Do not combine payments on one check. Send a separate check for each form.
- Make sure the taxpayer's name *and* SSN are on forms and schedules sent in response to correspondence after the original return was filed. This will ensure that we can accurately associate them with that return.
- Be sure to include the taxpayer's apartment number, if any, on the address line of the return. Mail is returned if the apartment number is missing.
- Returns for decedents must be signed by either the spouse or a representative who is in charge of the estate. If you are a court-appointed representative, attach the court certificate showing your appointment. A will or power of attorney is not a valid court certificate.
- Many returns have missing signatures. If someone other than the taxpayer is to sign the return, a power of attorney authorizing someone else to sign the return must be attached.
- Schedule EIC must be completely filled out. A missing child's year of birth, SSN, complete name and relationship will require correspondence and cause delays .
- The taxpayer and CPAs should use a new, clean form for the second extension request, rather than writing *second request* on a copy of the first request. This will avoid confusion, extra work for the tax examiner and lessen the possibility of the second request being denied in error.
- Be sure to include name, address and EIN on Form 941. Complete and sign Part 1 when filing Form 941c.
- Use correct name on Forms 2758 and 7004. If a name has changed, be sure we have been notified before filing an extension.
- Be sure handwriting is legible if the form is not type-written.
- Be sure all required taxpayers sign the return.
- On Form 1040, do not write **NO** on the EIC line when Adjusted Gross Income exceeds the EIC limit.
- Most common errors on Form 2553, *Election by a Small Business Corporation*:
  - Failure of shareholders to sign in Item K;
  - Failure to provide information in Item L;
  - Original signatures of shareholders, spouses and corporate officer missing at bottom of form.

## Balance Due Notices

Once taxpayers begin receiving balance due notices, they should follow these tips on how to respond:

- Whenever possible, call the toll-free number shown on the notice to resolve the account.
- Have all IRS-related documents with you when talking to an IRS employee. Write down the name and telephone number of the IRS employee who is actually working the collection-related case. All taxpayer designated representatives must have a valid power of attorney (Form 2848) on file at the IRS before any IRS employee can provide information about a taxpayer's account.
- Respond as quickly as possible to any and all balance due notices or other IRS letters. Once the first balance due notice is issued to the taxpayer, the collection process begins. The longer a collection issue remains unresolved, the greater the balance will be due to additional penalty and interest.
- Keep copies of all IRS notices received, as well as written responses to the IRS. By doing so, taxpayers will have written, chronological evidence that they responded to IRS inquiries and will provide a record of the type of inquiry.
- Notify the IRS of any change in the taxpayer's address or telephone number immediately. Many IRS notices of balance due never reach the taxpayer simply because the taxpayer's current address has not been updated.
- Allow the IRS a minimum of 30 to 60 days to respond to written taxpayer inquiries.
- Provide IRS with the taxpayer's current address, telephone number(s), and social security or employer identification number(s) when responding to balance due notices. Taxpayer representatives should also enclose a copy of the current valid power of attorney, as well as their current address and telephone number.
- Avoid responding to or working with more than one IRS office at the same time. IRS has many offices located throughout the U.S. Sometimes more than one IRS office can be working on the same type of collection-related issue. We recommend that taxpayers inform an IRS office if they are working with another IRS office.

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## Balance Due Notices

### Q&A

*Q Do penalty and interest charges on a balance due account continue to accrue even though an installment payment plan has been established? If so, why?*

**A** Yes. Applicable penalty and interest charges accrue on the unpaid balance of tax owed, regardless of whether or not an installment payment plan has been established. Interest charges also accrue on some penalty charges such as the failure to timely file a tax return penalty and the failure to timely pay the tax due penalty. The total amount of tax owed is due on the due date of a tax return. The law states that if the tax is not paid in full by its due date, IRS may assess applicable penalty and interest

charges which will accrue until the balance of tax, penalty and interest charges are paid in full.

*Q Can taxpayers request an abatement of assessed penalty and interest charges to reduce their balance due? If so, how?*

**A** Yes. Taxpayers can request that assessed penalty charges be abated to reduce the total amount owed. Interest charges generally cannot be reduced or abated. The Internal Revenue Code provides for elimination of penalties if the taxpayer can show reasonable cause. Reasonable cause, broadly defined, is a cause which arises despite ordinary care and prudence exercised by the taxpayer. Taxpayers should submit a written statement setting forth the facts establishing reasonable cause. Taxpayers can also request abatements via telephone. If IRS deter-

mines reasonable cause was not established, taxpayers can appeal the decision to the regional director of appeals after the penalty has been paid.

*Q What are the basic governing rules concerning installment payment plans and why are installment payment plans sometimes defaulted when the taxpayer has an excellent payment history?*

**A** Installment payment plans are a payment option privilege granted by the IRS when it is determined that a taxpayer can only pay the tax in installments. Once an installment payment plan is approved and initiated, taxpayers must make each monthly payment in the correct amount by its due date. In addition, taxpayers must also pay all future

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taxes as they become due. Sometimes, the IRS files a Notice of Federal Tax Lien to secure the Government's interest until after the final installment payment is received. An installment payment plan can be defaulted if a taxpayer:

- Submits an insufficient monthly payment amount;
- Does not send a regularly scheduled monthly payment by its due date;
- Submits a payment which cannot be supported by their financial institution; or
- Does not pay all of their future taxes as they become due.

If a new balance due account is created while a good standing installment payment plan is already in effect, it is an indication that the taxpayer has not paid all of their future taxes as they became due. Therefore, a good standing installment payment plan can be defaulted.

*Q Does filing personal bankruptcy automatically relieve a taxpayer of the obligation to fully pay their balance due account(s)?*

A Not necessarily. In most cases, the decree issued by a bankruptcy court places a stay on collection of federal taxes but does not necessarily absolve the taxpayer from eventually paying the balance due tax account. It is important to remember that penalty and interest charges continue to accrue on all balance due tax accounts.

*Q What do "Delayed Collection" and "Refund Offset" mean?*

A If the IRS determines that a taxpayer cannot make any payments towards the balance due, the collection process can be delayed until the taxpayer's financial condi-

tion improves. During the delay of collection, penalty and interest charges continue to accrue. If the taxpayer becomes entitled to a refund during the time the other unpaid taxes are owed, the IRS will first apply (offset) the refund to the other balance due owed.

*Q What does "Enforced Collection" mean?*

A Enforced collection is when the IRS files a Notice of Federal Tax Lien, serves a notice of levy or undertakes measures to seize and sell a taxpayer's personal or business property in order to satisfy a delinquent tax liability. Enforced collection is among the final set of actions IRS undertakes to collect unpaid tax. IRS will undertake enforced collection actions only if numerous past attempts to give taxpayers the opportunity to voluntarily pay their balance due account has failed.

*Q What are federal tax liens and levies?*

A A Notice of Federal Tax Lien is a document that is filed by the IRS with the residential county courthouse where a taxpayer lives and owns property. When the notice is received by the taxpayer's residential county courthouse, a statutory lien is created and is attached to a taxpayer's current property and rights to property as well as all future acquired property. Tax liens are a matter of public record and can severely damage a taxpayer's overall credit rating. A levy is the taking of property to satisfy a delinquent tax liability. A levy can be made on taxpayer property in the hands of third parties (employers, banks, etc.) or in the possession of the taxpayer (automobiles, real property). A levy placed on a taxpayer's wages, salary or commission income continues in effect

until the delinquent tax liability is paid in full or becomes unenforceable due to a lapse of the statute of limitations for collection.

*Q How are federal tax liens and levies released?*

A First and foremost, the entire amount of the delinquent tax, penalty and interest charges must be paid in full. Taxpayers should then write or call the appropriate IRS office to ensure the lien or levy has been removed.

*Q How can taxpayers ensure they won't have future balance due accounts?*

A It is important for every taxpayer to ensure they have an adequate amount of federal tax withheld from their pay by determining the correct number of exemptions they claim on their Form W-4. Certain other taxpayers or taxpayers who are in business for themselves must take measures to ensure they make a sufficient amount of estimated tax payments throughout the entire tax year.

## Installment Agreements

**T**axpayers who owe additional tax when they prepare their tax returns should file even if they are unable to pay the full amount owed to IRS. If they are unable to pay in full, they should attached a Form 9465, *Installment Agreement Request*, or a statement of their current financial condition and a proposal for payment explaining the circumstances. (The statement should include the taxpayer's SSN, name, address, tax year, form filed, tax liability and amount of any payment attached. If the IRS determines that the taxpayer

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# Offers in compromise give new start to financially troubled taxpayers

**O**ffers in compromise are just what the name implies. They are offers from taxpayers, whether individuals or businesses, to settle tax bills for less than the amount owed. They are designed to give financially troubled taxpayers a new start and bring them into compliance with the tax laws. Before submitting an offer in compromise, please consider the following items:

- The compromise of a tax liability can only rest upon doubt as to liability or doubt as to collectibility. Sympathy or equity are not grounds for compromise.
- An offer will not be considered if the IRS could collect the full amount the taxpayer owes. For example, if a taxpayer has sufficient equity in real estate or personal property to pay the taxes or if they can pay the balance due, including penalty and interest, within five years, the taxpayer may not qualify for an offer.
- Even if an offer is submitted, there is no requirement for the IRS to suspend collection action while the offer is reviewed.
- Acceptance of an offer requires the taxpayer to comply for five years with all provisions of the Internal Revenue Code pertaining to filing and payment of taxes.
- Federal tax liens will not be released until the offer is accepted and the amount offered is paid in full including interest on any deferred payment.
- Once the IRS agrees to consider an offer in compromise, the statutory period for collection of the tax is extended for the period of time the offer is pending plus one year.
- As part of the investigation in determining the merits of the offer, a taxpayer's income tax returns or other returns required to be filed may be reviewed.
- Any amount paid with the offer will be refunded if the offer is withdrawn or rejected, or it may be applied to the tax liability. Interest is not paid on deposits.
- All amounts paid on the tax liability prior to submission of the offer and during the course of the investigation of the offer cannot be applied as part of the amount being offered.
- All refunds of taxes for periods ending before or within the calendar year in which the offer is accepted, will be applied to the outstanding balances due the IRS.
- The investigation of the offer in compromise requires verification of the taxpayer's financial statement (Form 433A/B) and related items. Documentation to support the financial statement must be submitted with the offer in compromise. Failure to promptly provide requested items will result in the rejection of an offer.

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## Installment Agreements

can only pay the tax liability through installments, we will help the taxpayer set up a payment plan. The IRS also offers the option of installment payments when a taxpayer agrees to an audit assessment but is unable to pay. This service is provided to ease the burden of paying taxes. To qualify for an installment agreement, a taxpayer must be current with filing all tax returns due.

There is a fee of \$43 to enter into an installment agreement. The fees allow the government to recover the cost of providing special services to people who want them. If an account defaults,

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there is a \$24 fee to reconsider and reestablish the agreement.

Examination and collection jointly handle audit assessments. Exam notifies the taxpayer of the balance due and works with them on the amount of monthly payments and payment due date. Collection makes changes to and monitors the account by computer.

Once an installment agreement is granted, all future taxes must be paid as they come due; all returns must be filed on time; and supplemental information must be provided when requested.

- If an offer is accepted, a collateral agreement waiving capital losses, requiring payments from future income or reducing the basis of asset, may be included in the offer package.
- Interest will accrue on all deferred payment amounts from the date of acceptance of the offer to the date of payment at the statutory rate as defined by the Internal Revenue Code.
- Interest and late payment penalty continue to accrue on the outstanding tax liability on which the offer is pending.

# AUSTIN SERVICE CENTER

## Reasonable documentation essential for Offers in Compromise

**T**axpayers are expected to provide reasonable documentation to verify their ability to pay. The sooner the IRS has the verification, the sooner we can make a decision. Following is a list of documentation normally required to verify a taxpayer's financial condition:

- Cancelled checks and bank statements for the past three months for any and all bank accounts in which the taxpayer has an interest, regardless of the name on the account. Deposit items, cancelled checks and bank statements for additional months may be requested at the discretion of the offer examiner.
- Passbooks on all savings accounts in which the taxpayer has an interest, regardless of the name on the accounts.
- Documentary verification of any life insurance policies in effect. The third party verification should include the type of policy, policy loans, pledges or assignments showing names of creditors, dates and amounts and current cash surrender value.
- Evidence of ownership of all vehicles. If the vehicles are being purchased or leased, please provide a copy of the lease or purchase agreement and a statement from the lender as to the current balance due and the amount of the payments. You should also provide information to support or document the value of the vehicle.
- Certificates of stock of all corporations in which the taxpayer owns an interest or in which shares of stock are held for their use and benefit by some third person.
- The legal description, original cost, current market value, purchase date, present mortgage balance and name

of the present mortgage holder is required for each item of real estate owned by the taxpayer or in which they have an interest. If recent appraisals have been done, please provide copies. The taxpayer may be required to have an appraisal of any real estate in which they have an interest.

- All mortgages, notes, accounts receivable or other evidence of debts owed to information on the location and contents of safe deposit boxes.
- A copy of the last filed income tax return. Copies of additional returns may be requested at the discretion of the offer examiner.

- Documentation on all outstanding liabilities including: name of creditor, original amount, present balance due, amount of periodic payments, security or collateral, if any, and the date incurred.
- Information to substantiate current income for the taxpayer (pay stubs, etc.). The taxpayer will also need to provide evidence of compliance with current payment requirements.
- Information to substantiate current living expenses (recent utility bills, charge account information, automobile expenses, etc.) Form 4822, *Statement of Annual Estimated Personal and Family Expenses*, may be used for this purpose.

### How to prepare Offers in Compromise:

- **Complete Forms 656 and 433 A and/or B precisely as outlined in the specific instructions section on the reverse of Form 656 to ensure the offer can be processed.**
- **Ensure that the name listed in the name and address block matches the name on the tax liabilities. The taxpayer must date and sign Form 656 and enter the applicable SSN or EIN.**
- **Cover all tax liabilities in the offer, including those in the process of being assessed.**
- **State the total amount being offered and the manner in which it will be paid.**
- **Submit a written statement which details why the Service cannot collect more than is being offered. Current and future income prospects, education background, work experience, health or other factors which may impact collection potential should be included.**
- **Do not delete or alter the preprinted sections of Form 656.**
- **Contact the Collection employee assigned to the case if questions arise.**

# AUSTIN SERVICE CENTER

## Administrative reconsideration of deficiency assessments

**A**dministrative reconsideration is the review of a prior deficiency assessment which resulted from an examination, a correction program assessment or a Service-prepared substitute for return. An administrative review is initiated when a taxpayer corresponds, prior to payment of the assessed tax, and requests reconsideration of issues involved.

If the taxpayer is aware of the issues involved, documentation to support their claim should be submitted at that time. If not, their correspondence will

be reviewed by a tax examiner who will determine what is needed and contact the taxpayer. To expedite resolution of our review, taxpayers should include their telephone number.

Two frequently cited examples are taxpayers who state they did not receive notification of the proposed deficiency assessment (undeliverable mail) and taxpayers who state they were not afforded the opportunity to submit the required substantiation (undeliverable mail or IRS-prepared substitute for return).

## Substitute for Return Program prepared by the IRS

**A**nother successful IRS initiative is the Substitute for Return Program. The program was developed to deal with taxpayers who have not filed income tax returns, but who, according to income information available to the IRS, have a tax liability. The purpose of the program is to secure a valid tax return from the taxpayer or compute the tax, interest and penalties based on information submitted by payers or other internal sources.

When a payer issues information documents, such as Forms 1099 and W-2 to payees, a copy is also forwarded to the IRS. Individuals who have received income but have not filed a tax return are identified using an automated system. The records are referred to a special group who researches, updates and mails letters and reports to the taxpayer. Replies to these letters are worked by correspondence examiners.

Taxpayers sometimes reply to these

inquiries by submitting a completed late-filed return. A tax auditor determines whether to accept these returns as filed or select them for correspondence or office examination.

Tax auditors who classify these returns perform audits on selected issues by correspondence. Others are sent to the appropriate district. Subsequent year research is done on all substitutes for

returns worked by correspondence examination. The taxpayer receives

benefit from this initiative in numerous ways. All required filings are brought current and a future Tax Delinquency Investigation (TDI) action is avoided. Our research efforts allow us to remove cases with no tax potential and prevents unnecessary contact and inconvenience to the taxpayer. Finally, we are able to work all unfiled years at once, which may decrease the amount of interest due, if any, when the case is closed.

## Nonfiler Program aims to increase compliance

**C**urrent estimates indicate that more than 10 million Americans may not file tax returns, or they file only when they expect to receive a refund. The IRS diligently pursues these individuals in hopes of changing their behavior and reducing the burden on taxpayers who do file.

A major focus of the IRS has been to concentrate on ways of improving tax compliance. We estimate that the current overall compliance rate is about 83 percent. When you consider that 17 percent of the tax dollars due each year are not collected — \$119-170 billion in annual revenue — you begin to realize that an 83 percent compliance rate is not acceptable.

The IRS' goal is to raise the compliance level to 90 percent by the year 2001. To reach that goal, the IRS plans to use the latest methods combined with old-fashioned direct contact with taxpayers. Some of the methods the IRS uses include market-segment specialization, extensive, interconnected databases which help the IRS build cases; designated nonfiler assistance days; and improved substitute for return and refund hold programs.

# AUSTIN SERVICE CENTER

## Refund Hold Program

**A**s a result of a successful test, the IRS now has begun an automated program freezing refunds of more than \$300 when a taxpayer account indicates an open tax delinquency inquiry within the last five years.

Letters are sent to taxpayers requesting they file the delinquent return or explain why no return should be filed. If a response is not received, a substitute for return is prepared on the missing periods. Any balance due is offset by the refund. These cases involve refunds due to taxpayers who have not filed tax returns for all prior years who file only when they expect a refund.

Many taxpayers call us about held refunds. The most frequent reason is to request Form W-2 information for nonfiled years. The IRS is often able to generate this data. However, many of these cases are simultaneously worked under the Substitute for Return Program, and the taxpayer may have received payer information with their letter or notice. This information contains all the income data needed to file and can even be used in lieu of Forms W-2. If a joint return is being filed, both spouses' incomes must be included, and both spouses must sign the return.

The delinquent returns need to be mailed to the office that sent the refund hold letter. If the return is brought into a local office when the letter originated elsewhere, or if the return is mailed to a different location, this can cause a delay. There is no need to send another current year return; doing so may only complicate the process. Once the delinquent return arrives, it will be worked as soon as possible. The earliest the

taxpayer could expect a current year refund is one full month after the delinquent return is processed. However, if the delinquent return shows a balance due, the held refund will be applied.

To help expedite the process, provide the taxpayer's daytime phone number and the best hours to call about the delinquent return. If there is a problem with the return, it can be resolved more quickly by calling the phone number listed on the notice rather than by correspondence.

## Nonfiler Errors

- Incorrect tax forms for nonfiler tax year. Original return filed under a different primary SSN.
- Missing signature or missing one signature on a joint return.
- Failure to use current address.
- Missing schedules or forms.
- Forms W-2 and/or 1099 or other documentation not provided to support the income reported.
- Insufficient information to determine if the taxpayer qualifies for a passive activity loss on Schedule E.
- No computational breakdown included when claiming an investment tax credit so we can determine the credit has been adjusted and the correct amount is being used.

## Nonfiler Q&A

*Q Can I still file a return for the nonfiled year?*

**A** Yes, taxpayers should file all returns that are required to be filed. The statute of limitations will remain open until the returns are actually filed. The statute of limitations is three years after the date the return is filed. Our general guideline is that we will go back six years to secure nonfiled returns. It is also important to remember that refunds cannot be issued for returns past the three-year statute of limitations.

*Q Why doesn't the IRS have a return for Tax Year XX?*

**A** Although we research each taxpayer's account as completely as possible, we may not have been able to locate the return. If the taxpayer filed with a spouse or used a different name, we need that information in order to check our records again. If we are still unable to locate the return after an additional check of our records, the taxpayer may be asked to submit a photocopy of the original return.

*Q Who should I contact about filing status, dependents and exemptions?*

**A** The tax examiner working the case is available to answer taxpayer questions concerning filing status, dependents and exemptions. Our initial report on a nonfiler case will

*Continued on page 30*

## Reminder:

**The IRS will not give out information about taxpayer accounts to third parties without written consent from the taxpayer. Even though the third party may have the bill or notice, specific information concerning a client's bill will not be provided without written authorization from the taxpayer.**

## Nonfiler Q&A

*Continued from page 29*

usually show either the single or married filing separate filing status and allow only your personal exemption. However, we expect you will respond with the corrected filing status and dependent information that fits your particular situation for the tax year in question.

*Q What do you mean by the “credit is barred?”*

A Prepaid credits are available if the tax return is filed within the normal statute period (three years from the due date of the return including any extensions of time to file). If a return is filed after the three-year period, prepaid credits are available up to the amount of tax shown on the return. Any remaining credits cannot be refunded nor applied to another year balance due.

*Q Why has the IRS recently decided to address this issue when the taxpayer hasn’t filed for a number of years?*

A The IRS is targeting areas of noncompliance in an effort to minimize the number of delinquent taxpayers.

*Q How can the IRS say they are holding a tax refund when the taxpayer has already received it?*

A Many taxpayers who file electronically receive rapid refund loans through their tax practitioner in anticipation of their tax refund. Therefore, they have not actually received a refund, but a loan.

### What we need from practitioners

- **Respond as soon as possible instead of the 89th or 90th day on the Statutory Notice of Deficiency.**
- **Complete Form 1040 and related schedules correctly.**
- **Provide necessary follow-up information as requested.**
- **Complete Form 2848 properly if the practitioner expects communications from IRS.**
- **Encourage and promote compliance.**

## Backup withholding

**T**axpayers who underreport their income may be subject to backup withholding. Payers, such as financial institutions, are notified to withhold 31 percent of payments as backup withholding. Backup withholding may also apply to taxpayer accounts when the taxpayer has not (or will not) provide a taxpayer identification number or when it is incorrect. Both the payers and taxpayers are notified of discrepancies regarding TINs.

Failure to report dividends or interest on an income tax return may also subject the taxpayer to backup withholding. The IRS will send several notices over a period of 120 days asking that the underreporting be corrected. The final notice states that IRS has determined that the taxpayer is now subject to backup withholding and notifies payers to withhold. Historically, late or nonfiled returns are the major reasons backup withholding is imposed. When notified, the primary question asked of taxpayers is if all prior year periods have been filed.

The Center handles approximately 100 taxpayer responses per month relating to taxpayer delinquencies or balance due accounts having backup withholding implications. The majority of the inquiries ask to have the backup withholding removed. However, only a small percentage actually meet the requirements based on the taxpayer’s information and/or the research completed by our tax examiners. Because the program is taxpayer delinquency driven, most of the taxpayer inquiries could have been resolved by filing returns on time and paying the full amount of tax if due.

We occasionally receive calls from payers, usually banks, inquiring if one of their accounts is still subject to the withholding requirements. Backup withholding is a compliance program, and collection personnel act as liaisons for referrals. Compliance Division makes the determination to remove the backup withholding from a taxpayer account. All responses to the notice must come through compliance once the taxpayer becomes subject to backup withholding.

## Backup Withholding Q&A

*Q What is backup withholding?*

A Internal Revenue Code Section 3406(a)(1)(C) requires payers (financial institutions, banks, corporations, etc.) to withhold 31 percent of dividend and interest payments to taxpayers who failed to correctly report their dividends and/or interest on income tax returns.

*Continued on page 31*

# AUSTIN SERVICE CENTER

*Continued from page 30*

**Q** *What kinds of payments are subject to backup withholding?*

**A** Any of the following payments that are reported to the IRS on an information return:

- Interest reported on Form 1099-INT, *Statement for Recipients of Interest Income*.
- Dividends reported on Form 1099-DIV, *Statement for Recipients of Dividends and Distributions*.
- Patronage Dividends reported on Form 1099-PATR, *Statement for Recipients (Patrons) of Taxable Distributions Received from Cooperatives*.

**Q** *What if our client claims they had no notice of backup withholding?*

**A** The IRS mails its notices to the last address shown in its files for an individual. If the mail is not returned, we assume it was delivered. If the individual has changed addresses, mail may have gone astray, and they should contact the IRS directly to resolve the problem.

**Q** *Do we withhold if the person the IRS says to withhold on is not shown as the first name on the account?*

**A** No. A payer is only required to withhold on an account when the person the IRS specifies is shown as the first name on the account. However, after the payer begins to withhold, and the sequence of the names is changed on any account, the IRS will require the institution to withhold until they are notified by the IRS to stop.

**Q** *If we have an account with the same account number and name but a different address or SSN, should institutions withhold?*

**A** Yes. Institutions should also begin withholding on all other accounts

held in this name with the same SSN as on the first account.

**Q** *How should joint accounts be handled?*

**A** If the IRS notice to start withholding names both individuals, withhold on all accounts in joint names and any in which either individual is named first. If the IRS notice names only one (for example, a husband but not a wife), withhold on all accounts showing the husband first, but not those showing the wife first.

**Q** *How should institutions report the funds withheld?*

**A** Report withholding on Form 945, *Annual Return of Withheld Federal Income Tax*, for the quarter in which the funds were withheld. There is a separate line on Form 945 for this purpose. Also, the amount withheld should be reported on the appropriate Form 1099.

**Q** *How should institutions correct erroneous backup withholding?*

**A** The amount can be refunded to the individual before the end of the calendar year if an erroneous Form 1099 has been issued.

**Q** *How long must institutions continue backup withholding?*

**A** Until the IRS notifies them to stop or the payee shows written certification from the IRS (issued after the start notice) that they are no longer subject to backup withholding. Usually, backup withholding will remain in effect until the next December 31.

**Q** *Do institutions have to notify the payee that funds are being withheld, and if so, what information must be shared?*

**A** Yes. Institutions must notify the payee within 15 days after the first payment that the payee is subject to

backup withholding. The notice should state that:

- You have been notified by the IRS that the payee has underreported dividend or interest income (include the notice date).
- Institution must now withhold 31 percent of dividend or interest payments to the payee.
- The payee must obtain a determination form from the IRS to stop the withholding.
- While subject to backup withholding, the payee may not certify to another payer that they are not subject to backup withholding.

**Q** *What do institutions do if a payee is already subject to backup withholding for another reason?*

**A** Only one 31 percent withholding at a time is required, but the withholding must continue until an individual is no longer subject to backup withholding for any reason.

**Q** *Why are some items of information (client name, SSN or account number) missing from the IRS notice?*

**A** The IRS takes its data from the Form 1099 filed by the organization. If items are missing or are on the wrong lines of the Form 1099, we will leave those items blank on the notice.

## Reminder:

**Information about backup withholding can be faxed to the IRS at (512) 460-0455.**

# Trust Fund Recovery Program

**T**he Trust Fund Recovery penalty is a collection tool which enables the IRS to assess a penalty equal to the unpaid trust fund taxes (withholding taxes) against the person or persons responsible for collecting, accounting for and paying these taxes to the government. This penalty is collected from those responsible parties when such taxes cannot be collected from a corporation or partnership.

Even though the IRS assesses the penalty, the responsible parties do not have to agree with the assessment. There are laws that allow for the right to appeal the proposed assertion of the penalty. This appeal must be made within 30 days of the issuance of Letter 1153 to all responsible parties. This letter will be sent to the last known address of the responsible party. If there is no reply or the letter is undeliverable, the penalty will be assessed and the taxpayer will be issued the first balance due notice.

After the first notice has been issued, there are three steps that the taxpayer must follow within 30 days in order to delay collection:

- Pay at least the withheld tax attributed to one employee for one taxable period.
- File a claim for refund on Form 843 for the amount paid.
- Post a bond equal to one and one-half times the amount of the remaining unpaid assessed penalty.

This claim form will be sent to our special procedures group for determination. If this claim is not filed within the 30-day allowable period, the full balance due must be paid and a Form 843 filed to claim any refund.

Most penalty investigations involve

corporate taxes. Corporations are separate legal entities, entirely apart from those persons who hold stock, control or operate them. Like any other taxpayer, the corporation may own property and incur debts.

Under law, parties owning or operating the corporation are generally responsible for corporate debts only to the extent of their investment in the corporation. In other words, if a corporation becomes financially troubled, dissolves or becomes bankrupt, the investors may lose their invested funds but will not be held personally liable for the corporate debts.

This special status sets the officers and stockholders of a corporation apart from the partners or owners of a partnership or sole proprietorship. It also creates a special collection problem for the service. Officers, stockholders or other principals of the corporation might fail to pay corporate taxes, and only the corporation itself could be held liable. To provide for this, Internal Revenue Code Section 6672 allows the collection of a penalty equal to certain taxes from the responsible parties of a corporation if the tax cannot be collected from the corporation itself.

## Trust Fund Recovery Q&A

*Q Why am I being assessed this penalty and what is it for?*

**A** The Trust Fund Recovery penalty is assessed on employers who do not pay the proper amount of withholding. The IRS can now better identify why a penalty is being assessed and what it is for. When completed, the assessment notice will list the taxpayer identification

number and all quarters where the taxpayer is being held liable to pay withholding taxes.

*Q I do not feel I am liable for this penalty. Can anything be done to abate this penalty?*

**A** If you do not agree with the penalty, Internal Revenue Code 6672 provides an additional appeal. To request suspension of collection of the penalty during the additional appeal period, you must take the following actions within 30 days from the date of the original assessment notice:

- Pay the withheld tax for one employee for one quarter of liability;
- File a claim for refund on Form 843 for the amount paid; and
- Post a bond with the IRS for one and one-half times the balance (penalty minus the amount of payment made).

## Automated Collection System

**T**he Automated Collection System (ACS) is a telephone-oriented collection system that maintains balance due accounts and return delinquency investigations. ACS handles accounts after the final notice is issued. Accordingly, ACS issues levies on bank accounts, wages, etc., to collect or otherwise resolve accounts.

**Note:** When an account is in ACS, it is important that taxpayers respond to telephone calls or correspondence to prevent enforcement actions.

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# AUSTIN SERVICE CENTER

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## Customer Service Toll-free telephone operation

**T**he Customer Service telephone operation is designed to resolve taxpayer questions, problems and issues that do not require face-to-face contact. Taxpayers who receive Computer Paragraph (CP) Notices are provided toll-free numbers to call if they have inquiries about their notices. Taxpayers may also call the toll-free line to check on the status of their refund.

These calls are received by Customer Service Representatives (CSRs) at the Austin Service Center and 27 other call sites throughout the country — 10 service center and 18 district sites. The hours of operation are from 7:00 a.m. to 11:00 p.m., Monday through Saturday.

CSRs have complete on-line access to taxpayer account information, and they

have limited authority to compute taxes, make on-line adjustments, process requests for installment agreements and answer general tax and procedural questions. They are also trained to assist taxpayers with all account-related issues including: Installment Agreements, IMF and BMF Notices, Refund Inquiries, Payoff Information and Requests for Account Transcripts. If necessary, CSRs can also transfer callers to the appropriate area that handles specific Collection issues, such as the Automated Collections System.

When calling the toll-free number shown on notices, the taxpayer should:

- Have Power of Attorney information ready.
- Have all IRS-related documents with them, especially the latest notice received.



The best days to call are Wednesday, Thursday and Friday between the hours of 7:30 a.m. and 7:30 p.m.

Forms 2848, *Power of Attorney and Declaration of Representative*, and Forms 8821, *Tax Information Authorization*, can also be faxed to CSRs.

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## Questionable Refund Program

**T**he Criminal Investigation Branch's Questionable Refund Detection Team is an integral part of our compliance activities. With increased electronic and earned income tax credit fraud, this team's efforts to identify individuals and businesses involved in filing fraudulent returns have grown considerably. They screen questionable refund returns, conduct research, alert service centers of newly identified schemes and prevent issuance of refunds on these cases. They refer suspect returns to IRS special agents for further investigation.

Criminal Investigation also provides support to district employees in the field and trains expert witnesses who testify on the IRS's behalf in court.

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## Illegal tax protestors try to avoid tax liability

**I**llegal tax protestors who refuse to file tax returns and pay income tax have used various schemes to reduce or negate their proper tax liability. The most prevalent schemes have been to:

- Refuse to include certain information on the tax return claiming the requirement as a violation of their constitutional rights;
- Claim their wages are not income subject to income taxes
- Object to the use of their tax payments to support national defense; and
- Establish phony churches as a way to divert income or report large charitable contributions.

Regardless of the method employed, the IRS will continue to pursue such individuals and groups to bring them into compliance with the tax laws. This includes efforts to educate the public about unscrupulous promoters who mislead individuals by selling tax packages which contain false information about the tax laws and requirements for filing tax returns. The IRS does not and will not treat tax protestors lightly. Anyone who willfully fails to file any required tax return or pay the required taxes will be prosecuted to the full extent allowed by law.

## Estate and Gift Tax Staff

**T**he Estate and Gift Tax Staff provides information, assistance and technical support to representatives of estates, practitioners and to other IRS offices. Their work includes problem resolution on issues involved in processing, tax compliance, penalty abatements, examination, closing letters, and determination of tax and interest due by estates electing installment payment of estate tax under Internal Revenue Code (IRC) Section 6166.

### **Estate and Gift Stock Valuation:**

This compliance project reviews estate and gift returns reporting ownership of large dollar values in publicly-traded stocks and bonds. Values of these securities are verified using third-party software. A correspondence examination process handles deficiencies attributed to any undervaluation, which is common.

### **Deferred Payment of Estate Tax Under IRC Section 6166:**

The Taxpayer Relief Act of 1997 changed the four percent rate on the first one million dollars (less exemption equivalent) to two percent. The interest on the balance of deferred tax is at a rate which is 45 percent of the interest rate on tax deficiencies. The

change is in effect for estates of decedents who die after December 31, 1997. However, estates currently paying tax in installments under Section 6166 may *irrevocably* elect, by January 1, 1999, to have the reduced rates apply. However, once the election is made, the estate cannot request continuing interest deductions under Revenue Procedure 81-27.

### **Helpful Hints when preparing Forms 706 (Estate) and 709 (Gift) returns:**

- When preparing Form 706, verify that the SSN is correct. When two decedents' returns are filed using the same number, long delays in processing may result, including delays in issuing federal closing letters.
- Provide complete descriptions of assets and include CUSIP numbers for publicly-traded stocks and bonds. Provide the number of shares and par value for stock and/or face value and interest rate for bonds.
- When reporting closely-held business interests, family partnerships or fractional interest in property, provide detailed schedules

to reflect how returned values were determined and current appraisals, if available.

- If the state death tax credit is taken on Form 706, provide verification of payment. Nonrefundable federal interest is charged on the credit amount from the due date until paid. Federal credit interest is not paid on refunds of tax based solely on the state credit.
- When filing Forms 709 for both husband and wife where consent or gift splitting is involved, include a copy of the donor spouse's return to the other return so annual exclusions for donees can be verified; otherwise, long delays in processing may occur.
- When filing Form 709, include the basis amount under Schedule A, Part 1, or else indicate "zero." If no information is given, long delays may occur. This information is required on the form. This gives the donor an opportunity to establish basis for the donees in case a sale of the gifted property creates potential income tax liability.

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## Separation pay excludability

**I**n the past few years, we have seen many large corporations forced to downsize. In order to accomplish this, they offered employees large sums of money as an incentive to participate in an early-out program. Some employees participating in the early-out incentive programs did not realize that lump sum payments received were considered as income for tax purposes. Disagreements regarding this issue were resolved in a Supreme Court decision.

In *Erich & Helen Schleier v. Commissioner*, the Court ruled that recovery under the Age Discrimination in Employment Act (ADEA) is not excludable from gross income. The IRS cites this court case in disallowing claims for refund using age discrimination as their basis. In order to exclude amounts recovered under the ADEA, two independent requirements must be met under IRC Section 104(a)(2): 1) The underlying cause of the action giving rise to the recovery

must be based upon tort or tort type rights. 2) The damage must have been received on account of personal injuries or sickness.

In the case of IBM Separation Payments claims, a different disallowance statement is used. Treasury Regulation Section 1.61-2(a)(1), says wages, salaries, commissions and termination pay are income to the recipient. These payments are includable in income in the year they are received.

## Diesel fuel laws

**D**iesel fuel laws require all sales of diesel fuel to be taxed at the time of the sale, except for the following:

- Sales to farmers *or* state and local governments.
- Sales of red-dyed diesel fuel.
- Sales to qualified buses and trains. (Sales of tax-reduced fuel for qualified train and bus use will not be addressed here.)

For red-dyed fuel, no tax is charged or passed on to subsequent purchasers, and anyone who uses the dyed fuel for a taxable use is subject to substantial penalties. All other sales of non-dyed diesel fuel will be taxed at the time of the sale.

If diesel fuel is used for a qualifying nontaxable use, all required information must be presented at the time of purchase. The new requirements for filing for a diesel fuel tax credit or refund are very strict. Buyers should check with the supplier before purchasing the fuel to be sure that all required information is provided. Users with regular routes or local areas should consider making regular stops only at dealers who comply with the documentation requirements.

**All diesel fuel tax credits and refunds, regardless of the method used to file them, require that the information be filed with the claim, or the claim will be not be allowed.**

*Note: All users are subject to these requirements, without exception. The documentation requirements state that the following information is needed for all fuel covered by the claim (Temp Reg 48.6427-8T):*

- The name, address, telephone number and EIN and date information on sales from the person who sold the diesel fuel.

- A statement from the claimant that there was no visible evidence of dye.
- A statement from the seller that there was no visible evidence of dye.
- The total amount of diesel fuel covered by the claim.
- An adequate explanation of the qualifying nontaxable use. A short phrase such as *off highway* use is not adequate.
- If the diesel fuel was exported, proof of exportation is needed.

Farmers (or anyone who uses diesel fuel for a farm use) or a branch of a state or local government need to be aware of the law changes regarding the purchase and use of diesel fuel. As of January 1, 1994, no one can file claims for refund of diesel fuel. This applies whether the fuel was purchased tax-paid or tax-free. Note that this law change does not apply to gasoline or other fuels used for exempt use.

If someone buys clear fuel from a nonregistered supplier who charges the tax, you cannot get a refund from the IRS. Any fuel purchased this way and used for an exempt use does not qualify for a refund to these two types of users. Unless local circumstances make it worthwhile to pay the extra 24.4 cents a gallon out-of-pocket, purchasers should consider using one of the non-taxed methods to purchase the fuel. Note that these tax-free sales only apply to fuel used in a qualifying use (substantial penalties apply for any misuse of fuel purchased tax free). For farmers, diesel fuel purchased tax free should only be used in off-highway farm equipment or other off-highway uses. The two ways an exempt user can buy diesel fuel tax-free are:

- Buy red-dyed diesel fuel.
- Buy clear diesel from a registered fuel dealer.

Note that a tax-free sale of clear fuel can only be made by a registered fuel dealer. Purchasers need to ask dealers before buying the fuel if they are registered and if they will sell the fuel tax-free for a qualifying use. If they are not registered or will not make a tax-free sale, find another supplier. If they are registered and do make the tax-free sale, purchasers need to cooperate with them and submit a certification for a tax-free purchase of the fuel.

The excise tax laws are a small part of the normal income tax world, and this sometimes leads to confusion. For additional information you may want to review IRC 6427(c), Temp Regs. 6427-8T and 6428-9T, and Notice 94-61. Instructions for Form 8849 and Publication 378, *Fuel Tax Credits and Refunds*, may also be helpful.

## The Digital Daily

The IRS Web site

[http://  
www.irs.ustreas.gov](http://www.irs.ustreas.gov)

Check out the Tax Professional's area for the latest news for practitioners.

## Unallowables and misreported items

An unallowable is a deduction not allowed by IRS regulations. If reported incorrectly, they may be identified as an unallowable item and could be selected for a correspondence audit. Items listed below are often misreported:

### Office-in-home expenses:

- Taking an office-in-home (OIH) deduction even though no income or capital gain was earned from the activity. Office-in-home expenses are limited to the income that this activity generates.
- Taking the OIH deduction when not qualified. As clarified by the Supreme Court, the two primary factors that should be used to determine whether a home office is the principal place of business for purposes of the OIH deduction are: (1) the relative importance of the activities performed at the location, and (2) the amount of time spent there.
- Overstated home depreciation.

### Form 3903, Moving Expenses:

- Questions listed above part 1 on the form are not filled out completely.

The following *cannot* be claimed:

### Schedule A:

- Automobile tags claimed as personal property tax.
- Loss from the sale of a personal residence claimed as a deduction.
- Personal interest (automobile, credit cards, etc.).

### Lump sum distribution:

- Form 5329 incomplete or not prepared at all.
- Form 4972 Part 1 incorrect or incomplete.
- Document (W-2P or 1099R) with the distribution code missing from the return.

### Alternative Minimum Tax:

- Tax preference items not filled in, especially accelerated depreciation and/or depletion.
- If the return includes a net operating loss, often it is not added back when computing the alternative minimum tax.

### Net Operation Loss (NOL):

- A carryforward loss needs to include a computational breakdown of the NOL, from the year of origination through the year under examination. Problem: Subsequent-year modifications are not considered by preparers.

### Claims:

- Documentation to support the claim not readily available.

### Self Employment Tax:

- If no explanation is attached for amounts entered as Other Income on line 21 of Form 1040, they are assumed to be subject to self-employment tax.

### Alimony:

- Not claiming alimony as income because a state has no alimony law. Even if a state has no alimony law, if alimony is a provision of the divorce decree, the alimony must be declared as income on the tax return of the recipient.

### Gambling:

- Netting gains and losses. One hundred percent of all winnings should be reported on page 1 of Form 1040; 100 percent of all losses should be reported on Schedule A (up to the allowable maximum). Netting gains and losses gives the impression the taxpayer underreported winnings, which is misleading to the tax examiner or classifier.

### Reminder:

**When answering notices about an unallowable, send timely, thorough responses that speak directly to the issue.**

## SS-8 Program

The SS-8 Program addresses existing and potential compliance problems which relate to employment taxes. Form SS-8 is a form requesting the IRS to make a determination of a worker's classification as an employee or an independent contractor. Any Form SS-8 that is submitted with the proper information will result in a *determination letter* outlining the facts, law, application of law and instructions to correct an improper filing.

The determination letter is based on the application of the law relating to

employment relationships. The determination letter is issued to the firm, but it is based on information from both parties of interest. If one of the parties does not submit a Form SS-8, the determination letter will be issued based on the information available.

If the determination is that the worker is an employee, employment tax returns or corrected employment tax returns are solicited from the firm. If the firm does not respond, an employment tax examination may be initiated.

## The Underreporter Program analyzes underreported income

**T**he Underreporter Program analyzes and processes returns with potential underreported income. The returns are identified in the Information Returns Program (IRP). After all current year tax returns are processed, they are computer matched to the corresponding IRP documents (Forms W-2, W-2P, 1099, 1098, etc.). For example, a W-2 for wages is compared to the wages reported on the return and a 1099-INT for interest is compared to the interest reported on Schedule B. To resolve discrepancies in income reported and deductions claimed, the IRS corresponds using a notice CP-2501 or CP-2000 of proposed adjustment. Depending on the issue, a taxpayer might receive both notices.

When amounts reported on the return do not match amounts on IRP documents, an information return listing is built to an automated database showing all income for the taxpayer reported to the IRS for the year in question. The database also includes a history of the accounting which is updated weekly.

In screening, a tax examiner performs an in-depth analysis of the case. The examiner determines if all income in question can be identified satisfactorily on the tax return. If it can be found, the case is closed and the taxpayer is never contacted.

If the income cannot be located anywhere on the return or cannot be readily identified, we send the taxpayer a CP-2501 or CP-2000 depending on the issues involved.

The CP-2501 asks the taxpayer to explain where on the return the income is reported. This notice has no figures or proposed balance due amounts. If the discrepancy can be

explained or supporting documentation is enclosed, the case is closed. The taxpayer is informed that all is resolved. If there is no response or the information from the taxpayer is not sufficient, a CP-2000 is issued.

The CP-2000 is a proposal to change the income, deductions, tax credits or payments reported on the return. It is not a demand for payment. The taxpayer is asked to respond within 30 days from the date of the notice. Many cases are closed agreed with a signed consent statement and/or full payment. There are also partially agreed cases, where the taxpayer agrees to some of the income inquired about and satisfactorily explains the remaining issue(s).

the IRS. If full payment is found, we can close the case at that time. If there is no indication of any response or full payment, we will mail the statutory Notice of Deficiency. If taxpayers disagree with the notice, they have 90 days to petition the U.S. Tax Court. Whether or not they petition the court, we will still consider any information the taxpayer submits to resolve the disagreement.

If there is no response, or the certified statutory notice is unclaimed at the post office, the tax, interest and penalties are assessed by default after the 90-day deadline is past. A balance due notice is then sent to the taxpayer. The case goes to collection if no payment is received.

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## The Underreporter Program analyzes and processes returns with potential underreported income. The returns are identified in the Information Returns Program (IRP).

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Many cases are closed with no change to the tax liability because the taxpayer provided sufficient documentation of the non-taxability of the income or the underreported amount is not sufficient to change the tax.

If, in the course of verifying income, the examiner finds that the taxpayer made an error on the return which calls for a refund, the IRS will issue one.

If the original notice comes back undelivered or we have not received any response from the taxpayer, we issue a 90-day Statutory Notice of Deficiency. Before generating statutory notices, we check for payments and new addresses. Notices are sent to the most current address on file with

Even though the case is now in collection status, the taxpayer can still disagree with the assessment and send correcting statements, letters from banks, etc., for consideration to have the tax, penalties and interest reduced or abated. This program is also worked in the Underreporter area.

It is not necessary to file an amended return as a response to the statutory notice; however, if the taxpayer files a Form 1040X, it will be considered when the case is processed. Taxpayers are requested on the notice not to file an amended return because a Form 1040X can delay processing. We can take all necessary actions with the taxpayer's response.

## Ten Common Errors in Underreporter Income

Ten of the most common errors made by taxpayers which can result in a CP-2000 notice:

- 1. Misplaced entries** – Examples include reporting pensions as wages on Schedule C or line 22 and interest as dividends.
- 2. Lump Sum Distributions** – Failure to report distribution or indicate the rollover of distributions.
- 3. Pension Penalties** – Failure to pay 10 percent for early withdrawal of qualified pension plans.
- 4. Allocated Tips** – Allocated tips not included in income. If tips were earned, the taxpayer should attach a copy of the daily tip diary.
- 5. Non-employee Compensation** – Failure to compute self-employment tax when applicable.
- 6. Farm Income** – Failure to show agriculture subsidies and patronage dividends on the correct lines.
- 7. Interest/Dividends** – Incorrectly totaling Schedule B or incorrectly bringing totals forward to page 1 of Form 1040. On nominee income, note whether the taxpayer received income as an agent for someone else.
- 8. Social Security Benefits** – Failure to indicate if the taxpayer did not live with the spouse if filing separately. Also, entering these benefits on the wrong line.
- 9. Withholding** – Failure to attach documents or to check box if withholding is from a Form 1099.
- 10. Breakdown of Form 1099 Information** – Failure to provide breakdown of gross amounts reported.

## Underreporter Q&A

*Q Why does it take two years to notify the taxpayer of the Underreported income?*

*A* Compiling and processing all the information from payers of income on Forms W-2, 1099, etc., and then comparing this information to all tax returns for each filing year is a massive procedure. All returns identified with discrepancies are screened before any letters are sent to taxpayers. Because of the large volume of returns considered in the Underreporter program, some notices are not mailed to the taxpayer until more than two years after the return is filed. We are working to reduce this time period.

*Q Why does the notice show income that was already reported on the original return?*

*A* If there is reported and unreported income from the same payer, the notice will show all income from that payer. This is done so the taxpayer will have all the payer information available to us.

*Q Why are taxpayers asked to pay interest on the taxes (and penalties) when it took the IRS two years to inform the taxpayer of the error?*

*A* The taxpayer is responsible for the accuracy of the tax returns filed with the IRS. By law, the IRS is required to charge interest from the due date of the return to the date that taxes and penalties are paid. Interest may only be waived if there has been an error or delay on the part of an IRS employee in performing a ministerial or managerial act. A ministerial act is a procedural action that does not involve any judgement or decision making process. Managerial acts include loss of records by the IRS, IRS personnel transfers, extended illness, personnel training or leave.

In no case can interest be waived for any time prior to our first notification to the taxpayer regarding a proposed deficiency.

*Q What is the difference between an audit and underreporter action on a return?*

*A* The Underreporter Program's review of a return is a part of the normal processing of all tax returns. It is simply a comparison of payer information with amounts on the return. An audit is a more comprehensive action or review of a taxpayer's return, books and records. An Underreporter review of a return does not constitute an audit.

*Q Why does an underreporter notice show one amount, and the attached tax increase report show a different amount?*

*A* The notice of deficiency only shows the deficiency (tax increase and recapture of earned income tax credit) and penalties. The amount of the deficiency on the notice should match the report amount on the line labeled tax increase (or the line labeled net tax increase if there is a recapture or earned income credit) on the attached report. The report will show the actual balance due, including interest figures to the date listed on the report and after allowing credit for payments made.

*Q Why do amended tax returns (Form 1040X) sent in response to an Underreporter notice cause delays in processing?*

*A* Normally, amended returns are handled in the adjustments function. It may not be discovered until after a tax examiner reviews the entire account that the amended return is a response to an underreporter notice. All Underreporter cases can be resolved through regular correspon-

*Continued on page 39*

## Special programs analyze employment tax information

**T**he Combined Annual Wage Reporting (CAWR) program analyzes potential employment tax discrepancies on Forms 941, 942, 943 and 945. Cases are created in much the same manner as in Underreporter, except that employer — not employee — records are considered. For example, FICA and Medicare wages from Forms W-2 are compared to the related entries on Forms 941 for a particular year. If a discrepancy exists, we issue a letter 98C or 99C or a notice CP-251 to the taxpayer. If the taxpayer does not respond within the timeframe specified on the correspondence, they will

also receive a follow-up notice, most often a CP-252.

CAWR cases generate when FICA/Medicare wages, federal withholding, or Advance Earned Income Tax credit figures from employer tax returns do not match the corresponding Forms W-2 or 1099. Once these discrepancies are identified, tax examiners analyze the returns and documents to determine if the amounts can be reconciled. Frequent considerations in this effort are cross-reference accounts, elimination of duplicate forms, and FICA/Medicare wages over the established maximum amounts reported on Forms W-2. If the discrepancies can be resolved at this point, the cases are closed without initiating taxpayer contact.

Because the CAWR program deals with data from two separate federal agencies (the IRS and the Social Security Administration), the tax examiner may not have access to all the information the taxpayer has. If it appears that an examiner has not taken all data into account, the taxpayer should include it in their response. It is critical, however, that some type of response be made within the timeframes specified in the IRS correspondence; otherwise, legal default assessments can be made to the taxpayer's accounts.

The Returned Social Security Administration program is closely related to CAWR. Rather than comparing amounts to determine balance due or refund discrepancies, this program identifies cases where it appears the taxpayers have not filed all their Forms W-2. In this case, we will issue either a letter 99C or a notice CP-253 to the taxpayer requesting additional Forms W-2 or Forms 941C to balance the tax returns with the existing Forms

W-2. As this process is mostly automated, it is imperative that the taxpayer respond within the timeframe on the IRS correspondence. If no reply is received, the computer automatically asserts a civil penalty of 10 percent of the difference between the tax return figures and those on Forms W-2.

The Federal Unemployment Tax Act (FUTA) program matches information from the employer's Form 940 with data from the various state unemployment agencies. Generally, potential tax discrepancies result when taxpayers appear to have claimed more credit against their federal liability than they are entitled to based on their state contributions. In many instances, there is no real imbalance; it may be a simple matter of cross-reference accounts or a situation in which contributions were paid to several states while the IRS only has information from one of them. If a balance due discrepancy appears to exist, tax examiners issue a CP-167 to the taxpayer. If a refund discrepancy is apparent, we send a CP-168.

FUTA shares many of the difficulties that CAWR has with information passing between government agencies. The best advice we can offer in light of this is to ask you to respond with any and all information that you believe the tax examiner might not have. The single most valuable piece of information you can provide to the IRS is a copy of the appropriate state's certification of wages paid by the employer. It remains critical for the taxpayer to respond timely (as with CAWR) in order to avoid default assessments against their accounts.

### Underreporter Q&A

*Continued from page 38*

dence, thus reducing the chance of delays.

**Q** *How do I resolve Mortgage Interest Deduction discrepancies?*

**A** Financial institutions send Form 1098 to the IRS, reflecting mortgage interest paid by taxpayers each year. These Form 1098 amounts are matched against deductions taken on Schedules A, C, E, F, and/or Form 4835. If we do not have substantiation (Form 1098) for amount(s) deducted, a notice is generated to determine the validity of the deduction taken on the affected schedule(s). Copies of year-end statements taxpayers receive from the loan agency can verify the deductions they have taken.

## Underreporter Letters/Notices

**CP-2501** – Initial contact notice that does not propose an increase to the tax. If taxpayers believe that tax is due for the year listed, they may want to make a payment to limit the accrual of interest. Taxpayer has 30 days to respond.

**CP-2000** – Initial notice or follow-up to CP-2501. Taxpayer has 30 days to respond.

**CP-2005** – Notice telling taxpayer that the case has been closed and that the return has been accepted as it was originally filed. No response is required.

**Letter 2626C** – Follow-up letter used throughout underreporter case processing. After CP-2501 or CP-2000, it is used to gather additional information from the taxpayer or grant extensions. Taxpayer has 30 days to respond. When it is used after a Statutory Notice of Deficiency, it does not extend the 90-day period in which the taxpayer may petition the Tax Court. Another version of the letter notifies the taxpayer that the case has been closed and the return accepted as filed. It also answers questions asked in the taxpayer's last correspondence.

**Recomputed CP-2000 and Letter 1151C** – Sent when a taxpayer's response allows us to reduce our proposed tax increase. Either letter may be used.

**Letter 2625C** – Used to contact employers or payers who report income paid to a taxpayer on Forms W-2 or 1099, verifying accuracy of the information reported. Payer has 30 days to respond.

**A61XXX** – Underreporter also uses a variety of separate cover letters to send enclosures to the taxpayer. They

can be identified by the characters A61 in the lower-left corner. No response is required. A notice or letter will usually follow with additional information.

**Letter 2645C** – Used to inform the taxpayer that we have received a response and advise them that we will contact them in 60 days. No response is required.

**Letter 907** – Sent with Form 872 to secure consent to extend the statute of limitations for the return being examined. Generally sent when the taxpayer requests to meet with an IRS district office and less than one year remains before expiration of the statute of limitation. The taxpayer has 10 days to respond.

## Special Programs Letters/Notices

**Letter 98C** – Used for CAWR discrepancies due to apparent non-filing of employment tax returns.

**Letter 99C** – This letter may be used in lieu of a CP-251 notice. It requests essentially the same information as the CP-251, but may provide further information about the taxpayer's account. It may also be used for RSSA cases including information about a proposed civil penalty.

**CP-167** – The basic FUTA balance due notice.

**CP-168** – The basic FUTA proposed refund notice.

**CP-251** – The initial contact notice for CAWR discrepancies. It shows FICA/Medicare, federal withholding and Advance Earned Income credit discrepancies for taxpayer reconciliation.

**CP-253** – Automatically-generated notice for the RSSA program. Taxpayers should ensure that their tax return

figures agree with their Forms W-2. If not, additional Forms W-2 or 941C should be filed to reconcile the account.

**380C Letter** – A multipurpose letter which requests additional information about a taxpayer's Form 940 account, or indicates that the discrepancy has been resolved.

**2645C/2764C Letters** – Informs the taxpayer of a possible delay in processing their reply and tells the taxpayer when to expect the next IRS correspondence.

## Other Letters and Notices

Listed below you will find some of the most common letters and notices we use at the Center. Some are specific to a particular subject, such as nonfiler or earned income tax credit; some are courtesy letters, and others are more action specific, such as notification to assess tax. By no means does this list cover all letters or notices sent by the Center.

**Form 5564(C), Notice of Deficiency-Waiver** – If a taxpayer signs and returns Form 5564(C), they are consenting to the immediate assessment and collection of the deficiencies (increase in tax and penalties) shown on the form. The filing of this waiver is irrevocable, and it will begin the two-year period for filing suit for refund of the claims disallowed as if the notice of disallowance had been sent by certified mail.

**Form 5601, Statutory Notice of Deficiency (90-Day Letter)** – Sent when there is no response to previous correspondence that gave taxpayer 30 days to respond, or the taxpayer's response to two 30-day letters didn't allow us to close the case. It is a legal

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# AUSTIN SERVICE CENTER

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notice to the taxpayer which states that unless a petition is filed with the U.S. Tax Court, the IRS is required by law to assess tax and take action for collection of the balance due. Taxpayer has 90 days to respond. While petitioning the Tax Court is a viable option, almost all notice of deficiency response cases are resolved through correspondence.

**Letter 1862** – Proposed nonfiler report.

**Letter 1863** – Request for additional information needed after the taxpayer replies.

**Letter 2825C** – Issued to taxpayers who have filed a current return with an overpayment but have not filed tax returns for preceding tax years. The letter gives them the status of their current refunds and provides a contact person and telephone number. The taxpayer has 30 days to comply with the filing requirements.

**CP-19 or 20** – Initial notices of EIC unallowable.

**Letter 496X88** – EIC unallowable.

**Letter 525** – Initial Proposed Report.

**Letter 555** – Request for additional information needed after statutory notice.

**Letter 565 or Quick Note** – Requests additional information needed after the taxpayer replies.

**Letter 566** – Request for explanation of item in lieu of automatic disallowance.

**Letter 569** – Notice of partial or full disallowance of a claim.

**Letter 570** – Notice that claim has been fully allowed.

**Letter 590 or Quick Note** – Information accepted, no change.

**Letter 4960/4961** – Initial Proposed Report similar to Letter 525.

**Letter NC1** – Accepts taxpayer information with no change. (When case is in 30 days status.)

**Letter NC2** – Accepts taxpayer information with no change. (When case is in 90-Day status.)

**TPS 1** – Acknowledgment Letter.

**2566SC/CG Letter (30-Day Letter)** – Initial letter sent to the taxpayer undergoing automated substitute for return processing. The letter explains that the taxpayer has not responded to prior notices and that the IRS is preparing to assess tax, penalties and interest based on income reported by payers. Taxpayer has 30 days to respond. If unable to pay the total taxes due, the taxpayer can request a payment plan if all delinquent returns have been filed.

## Taxpayer privacy is top priority

- Protecting taxpayer privacy and safeguarding confidential taxpayer information is a public trust.
- No information will be collected from taxpayers that is not necessary and relevant for tax administration and other legally mandated or authorized purposes.
- Information will be collected directly from the taxpayer to whom it relates.
- Information about taxpayers collected from third parties will be verified with the taxpayers themselves before action is taken against them.
- Taxpayer information will be used only for the purpose for which it is collected.
- Taxpayer information will be disposed of at the end of the retention period required by law or regulation.
- Taxpayer information will be kept confidential and will not be discussed with, nor disclosed to, any person within or outside the IRS other than as authorized by law and in the performance of official duties.
- Browsing or any unauthorized access of taxpayer information by any IRS employee is a crime and will not be tolerated.
- Requirements governing the accuracy, reliability, completeness and timeliness of taxpayer information will ensure fair treatment of all taxpayers.
- The privacy rights of taxpayers will be respected at all times and every taxpayer will be treated honestly, fairly and respectfully.

## Tips on responding to Underreporter Notices

- Respond *timely* to all notices. Provide all the information requested, including a copy of the IRS notice.
- Send copies — not original documents — unless instructed to do so. When sending a copy of a tax return, attach cover sheet marked **do not process** to the front of the return. Attach Notice 949 (orange color) to all tax returns and be sure that both taxpayers sign a joint return. If a copy of a previously filed return is being sent, it must be signed and dated again by both taxpayers.
- Include the SSN and tax year listed on notice. All correspondence should include the current address and telephone number of the taxpayer, along with the best time to reach the taxpayer by phone.
- Call or fax responses during the examiner's business hours as indicated on the IRS notice. Include the examiner's name, mail stop number and taxpayer's identifying information. **Do not fax returns** — original signatures are needed. The fax number for Underreporter cases is **(512) 460-0455**.
- Provide a breakdown, listing multiple payers and amounts, when reporting an income type or deduction that is a total of more than one source.
- Provide copies of any amended or corrected Forms W-2, 1099 or other payer documents used in preparing the return.
- Provide explanations for any payer documents received which you believe to be erroneous. The computer will recognize the discrepancy. Our examiners need to know why it doesn't appear on the return.
- Explain payer data which incorrectly identifies your client as a payee. Since the computer matches payer data by SSN, this can be a problem when amounts are held in trust for others, or when accounts set up for children are reported under a parent's SSN. It also occurs when a payee gives an SSN when income is paid to a partnership or corporation.
- Report gross amounts received before deduction of expenses or reduction for nontaxable amount. This affects the reporting of pension payments, mineral royalties and lease bonuses, rents and any other items which carry statutory exclusions.
- Report gross amounts which you know were reported to the IRS for your client. Often, Form 1099-MISC will include amounts your client paid to others on a subcontract basis. If you report only the amount your client retained, a discrepancy case will result.
- Report payer data on the line of the income schedule which was intended for that specific type of income. Unless our examiner can match misplaced income amounts to the exact amounts reported by the taxpayer, we will issue a notice.
- Report farm rental income on Form 4835 before carrying the amount to Schedule E. A Schedule E entry without Form 4835 will report only net farm rental income, which will not match the gross amounts reported by payers.
- Determine whether the return you prepare clearly explains the payer documents your client provides. If the payer amount is clearly identifiable on the return, your client can avoid underreporter contact.
- Include all backup schedules which detail the computations of amounts carried to the return with the filed return.
- Contact the payer if your client receives incorrect information documents. Be sure that your clients provide you with all information returns they receive. Attach an explanation to the return if payer documents are incorrect.
- Attach a copy of your client's CP-2000 to the top of the response to ensure the fastest processing of your client's case. The notice contains all of the data we need to locate your client's file in the shortest possible time so that an examiner can review the case quickly.
- Use the bar-coded envelope included with your client's notice. Do not try to duplicate bar coding on the envelopes.
- Reply to Statutory Notices of Deficiency immediately. If a client refers one of them to you and you know the deficiencies are not correct, please send us any explanatory material you can provide. We can reduce the adjustment or close the case without change to liability, if appropriate, based on your response. Requesting us to rescind any Statutory Notice of Deficiency will only delay resolution of your client's case.
- Notify the IRS in writing or by fax of address changes.

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# AUSTIN SERVICE CENTER

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## Taxpayer Advocate Offices

### Austin Service Center

PO Box 934 Stop 1005AUSC  
Austin TX 78767  
(512) 460-0816

### Southwest District

210 E Earll Dr Stop 1005PX  
Phoenix AZ 85012-2623  
(602) 207-8240

Albuquerque (505) 837-5505

### South Texas District

300 E 8th St Stop 1005AUS  
Austin TX 78701  
(512) 499-5875 fax: (512) 499-5687

### North Texas District

1100 Commerce St Stop 1005DAL  
Dallas TX 75242  
(214) 767-1289

### Houston District

1919 Smith Street  
Stop 1005HOU  
Houston TX 77002  
(713) 209-3660

### Arkansas-Oklahoma District

55 N Robinson Stop 1005OKC  
Oklahoma City OK 73102  
(405) 297-4055 fax: (405) 297-4056  
Little Rock (501) 324-6144

### Kansas-Missouri District

PO Box 66776 Stop 1005STL  
St Louis MO 63166  
(314) 539-6770 fax: (314) 539-2362  
Witchita (316) 352-7506

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## Public Affairs

PO Box 934 1020AUSC  
Austin TX 78767  
(512) 460-7166 fax: (512) 460-4156

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## Electronic Filing

(512) 460-8900

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## Fax-TIN / Tele-TIN

fax: (512) 460-8000 (512) 460-7843

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## Transcript Requests

fax: (512) 460-2354

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## CAF Unit

fax: (512) 460-0176

## Disclosure Offices

### Austin Service Center

PO Box 2986 Stop 7000AUCC  
Austin TX 78768  
(512) 460-0333

### Southwest District

210 Earl Dr Stop 7000PX  
Phoenix AZ 85012-2623  
(602) 207-8455

### South Texas District

300 E 8th St Stop 7000AUS  
Austin TX 78701  
(512) 499-5030

### North Texas District

1100 Commerce St Stop 7000DAL  
Dallas TX 75242  
(214) 767-1427

### Houston District

1919 Smith St Stop 7000HOU  
Houston TX 77002  
(713) 209-4010

### Arkansas-Oklahoma District

55 N Robinson Stop 7000OKC  
Oklahoma City OK 73102  
(405) 297-4049  
Little Rock (501) 324-6144

### Kansas-Missouri District

271 W Third St N Stop 7000WIC  
Wichita KS 67202  
(314) 539-2096

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## Electronic Filing Coordinators

### Southwest District

(602) 207-8337

### South Texas District

(512) 499-5181

### North Texas District

(214) 767-3755

### Houston District

(281) 721-7435

### Arkansas-Oklahoma District

(405) 297-4125

### Kansas-Missouri District

(314) 539-2161

## Lockbox

### Form 1040:

Internal Revenue Service  
PO Box 970016  
St. Louis MO 63197-0016

### Form 1040ES:

Internal Revenue Service  
PO Box 970001  
St. Louis MO 63197-0001

### Form 1041ES:

Internal Revenue Service  
PO Box 970002  
St. Louis MO 63197-0002

### Form 941:

Internal Revenue Service  
PO Box 970013  
St Louis MO 63197-0013

### Form 940 – 940EZ:

Internal Revenue Service  
PO Box 970017  
St Louis MO 63197-0017

### Form 943:

Internal Revenue Service  
PO Box 970015  
St Louis MO 63197-0015

### Form 945:

Internal Revenue Service  
PO Box 970018  
St Louis MO 63197-0018

### Form 4868:

Internal Revenue Service  
PO Box 970027  
St Louis MO 63197-0027

### Form 2290:

Internal Revenue Service  
PO Box 6229  
Chicago IL 60680-6229

## Installment Agreements and Fees

Internal Revenue Service  
PO Box 970022  
St Louis MO 63197-0022

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## IRS Toll-free Numbers

Tax Assistance 1-800-829-1040

TDD 1-800-829-4059

Tax Forms 1-800-829-3676

Tele-Tax 1-800-829-4160

Informants Line 1-800-829-0433

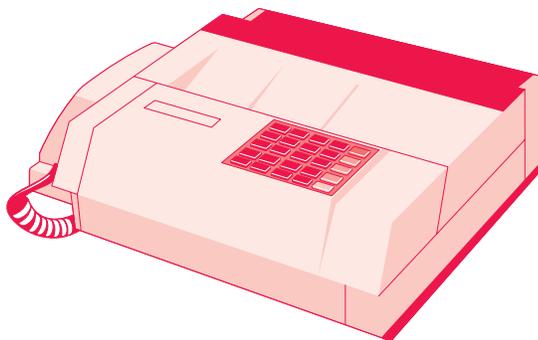
Tax Fax 1-703-368-9694

(Not a toll-free number. You must use handset connected to fax machine.)

## Fax-TIN:

### The easiest and safest way to get a Taxpayer Identification Number

- Completely and accurately fill out your Form SS-4.
- Be sure the form is signed by a duly authorized person.
- Be sure to include your fax number.
- Fax the Form SS-4 to (512) 460-8000.



It's that simple — no busy signals or repeated call-backs. No worries about your form being lost in the mail. And your request will be processed within three workdays.

## Let us hear from you

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(512) 460-4156 (fax)  
[barry.cline@ccmail.irs.gov](mailto:barry.cline@ccmail.irs.gov) (e-mail)

**Internal Revenue Service**  
Austin Service Center  
3651 S IH-35  
Stop 1020 AUSC  
Austin TX 78741

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