June 20, 2018

CPA Continuing Education Society of Pennsylvania

“IRS Updates

Topics:

1) IRS 2018 Statistics
2) IRS Implementation of the Tax Cuts and Jobs Act
3) IRS “Paycheck” Campaign
4) Estimated Tax Payments Considerations Following Tax Reform
5) IRS Potpourri Topics

Presenters:

Richard Furlong, Jr.
Senior Stake Holder Liaison
Mid-Atlantic Area Stakeholder Liaison
IRS Communications & Liaison Division
267.941.6343
Richard.G.Furlong@irs.gov

William Mealy
Senior Stakeholder Liaison
Mid-Atlantic Area Stakeholder Liaison
IRS Communications and Liaison Division
267.941.6293
William.J.Mealy@irs.gov

INTERNAL REVENUE SERVICE

IRS News Release

Media Relations Office | Washington, D.C. | Media Contact: 202.317.4000
www.irs.gov/newsroom | Public Contact: 800.829.1040

Law change affects moving, mileage and travel expenses; Offers higher depreciation limits for some vehicles

IR-2018-127, May 25, 2018

WASHINGTON – The Internal Revenue Service today provided information to taxpayers and employers about changes from the Tax Cuts and Jobs Act that affect:

- Move related vehicle expenses
- Un-reimbursed employee expenses
- Vehicle expensing

Changes to the deduction for move-related vehicle expenses

The Tax Cuts and Jobs Act suspends the deduction for moving expenses for tax years beginning after Dec. 31, 2017, and goes through Jan. 1, 2026. Thus, during the suspension no deduction is allowed for use of an automobile as part of a move using the mileage rate listed in Notice 2018-03. This suspension does not apply to members of the Armed Forces of the United States on active duty who move pursuant to a military order related to a permanent change of station.

Changes to the deduction for un-reimbursed employee expenses

The Tax Cuts and Jobs Act also suspends all miscellaneous itemized deductions that are subject to the 2 percent of adjusted gross income floor. This change affects un-reimbursed employee expenses such as uniforms, union dues and the deduction for business-related meals, entertainment and travel.

Thus, the business standard mileage rate listed in Notice 2018-03, which was issued before the Tax Cuts and Jobs Act passed, cannot be used to claim an itemized deduction for un-reimbursed employee travel expenses in taxable years beginning after Dec. 31, 2017, and before Jan. 1, 2026. The IRS issued revised guidance today in Notice 2018-42.

Standard mileage rates for 2018

As mentioned in Notice 2018-03, the standard mileage rates for the use of a car, van, pickup or panel truck for 2018 remain:

- 54.5 cents for every mile of business travel driven, a 1 cent increase from 2017.
- 18 cents per mile driven for medical purposes, a 1 cent increase from 2017.
- 14 cents per mile driven in service of charitable organizations, which is set by statute and remains unchanged.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical purposes is based on the variable costs.

Taxpayers always have the option of calculating the actual costs of using their vehicle rather than using the standard mileage rates.

A taxpayer may not use the business standard mileage rate for a vehicle after using any depreciation method under the Modified Accelerated Cost Recovery System or after claiming a Section 179 deduction for that vehicle. In addition, the business standard mileage rate cannot be used for more than four vehicles used simultaneously.

Increased depreciation limits

The Tax Cuts and Jobs Act increases the depreciation limitations for passenger automobiles placed in service after Dec. 31, 2017, for purposes of computing the allowance under a fixed and variable rate plan. The maximum standard automobile cost may not exceed $50,000 for passenger automobiles, trucks and vans placed in service after Dec. 31, 2017. Previously, the maximum standard automobile cost was $27,300 for passenger automobiles and $31,000 for trucks and vans.

More information

Notice 2018-42 is posted on IRS.gov and contains information about the update to the standard mileage rates, including the details about the suspension of the deduction for operating a vehicle for moving purposes.

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New rules and limitations for depreciation and expensing under the Tax Cuts and Jobs Act

FS-2018-9, April 2018

The Tax Cuts and Jobs Act, signed Dec. 22, 2017, changed some laws regarding depreciation deductions.

Businesses can immediately expense more under the new law

A taxpayer may elect to expense the cost of any section 179 property and deduct it in the year the property is placed in service. The new law increased the maximum deduction from $500,000 to $1 million. It also increased the phase-out threshold from $2 million to $2.5 million.

The new law also expands the definition of section 179 property to allow the taxpayer to elect to include the following improvements made to nonresidential real property after the date when the property was first placed in service:

- Qualified improvement property, which means any improvement to a building's interior. Improvements do not qualify if they are attributable to:
  - the enlargement of the building,
  - any elevator or escalator or
  - the internal structural framework of the building.
- Roofs, HVAC, fire protection systems, alarm systems and security systems.

These changes apply to property placed in service in taxable years beginning after Dec. 31, 2017.

Temporary 100 percent expensing for certain business assets (first-year bonus depreciation)

The new law increases the bonus depreciation percentage from 50 percent to 100 percent for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023. The bonus depreciation percentage for qualified property that a taxpayer acquired before Sept. 28, 2017, and placed in service before Jan. 1, 2018, remains at 50 percent. Special rules apply for longer production period property and certain aircraft.

The definition of property eligible for 100 percent bonus depreciation was expanded to include used qualified property acquired and placed in service after Sept. 27, 2017, if all the following factors apply:

- The taxpayer didn't use the property at any time before acquiring it.
- The taxpayer didn't acquire the property from a related party.
- The taxpayer didn't acquire the property from a component member of a controlled group of corporations.

- The taxpayer's basis of the used property is not figured in whole or in part by reference to the adjusted basis of the property in the hands of the seller or transferor.
- The taxpayer's basis of the used property is not figured under the provision for deciding basis of property acquired from a decedent.

Also, the cost of the used qualified property eligible for bonus depreciation doesn't include any carryover basis of the property, for example in a like-kind exchange or involuntary conversion.

The new law added qualified film, television and live theatrical productions as types of qualified property that are eligible for 100 percent bonus depreciation. This provision applies to property acquired and placed in service after Sept. 27, 2017.

Under the new law, certain types of property are not eligible for bonus depreciation. One such exclusion from qualified property is for property primarily used in the trade or business of the furnishing or sale of:

- Electrical energy, water or sewage disposal services,
- Gas or steam through a local distribution system or
- Transportation of gas or steam by pipeline.

This exclusion applies if the rates for the furnishing or sale have to be approved by a federal, state or local government agency, a public service or public utility commission, or an electric cooperative.

The new law also adds an exclusion for any property used in a trade or business that has floor-plan financing. Floor-plan financing is secured by motor vehicle inventory that a business sells or leases to retail customers.

Changes to depreciation limitations on luxury automobiles and personal use property

The new law changed depreciation limits for passenger vehicles placed in service after Dec. 31, 2017. If the taxpayer doesn't claim bonus depreciation, the greatest allowable depreciation deduction is:

- $10,000 for the first year,
- $16,000 for the second year,
- $9,600 for the third year, and
- $5,760 for each later taxable year in the recovery period.

If a taxpayer claims 100 percent bonus depreciation, the greatest allowable depreciation deduction is:

- $18,000 for the first year,
- $16,000 for the second year,
- $9,600 for the third year, and
- $5,760 for each later taxable year in the recovery period.

The new law also removes computer or peripheral equipment from the definition of listed property. This change applies to property placed in service after Dec. 31, 2017.

Changes to treatment of certain farm property

The new law shortens the recovery period for machinery and equipment used in a farming business from seven to five years. This excludes grain bins, cotton ginning assets, fences or other land improvements. The original use of the property must occur after Dec. 31, 2017. This recovery period is effective for property placed in service after Dec. 31, 2017.

Also, property used in a farming business and placed in service after Dec. 31, 2017, is not required to use the 150 percent declining balance method. However, if the property is 15-year or 20-year property, the taxpayer should continue to use the 150 percent declining balance method.

Applicable recovery period for real property

The new law keeps the general recovery periods of 39 years for nonresidential real property and 27.5 years for residential rental property. But, the new law changes the alternative depreciation system recovery period for residential rental property from 40 years to 30 years. Qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property are no longer separately defined and given a special 15-year recovery period under the new law.
These changes affect property placed in service after Dec. 31, 2017.

Under the new law, a real property trade or business electing out of the interest deduction limit must use the alternative depreciation system to depreciate any of its nonresidential real property, residential rental property, and qualified improvement property. This change applies to taxable years beginning after Dec. 31, 2017.

Use of alternative depreciation system for farming businesses

Farming businesses that elect out of the interest deduction limit must use the alternative depreciation system to depreciate any property with a recovery period of 10 years or more, such as single purpose agricultural or horticultural structures, trees or vines bearing fruit or nuts, farm buildings and certain land improvements. This provision applies to taxable years beginning after Dec. 31, 2017.

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Interest on Home Equity Loans Often Still Deductible Under New Law

IR-2018-32, Feb. 21, 2018

WASHINGTON - The Internal Revenue Service today advised taxpayers that in many cases they can continue to deduct interest paid on home equity loans.

Responding to many questions received from taxpayers and tax professionals, the IRS said that despite newly-enacted restrictions on home mortgages, taxpayers can often still deduct interest on a home equity loan, home equity line of credit (HELOC) or second mortgage, regardless of how the loan is labelled. The Tax Cuts and Jobs Act of 2017, enacted Dec. 22, suspends from 2018 until 2026 the deduction for interest paid on home equity loans and lines of credit, unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan.

Under the new law, for example, interest on a home equity loan used to build an addition to an existing home is typically deductible, while interest on the same loan used to pay personal living expenses, such as credit card debts, is not. As under prior law, the loan must be secured by the taxpayer's main home or second home (known as a qualified residence), not exceed the cost of the home and meet other requirements.

New dollar limit on total qualified residence loan balance
For anyone considering taking out a mortgage, the new law imposes a lower dollar limit on mortgages qualifying for the home mortgage interest deduction. Beginning in 2018, taxpayers may only deduct interest on $750,000 of qualified residence loans. The limit is $375,000 for a married taxpayer filing a separate return. These are down from the prior limits of $1 million, or $500,000 for a married taxpayer filing a separate return. The limits apply to the combined amount of loans used to buy, build or substantially improve the taxpayer's main home and second home.

The following examples illustrate these points.

Example 1: In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home with a fair market value of $800,000. In February 2018, the taxpayer takes out a $250,000 home equity loan to put an addition on the main home. Both loans are secured by the main home and the total does not exceed the cost of the home. Because the total amount of both loans does not exceed $750,000, all of the interest paid on the loans is deductible. However, if the taxpayer used the home equity loan proceeds for personal expenses, such as paying off student loans and credit cards, then the interest on the home equity loan would not be deductible.

Example 2: In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home. The loan is secured by the main home. In February 2018, the taxpayer takes out a

$250,000 loan to purchase a vacation home. The loan is secured by the vacation home. Because the total amount of both mortgages does not exceed $750,000, all of the interest paid on both mortgages is deductible. However, if the taxpayer took out a $250,000 home equity loan on the main home to purchase the vacation home, then the interest on the home equity loan would not be deductible.

Example 3: In January 2018, a taxpayer takes out a $500,000 mortgage to purchase a main home. The loan is secured by the main home. In February 2018, the taxpayer takes out a $500,000 loan to purchase a vacation home. The loan is secured by the vacation home. Because the total amount of both mortgages exceeds $750,000, not all of the interest paid on the mortgages is deductible. A percentage of the total interest paid is deductible (see Publication 936).

For more information about the new tax law, visit the Tax Reform page on IRS.gov.

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IRS issues notice on state and local tax deductions

IR-2018-122, May 23, 2018

WASHINGTON — The U.S. Department of the Treasury and the Internal Revenue Service issued a notice today stating that proposed regulations will be issued addressing the deductibility of state and local tax payments for federal income tax purposes. Notice 2018-54 also informs taxpayers that federal law controls the characterization of the payments for federal income tax purposes regardless of the characterization of the payments under state law.

The Tax Cuts and Jobs Act (TCJA) limited the amount of state and local taxes an individual can deduct in a calendar year to $10,000. In response to this new limitation, some state legislatures have adopted or are considering legislative proposals allowing taxpayers to make payments to specified entities in exchange for a tax credit against state and local taxes owed.

The upcoming proposed regulations, to be issued in the near future, will help taxpayers understand the relationship between federal charitable contribution deductions and the new statutory limitation on the deduction of state and local taxes.

Taxpayers should also be aware the U.S. Department of the Treasury and the Internal Revenue Service are continuing to monitor other legislative proposals being considered to ensure that federal law controls the characterization of deductions for federal income tax filings.

The limitation imposed by the TCJA applies to taxable years beginning after Dec. 31, 2017 and before Jan. 1, 2026.

Updates on the implementation of the TCJA can be found on the Tax Reform page of IRS.gov.

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Taxpayers who usually itemize deductions should check their withholding to avoid tax surprises

IR-2018-120, May 16, 2018

WASHINGTON – The Internal Revenue Service encourages taxpayers who typically itemized their deductions on Schedule A of the Form 1040 to use the Withholding Calculator this year to perform a "paycheck checkup."

People who have itemized before may be affected by changes from the Tax Cuts and Jobs Act. Taxpayers who itemize should use the IRS Withholding Calculator to make sure their employers are withholding the appropriate amount of tax from their paychecks for their financial situation.

The law changes are effective in 2018 and affect the tax returns taxpayers will file in 2019. The new law makes a number of major changes, including:

- Limiting the deductions for state and local taxes
- Limiting the deduction for home mortgage interest in certain cases (see IR-2018-32 for more information)
- Excluding deductions for employee business expenses, tax preparation fees and investment expenses, including investment management fees, safe deposit box fees and investment expenses from pass-through entities

The Tax Cuts and Jobs Act nearly doubled standard deductions and changed several itemized deductions. Some individuals who formerly itemized may now find it more beneficial to take the standard deduction, and this could affect how much a taxpayer needs to have their employer withhold from their pay. Also, even those who continue to itemize deductions should check their withholding because of changes made by the new tax law.

The IRS urges taxpayers to complete their "paycheck checkup" as early as possible so that if a withholding amount adjustment is necessary, there's more time for withholding to take place evenly throughout the year. Waiting means there are fewer pay periods to make the tax changes – which could have a bigger impact on each paycheck.

Having too little tax withheld could result in an unexpected tax bill or penalty at tax time in 2019. Adjusting withholding after a "paycheck checkup" can also prevent employees from having too much tax withheld. With the average refund topping $2,800, some taxpayers might prefer to have less tax withheld up front and receive more in their paychecks.

Using the Withholding Calculator

When taxpayers use the Withholding Calculator, they can indicate whether they are taking the standard deduction or itemizing their deductions. If they are itemizing, they'll enter estimates of their deductions. The Withholding Calculator applies the new law to these amounts when figuring the user's withholding.

It's helpful if taxpayers have their completed 2017 tax return when using the Withholding Calculator. It can help them estimate the amount of income, deductions, adjustments and credits to enter. They'll also need their most recent pay stubs. These help the calculator compute the employee's withholding so far this year.

Calculator results depend on the accuracy of information entered. If a taxpayer's personal circumstances change during the year, they should return to the calculator to check whether their withholding should be changed.

Employees can use the results from the Withholding Calculator to help determine if they should complete a new Form W-4 and, if so, what information to put on a new Form W-4.

The Withholding Calculator does not request personally-identifiable information, such as name, Social Security number, address or bank account numbers. The IRS does not save or record the information entered on the calculator. As always, taxpayers should watch out for tax scams, especially via email or phone and be alert to cybercriminals impersonating the IRS. The IRS does not send emails related to the Withholding Calculator or the information entered.

Adjusting withholding

Employees who need to complete a new Form W-4 should submit it to their employers as soon as possible. Employees with a change in personal circumstances that reduce the number of withholding allowances must submit a new Form W-4 with corrected withholding allowances to their employer within 10 days of the change.

As a general rule, the fewer withholding allowances an employee enters on the Form W-4, the higher their tax withholding will be. Entering “0” or “1” on line 5 of the W-4 means more tax will be withheld. Entering a bigger number means less tax withholding, resulting in a smaller tax refund or potentially a tax bill or penalty.

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Scam Alert: IRS Urges Taxpayers to Watch Out for Erroneous Refunds; Beware of Fake Calls to Return Money to a Collection Agency

IR-2018-27, Feb. 13, 2018

WASHINGTON – The Internal Revenue Service today warned taxpayers of a quickly growing scam involving erroneous tax refunds being deposited into their bank accounts. The IRS also offered a step-by-step explanation for how to return the funds and avoid being scammed.

Following up on a Security Summit alert issued Feb. 2, the IRS issued this additional warning about the new scheme after discovering more tax practitioners' computer files have been breached. In addition, the number of potential taxpayer victims jumped from a few hundred to several thousand in just days. The IRS Criminal Investigation division continues its investigation into the scope and breadth of this scheme.

These criminals have a new twist on an old scam. After stealing client data from tax professionals and filing fraudulent tax returns, these criminals use the taxpayers' real bank accounts for the deposit.

Thieves are then using various tactics to reclaim the refund from the taxpayers, and their versions of the scam may continue to evolve.

Different Versions of the Scam

In one version of the scam, criminals posing as debt collection agency officials acting on behalf of the IRS contacted the taxpayers to say a refund was deposited in error, and they asked the taxpayers to forward the money to their collection agency.

In another version, the taxpayer who received the erroneous refund gets an automated call with a recorded voice saying he is from the IRS and threatens the taxpayer with criminal fraud charges, an arrest warrant and a "blacklisting" of their Social Security Number. The recorded voice gives the taxpayer a case number and a telephone number to call to return the refund.

As it did last week, the IRS repeated its call for tax professionals to step up security of sensitive client tax and financial files files.

The IRS urged taxpayers to follow established procedures for returning an erroneous refund to the agency. The IRS also encouraged taxpayers to discuss the issue with their financial institutions because there may be a need to close bank accounts. Taxpayers receiving erroneous refunds also should contact their tax preparers immediately.

Because this is a peak season for filing tax returns, taxpayers who file electronically may find that their tax return will reject because a return bearing their Social Security number is already on file. If that's the case, taxpayers should follow the steps outlined in the Taxpayer Guide to Identity Theft. Taxpayers unable to file electronically should mail a paper tax return along with Form 14039, *Identity Theft Affidavit*, stating they were victims of a tax preparer data breach.

Here are the official ways to return an erroneous refund to the IRS.

Taxpayers who receive the refunds should follow the steps outlined by Tax Topic Number 161 - Returning an Erroneous Refund. The tax topic contains full details, including mailing addresses should there be a need to return paper checks. By law, interest may accrue on erroneous refunds.

If the erroneous refund was a **direct deposit:**

1. Contact the Automated Clearing House (ACH) department of the bank/financial institution where the direct deposit was received and have them return the refund to the IRS.
2. Call the IRS toll-free at 800-829-1040 (individual) or 800-829-4933 (business) to explain why the direct deposit is being returned.

If the erroneous refund was a **paper check** and hasn't been cashed:

1. Write "Void" in the endorsement section on the back of the check.
2. Submit the check immediately to the appropriate IRS location listed below. The location is based on the city (possibly abbreviated) on the bottom text line in front of the words TAX REFUND on your refund check.
3. Don't staple, bend, or paper clip the check.
4. Include a note stating, "Return of erroneous refund check because (and give a brief explanation of the reason for returning the refund check)."

The erroneous refund was a paper check and **you have cashed it**:

- Submit a personal check, money order, etc., immediately to the appropriate IRS location listed below.
- If you no longer have access to a copy of the check, call the IRS toll-free at 800-829-1040 (individual) or 800-829-4933 (business) (see telephone and local assistance for hours of operation) and explain to the IRS assistor that you need information to repay a cashed refund check.
- Write on the check/money order: Payment of Erroneous Refund, the tax period for which the refund was issued, and your taxpayer identification number (social security number, employer identification number, or individual taxpayer identification number).
- Include a brief explanation of the reason for returning the refund.
- Repaying an erroneous refund in this manner may result in interest due the IRS.

IRS mailing addresses for returning paper checks

For your paper refund check, here are the IRS mailing addresses to use based on the city (possibly abbreviated). These cities are located on the check's bottom text line in front of the words TAX REFUND:

- ANDOVER – Internal Revenue Service, 310 Lowell Street, Andover MA 01810
- ATLANTA – Internal Revenue Service, 4800 Buford Highway, Chamblee GA 30341
- AUSTIN – Internal Revenue Service, 3651 South Interregional Highway 35, Austin TX 78741
- BRKHAVN – Internal Revenue Service, 5000 Corporate Ct., Holtsville NY 11742
- CNCNATI – Internal Revenue Service, 201 West Rivercenter Blvd., Covington KY 41011
- FRESNO – Internal Revenue Service, 5045 East Butler Avenue, Fresno CA 93727
- KANS CY – Internal Revenue Service, 333 W. Pershing Road, Kansas City MO 64108-4302
- MEMPHIS – Internal Revenue Service, 5333 Getwell Road, Memphis TN 38118
- OGDEN – Internal Revenue Service, 1973 Rulon White Blvd., Ogden UT 84201
- PHILA – Internal Revenue Service, 2970 Market St., Philadelphia PA 19104

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IRS, Security Summit Partners warn of new twist on phone scam; crooks direct taxpayers to IRS.gov to "verify" calls

IR-2018-103, April 24, 2018

WASHINGTON – The Internal Revenue Service today warned of a new twist on an old phone scam as criminals use telephone numbers that mimic IRS Taxpayer Assistance Centers (TACs) to trick taxpayers into paying non-existent tax bills.

The IRS and its Security Summit partners – the state tax agencies and the tax industry – urge taxpayers to remain alert to tax scams year-round, especially immediately after the tax filing season ends. Even after the April deadline passes, the tax scam season doesn't end.

In the latest version of the phone scam, criminals claim to be calling from a local IRS TAC office. Scam artists have programmed their computers to display the TAC telephone number, which appears on the taxpayer's Caller ID when the call is made.

If the taxpayer questions their demand for tax payment, they direct the taxpayer to IRS.gov to look up the local TAC office telephone number to verify the phone number. The crooks hang up, wait a short time and then call back a second time, and they are able to fake or "spoof" the Caller ID to appear to be the IRS office calling. After the taxpayer has "verified" the call number, the fraudsters resume their demands for money, generally demanding payment on a debit card.

Fraudsters also have been similarly spoofing local sheriff's offices, state Department of Motor Vehicles, federal agencies and others to convince taxpayers the call is legitimate.

IRS employees at TAC offices do not make calls to taxpayers to demand payment of overdue tax bills. The IRS reminds taxpayers it typically initiates most contacts through regular mail delivered by the United States Postal Service.

There are special, limited circumstances in which the IRS will call or come to a home or business, such as when a taxpayer has an overdue tax bill, to secure a delinquent tax return or a delinquent employment tax payment, or to tour a business as part of an audit or during criminal investigations.

Even then, taxpayers will generally first receive several letters (called "notices") from the IRS in the mail.

Note that the IRS does not:

- Demand that you use a specific payment method, such as a prepaid debit card, gift card or wire transfer. The IRS will not ask for your debit or credit card numbers over the phone. If you owe taxes, make payments to the United States Treasury or review IRS.gov/payments for IRS online options.

- Demand that you pay taxes without the opportunity to question or appeal the amount they say you owe. Generally, the IRS will first mail you a bill if you owe any taxes. You should also be advised of your rights as a taxpayer.

- Threaten to bring in local police, immigration officers or other law enforcement to have you arrested for not paying. The IRS also cannot revoke your driver's license, business licenses, or immigration status. Threats like these are common tactics scam artists use to trick victims into buying into their schemes.

Taxpayers who receive the IRS phone scam or any IRS impersonation scam should report it to the Treasury Inspector General for Tax Administration at its IRS Impersonation Scam Reporting site and to the IRS by emailing phishing@irs.gov with the subject line "IRS Phone Scam."

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IRS warns tax pros of new scam posing as professional associations

IRS YouTube Videos:
Phishing/Malware -- English
Why Tax Professionals Need a Security Plan -- English
How to Maintain, Monitor and Protect Your EFIN -- English

IR-2018-125, May 24, 2018

WASHINGTON – The IRS and its state and industry Security Summit partners today warned tax practitioners to beware of phishing emails posing as state accounting and professional associations.

This week, the IRS received reports from tax professionals who received fake emails that were trying to trick them into disclosing their email usernames and passwords.

Cybercriminals specifically targeted tax professionals in Iowa, Illinois, New Jersey and North Carolina. The IRS also received reports about a Canadian accounting association.

The awkwardly worded phishing email states: "We kindly request that you follow this link **HERE** and sign in with your email to view this information from *(name of accounting association)* to all active members. This announcement has been updated for your kind information through our secure information sharing portal which is linked to your email server."

Tax practitioners nationwide should be on guard because cybercriminals can easily change their tactics, using other association names or making other adjustments in their scam attempts.

Tax practitioners who are members of professional associations should go directly to those associations' websites rather than open any links or attachments. Tax practitioners who receive suspicious emails related to taxes or the IRS, or phishing attempts to gain access to practitioner databases, should forward those emails to phishing@irs.gov.

This scam serves as a reminder to all tax professionals that cybercriminals are targeting their offices in an attempt to steal client data.

To assist tax professionals with safeguards, the Security Summit partners urge practitioners to follow these minimal security steps:

- Learn to recognize phishing emails, especially those pretending to be from the IRS, e-Services, a tax software provider or cloud storage provider. Never open a link or any attachment from a suspicious email. Remember: The IRS never initiates initial contact with a tax pro via email.
- Create a data security plan using IRS Publication 4557, Safeguarding Taxpayer Data, and Small Business Information Security – The Fundamentals, by the National Institute of Standards and Technology.
- Review internal controls:
  - Install anti-malware/anti-virus security software on all devices (laptops, desktops, routers, tablets and phones) and keep software set to automatically update.
  - Create passwords of at least eight characters; longer is better. Use different passwords for each account, use special and alphanumeric characters and phrases. Password protect wireless devices and consider a password manager program.
  - Encrypt all sensitive files/emails and use strong password protections.
  - Back up sensitive data to a safe and secure external source not connected fulltime to a network.
  - Wipe clean or destroy old computer hard drives and printers that contain sensitive data.
  - Limit access to taxpayer data to individuals who need to know.
  - Check IRS e-Services account weekly for number of returns filed with EFIN.
- Report any data theft or data loss to the appropriate IRS Stakeholder Liaison.
- Stay connected to the IRS through subscriptions to e-News for Tax Professionals, Quick Alerts and Social Media.

Additional resources:

- Identity Protection: Prevention, Detection and Victim Assistance
- Data Theft Information for Tax Professionals
- Protect Client Data; Learn Signs of Identity Theft
- Protect Your Clients; Protect Yourself
- Security Summit

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IRS continues warning on impersonation scams; Reminds people to remain alert to other scams, schemes this summer

IRS YouTube Videos:
Tax Scams – English | Spanish | ASL
Phishing/Malware – English | Spanish | ASL
Dirty Dozen – English | Spanish | ASL

IR-2018-129, May 31, 2018

WASHINGTON – With tax season completed, the Internal Revenue Service today warned taxpayers to remain vigilant for phishing emails and telephone scams. Summertime tends to be a favorite period for scammers because many taxpayers have recently filed a return and may be waiting for a response from the IRS.

The IRS and its Security Summit partners – the state tax agencies and the tax industry – urge taxpayers to remain alert to tax scams year-round, especially immediately after the tax filing season ends. Even after the April deadline passes, the tax scam season doesn't end.

While many of the scams are variations on a theme and tend to evolve over time, taxpayers should be on the lookout for any attempt to get them to disclose personal information like Social Security numbers, account information or passwords. If in doubt, don't give it out. Those receiving such calls should hang up and initiate correspondence with the agency that is purportedly inquiring about their account using a well-known phone number or email address. Clicking on links provided in emails or calling back unfamiliar phone numbers is not recommended.

Phone scams
The IRS does not call and leave pre-recorded, urgent messages asking for a call back. In this tactic, the victim is told if they do not call back, a warrant will be issued for their arrest. Other variations may include threat of other law-enforcement agency intervention, deportation or revocation of licenses.

Criminals are able to fake or "spoof" caller ID numbers to appear to be anywhere in the country, including from an IRS office. This prevents taxpayers from being able to verify the true call number. Fraudsters also have spoofed local sheriff's offices, state Department of Motor Vehicles, federal agencies and others to convince taxpayers the call is legitimate.

Email phishing scams
If a taxpayer receives an unsolicited email that appears to be from either the IRS or a program closely linked to the IRS, such as the Electronic Federal Tax Payment System (EFTPS), report it by sending it to phishing@irs.gov. Learn more by going to the Report Phishing and Online Scams page.

The IRS does not initiate contact with taxpayers by email to request personal or financial information. The IRS initiates most contacts through regular mail delivered by the United States Postal Service. However, there are special circumstances in which the IRS will call or come to a home or business, such as when a taxpayer has an overdue tax bill, to secure a delinquent tax return or a delinquent employment tax payment, or to tour a business as part of an audit or during criminal investigations.

Telltale signs of a scam:
The IRS (and its authorized private collection agencies) will never:

- Call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer. The IRS does not use these methods for tax payments. Generally, the IRS will first mail a bill to any taxpayer who owes taxes. All tax payments should only be made payable to the U.S. Treasury and checks should never be made payable to third parties.
- Threaten to immediately bring in local police or other law-enforcement groups to have the taxpayer arrested for not paying.
- Demand that taxes be paid without giving the taxpayer the opportunity to question or appeal the amount owed.
- Ask for credit or debit card numbers over the phone.

For anyone who doesn't owe taxes and has no reason to think they do:

- Do not give out any information. Hang up immediately.
- Contact the Treasury Inspector General for Tax Administration to report the call. Use their IRS Impersonation Scam Reporting web page.
- Report the caller ID and/or callback number to the IRS by sending it to phishing@irs.gov (Subject: IRS Phone Scam).
- Report it to the Federal Trade Commission. Use the FTC Complaint Assistant on FTC.gov. Add "IRS Telephone Scam" in the notes.

For anyone who owes tax or thinks they do:

- View tax account information online at IRS.gov to see the actual amount owed. Taxpayers can then also review their payment options.
- Call the number on the billing notice, or
- Call the IRS at 800-829-1040. IRS workers can help.

The IRS does not use text messages or social media to discuss personal tax issues, such as those involving bills or refunds. For more information, visit the Tax Scams and Consumer Alerts page on IRS.gov. Additional information about tax scams is also available on IRS social media sites, including YouTube videos.

More information:

- Taxpayer Bill of Rights
- How to know if it's really the IRS calling or knocking at your door

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INTERNAL REVENUE SERVICE

IRS News Release

Media Relations Office | Washington, D.C. | Media Contact: 202.317.4000
www.irs.gov/newsroom | Public Contact: 800.829.1040

Key IRS Identity Theft Indicators Continue Dramatic Decline in 2017; Security Summit Marks 2017 Progress Against Identity Theft

IR-2018-21, Feb. 8, 2018

WASHINGTON –The Internal Revenue Service today announced steep declines in tax-related identity theft in 2017, attributing the success to the Security Summit initiatives that help safeguard the nation's taxpayers.

Key indicators of identity theft dropped for the second year in a row in 2017. This includes a 40 percent decline in taxpayers reporting they are victims of identity theft in 2016. Since 2015, the number of tax-related identity theft victims has fallen by almost two-thirds and billions of dollars of taxpayer refunds have been protected.

"These dramatic declines reflect the continuing success of the Security Summit effort," said Acting IRS Commissioner David Kautter. "This partnership between the IRS, states and the tax community is helping protect taxpayers against identity theft. More work remains in this effort, and we look forward to continuing this collaborative effort to fight identity theft and refund fraud."

The Internal Revenue Service, state tax agencies and the tax industry have started their third filing season working as the Security Summit, a private-public sector partnership formed in 2015 to combat identity theft. Summit partners have put in place multiple behind-the-scenes safeguards that are helping protect the nation's taxpayers.

Because the IRS and Summit partners have stepped up efforts to stop suspected fraudulent returns from entering tax processing systems, there continues to be a substantial decline in the number of taxpayers reporting that they are victims of identity theft.

Here are key calendar-year 2017 indicators:

- The number of taxpayers reporting to the IRS that they are victims of identity theft continued its major decline. In 2017, the IRS received 242,000 reports from taxpayers compared to 401,000 in 2016 – a 40 percent decline. This was the second year in a row this number fell, dropping from the 677,000 victim reports in 2015. Overall, the number of identity theft victims has fallen nearly 65 percent between 2015 and 2017.
- The number of tax returns with confirmed identity theft declined to 597,000 in 2017, compared to 883,000 in 2016 – a 32 percent decline. The amount of refunds protected from those fraudulent returns was $6 billion in 2017, compared to $6.4 billion in 2016. In 2015, there were 1.4 million confirmed identity theft returns totaling $8.7 billion in refunds protected. Overall during the 2015-2017 period, the number of confirmed identity theft tax returns fell by 57 percent with more than $20 billion in taxpayer refunds being protected.

- The financial industry is a key partner in fighting identity theft, helping the IRS recover fraudulent refunds that may have been issued. In 2017, banks recovered 144,000 refunds compared to 124,000 in 2016 – a 16 percent increase. The amount of refunds recovered was $204 million in 2017, compared to $281 million in 2016. In 2015, the financial industry recovered 249,000 refunds totaling $852 million.
- In addition to these steep declines, the IRS also is continues reducing the year-over-year inventory backlog of taxpayers who file identity theft reports. For fiscal year 2017, the beginning inventory of identity theft reports submitted by taxpayers was approximately 34,000, under 10 percent of the fiscal year 2013 beginning inventory of 372,000 taxpayer identity theft cases.

These declines follow extensive Summit education efforts in 2017. The Summit partnership conducted awareness campaigns for tax professionals – Don’t Take the Bait – and for taxpayers – National Tax Security Awareness Week – because everyone has a role in fighting against identity theft.

Cybercriminals Looking for New Lines of Attack

Last year, multiple data breaches from outside the tax system means cybercriminals have basic information on millions of Americans, such as names, Social Security numbers and addresses. The steps taken by the Summit partners since 2015 help protect against fraudulent tax filings that use this basic data. As the IRS and Summit partners have strengthened their defenses, identity thieves are looking to steal more detailed financial information to help provide a more detailed, realistic tax return to better impersonate legitimate taxpayers. Because they need more personal data, cyberthieves increasingly are targeting tax professionals, human resource departments, businesses and other places that have large amounts of sensitive financial information. The IRS continues to see a number of these schemes in attempts to get taxpayer W-2 information from tax professionals and employers.

Everyone must be vigilant and alert. Both taxpayers and tax professionals are encouraged to:

- Use Security Software. Always use security software with firewall and anti-virus protections. Make sure the security software is always turned on and can automatically update. Encrypt sensitive files, such as tax records, stored on computers. Use strong, unique passwords for each account.
- Watch out for scams. Learn to recognize and avoid phishing emails, threatening calls and texts from thieves posing as legitimate organizations such as banks, credit card companies and even the IRS or a tax software firm. Do not click on links or download attachments from unknown or suspicious emails.
- Protect personal data. Don’t routinely carry Social Security cards and make sure tax records are secure. Shop at reputable online retailers. Treat personal information like cash; don’t leave it lying around.

For more information, see www.irs.gov/identitytheft.

INTERNAL REVENUE SERVICE

IRS News Release

Media Relations Office | Washington, D.C. | Media Contact: 202.317.4000
www.IRS.gov/newsroom | Public Contact: 800.829.1040

IRS reminds taxpayers to report virtual currency transactions

IR-2018-71, March 23, 2018

WASHINGTON — The Internal Revenue Service today reminded taxpayers that income from virtual currency transactions is reportable on their income tax returns.

Virtual currency transactions are taxable by law just like transactions in any other property. The IRS has issued guidance in IRS Notice 2014-21 for use by taxpayers and their return preparers that addresses transactions in virtual currency, also known as digital currency.

Taxpayers who do not properly report the income tax consequences of virtual currency transactions can be audited for those transactions and, when appropriate, can be liable for penalties and interest.

In more extreme situations, taxpayers could be subject to criminal prosecution for failing to properly report the income tax consequences of virtual currency transactions. Criminal charges could include tax evasion and filing a false tax return. Anyone convicted of tax evasion is subject to a prison term of up to five years and a fine of up to $250,000. Anyone convicted of filing a false return is subject to a prison term of up to three years and a fine of up to $250,000.

Virtual currency, as generally defined, is a digital representation of value that functions in the same manner as a country’s traditional currency. There are currently more than 1,500 known virtual currencies. Because transactions in virtual currencies can be difficult to trace and have an inherently pseudo-anonymous aspect, some taxpayers may be tempted to hide taxable income from the IRS.

Notice 2014-21 provides that virtual currency is treated as property for U.S. federal tax purposes. General tax principles that apply to property transactions apply to transactions using virtual currency. Among other things, this means that:

- A payment made using virtual currency is subject to information reporting to the same extent as any other payment made in property.
- Payments using virtual currency made to independent contractors and other service providers are taxable, and self-employment tax rules generally apply. Normally, payers must issue Form 1099-MISC.
- Wages paid to employees using virtual currency are taxable to the employee, must be reported by an employer on a Form W-2 and are subject to federal income tax withholding and payroll taxes.
- Certain third parties who settle payments made in virtual currency on behalf of merchants that accept virtual currency from their customers are required to report payments to those merchants on Form 1099-K, Payment Card and Third Party Network Transactions.
- The character of gain or loss from the sale or exchange of virtual currency depends on whether the virtual currency is a capital asset in the hands of the taxpayer.

More information can be found on IRS.gov.

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INTERNAL REVENUE SERVICE

IRS News Release

Media Relations Office | Washington, D.C. | Media Contact: 202.317.4000
www.irs.gov/newsroom | Public Contact: 800.829.1040

National Taxpayer Advocate Delivers Annual Report to Congress; Discusses Tax Reform Implementation and Unveils "Purple Book"

IR-2018-3, Jan. 10, 2018

WASHINGTON — National Taxpayer Advocate Nina E. Olson today released her 2017 Annual Report to Congress, describing challenges the IRS will face as it implements the recently enacted tax reform legislation and unveiling a new publication, "The Purple Book," that presents 50 legislative recommendations intended to strengthen taxpayer rights and improve tax administration. The report also examines a wide range of other tax administration issues, including the IRS's administration of the private debt collection program, the agency's increasing emphasis on online taxpayer accounts, and its implementation of a recent law that would deny or revoke the passports of taxpayers with significant tax debts.

IMPLEMENTATION OF TAX REFORM LEGISLATION

The National Taxpayer Advocate's report says the reduction in IRS funding since FY 2010, approximately 20 percent in inflation-adjusted terms, has challenged the agency's ability to perform the basic tasks of administering the tax system. "As the National Taxpayer Advocate, I see daily the consequences of reduced funding of the IRS and the choices made by the agency in the face of these funding constraints," Olson wrote in the preface to the report. "These impacts are real and affect everything the IRS does. Funding cuts have rendered the IRS unable to provide acceptable levels of taxpayer service, unable to update its technology to improve its efficiency and effectiveness, and unable to maintain compliance programs that both promote compliance and protect taxpayer rights. 'Shortcuts' have become the norm, and 'shortcuts' are incompatible with high-quality tax administration."

The report says the IRS is already struggling to meet the service needs of U.S. taxpayers, particularly with regard to telephone service. In most years, the IRS receives more than 100 million telephone calls. Even prior to the enactment of the tax reform legislation, the IRS was projecting it would only be able to answer about six out of 10 calls from taxpayers routed to speak with a telephone assistor during the filing season and about four out of 10 taxpayer calls during the full fiscal year.

Beginning in 2014, the IRS sharply curtailed the scope of tax-law questions it answers. It now answers only "basic" questions during the filing season and it does not answer any tax-law questions after the April 15 filing deadline. The report says the challenges of operating with a substantially reduced workforce have been compounded by a significant reduction in the training budget for the employees who remain. Since FY 2009, the IRS's employee training budget has been cut by nearly 75 percent.

While Olson said the IRS needs additional funding, she also expressed concern that the agency has sometimes been too quick to cite funding constraints as a basis for inaction. "Limited resources cannot be used as an all-purpose excuse for mediocrity," she wrote. "There is not a day that goes by inside the agency when someone proposes a good idea only to be told, 'We don't have the resources.'" Notwithstanding funding constraints, she said there are steps the IRS can take to improve taxpayer service through creativity and innovation.

Still, the report says the implementation of major tax legislation is always a heavy lift for the agency. Following enactment of the last major tax reform legislation, the Tax Reform Act of 1986, the IRS made changes to 162 existing forms, developed 48 new forms, and created 13 new publications. Call volume increased by 14 percent, and the IRS hired an additional 1,300 staff, increased phone capacity by 30 percent, and expanded hours and phone service to Saturdays.

More recently, enactment of the Economic Stimulus Act of 2008 generated significant processing work and produced a deluge of telephone calls, with incoming calls on the Accounts Management telephone lines rising from about 66 million in FY 2007 to about 151 million in FY 2008 – an increase of more than 125 percent.

The IRS has not yet developed a final cost estimate to implement the new law, but a preliminary estimate from earlier in the year projected the agency would require additional funding of $495 million in fiscal years 2018 and 2019. Implementation challenges include programming and systems updates, answering taxpayer phone calls, drafting and publishing new forms and publications, revising regulations and issuing other guidance, training employees on the new law and guidance, and developing the systems capacity to verify compliance with new eligibility and documentation requirements.

As one example of the challenges, the new law reduces the maximum home mortgage eligible for the mortgage interest deduction from $1,000,000 to $750,000 for indebtedness incurred after Dec. 15, 2017. It provides an exception for most (but not all) refinancings and an exception for some loans closed after Dec. 15, 2017 pursuant to binding purchase contracts. At present, the IRS generally does not know the date of a mortgage closing, the terms of a refinancing, or the date or terms of a purchase contract. It will have to develop clear guidance for taxpayers and develop forms and systems capacity to distinguish between loans subject to the $1,000,000 cap and loans subject to the $750,000 cap.

At the time, it developed its preliminary cost estimate, the IRS had identified 131 filing season systems that will be impacted by the new legislative provisions and must be modified to, among other things, reflect new individual and business tax rates, inflation-indexing changes for deductions and credits, phase-out changes for certain tax benefits, elimination of certain tax benefits, and changes in law that will require updating the IRS's fraud-detection filters.

"The IRS will have its hands full in implementing the new law," Olson said in releasing the report. "We have already seen confusion about withholding changes, confusion about the deductibility of prepaid property taxes, and confusion about whether states can allow taxpayers to make charitable contributions in lieu of taxes as a way of permitting their residents to claim larger tax deductions than would otherwise be allowed because of the new $10,000 cap on the state and local tax deduction. The IRS will have a lot of issues to work through, and taxpayers will have a lot of questions. But with more funding, strong leadership, and a closer working relationship with Congress, I am convinced the IRS can do the job well."

THE NATIONAL TAXPAYER ADVOCATE PURPLE BOOK

As part of the report, the Advocate has released a new publication, "The Purple Book," that presents 50 legislative recommendations intended to strengthen taxpayer rights and improve tax administration. Many of the recommendations have been made in detail in prior National Taxpayer Advocate reports, but others are presented in this publication for the first time.

During the last two years, Congress has showed renewed interest in examining and improving the operations of the IRS. The House Ways and Means Subcommittee on Oversight has held several hearings to consider "IRS reform," and Subcommittee Chairman Vern Buchanan has said he plans to develop legislation on a bipartisan basis during 2018 in collaboration with Ranking Member John Lewis.

Modeled on the Treasury Department's "Green Book" of revenue proposals, the Purple Book is designed to assist the Subcommittee in its efforts. Most recommendations are presented on a single page, and many of the recommendations are straightforward, non-controversial proposals that have previously been favorably reported on a bipartisan basis by the House Committee on Ways and Means, the Senate Committee on Finance, or both.

Among the new recommendations, Olson is recommending that Congress codify both the Taxpayer Bill of Rights and the IRS mission statement as Section 1 of the Internal Revenue Code.

Under current law, the Commissioner is required to ensure that IRS employees "act in accord with" the Taxpayer Bill of Rights, but it is not clear whether taxpayers may rely on the rights. Olson urges Congress to clarify that U.S. taxpayers possess these rights because "taxpayer rights should serve as the foundation for the U.S. tax system."

The report says: "While the IRS possesses significant enforcement authority, our system relies on taxpayers to file tax returns on which they self-declare their income (much of which is not reported to the IRS and is therefore difficult for the IRS to discover in the absence of self-reporting) and to pay the required tax. Clarifying that taxpayers possess these rights is not only the right thing to do, but TAS research suggests that when taxpayers have confidence the tax system is fair, they are more likely to comply voluntarily, which should translate into enhanced revenue collection."

The Purple Book makes recommendations to strengthen taxpayer rights, improve the tax-return filing process, improve IRS assessment and collection procedures, reform the Internal Revenue Code's penalty and interest provisions, strengthen taxpayer rights before the Office of Appeals, enhance confidentiality and disclosure protections, and strengthen the independence of the Office of the Taxpayer Advocate.

OTHER MAJOR ISSUES ADDRESSED

Federal law requires the Annual Report to Congress to identify at least 20 of the "most serious problems" encountered by taxpayers and to make administrative and legislative recommendations to mitigate those problems. Overall, this year's report identifies 21 problems, makes dozens of recommendations for administrative change, makes 11 recommendations for legislative change, analyzes the 10 tax issues most frequently litigated in the federal courts, and presents seven research studies and two literature reviews.

Among the problems addressed are the following:

Private Debt Collection. The IRS began assigning taxpayer accounts to private collection agencies (PCAs) in April 2017. For FY 2017, the IRS reports the program cost $20 million to run and collected $6.7 million in tax payments. In certain circumstances, the IRS paid commissions to PCAs for payments that were attributable to IRS, rather than PCA, actions.

The report acknowledges that the IRS is required by law to use PCAs, but it says the IRS has implemented the program in a manner that causes excessive financial harm to taxpayers and constitutes an end-run around taxpayer rights protections that Congress has enacted in connection with collection activities. Specifically, Congress has required the IRS to "develop and publish schedules of national and local allowances" that ensure taxpayers "have an adequate means to provide for basic living expenses." These Allowable Living Expenses, or ALEs, are a key component of the IRS's determination of a taxpayer's ability to pay a tax debt.

If the IRS determines a taxpayer's income is below the appropriate ALE amount, the IRS will classify the taxpayer as "Currently Not Collectible – Hardship" and generally not levy or take enforced collection action. Yet the IRS is sending cases of taxpayers with incomes below the ALE amount to PCAs, and the PCAs are collecting from those taxpayers. An analysis of recent returns of taxpayers who entered into installment agreements (IAs) while their debts were assigned to PCAs and made payments on which the PCAs received commissions show that more than 45 percent had incomes below their ALEs.

The law requires the IRS to assign cases to PCAs that it includes in "potentially collectible inventory." However, the law does not define that term, allowing the IRS the flexibility to define it in a way that makes sense. The report recommends the IRS define the term in a manner that is consistent with both the statutory requirement that the IRS utilize PCAs and the statutory intent that federal tax collection should not leave taxpayers unable to meet their basic living expenses.

Online Taxpayer Accounts. The IRS's "Future State" plan for taxpayer service places heavy emphasis on "transitioning" taxpayers away from personal communication by phone or in the Taxpayer Assistance Centers and toward digital communication. The Advocate fully supports the IRS's efforts to develop online accounts. However, the report expresses concern that the IRS's migration strategy does not adequately take account of taxpayer needs and preferences for telephone and other methods of receiving service for several reasons. First, some taxpayers do not have the ability to interact effectively with the IRS digitally. About 41 million taxpayers do not have broadband service and almost 14 million have no Internet access at all in their homes.

Second, many taxpayers who have the ability to interact with the IRS digitally do not want to do so. In a recent TAS survey, about 50 percent of respondents indicated they do not feel secure sharing personal financial information over the Internet. Third, even among taxpayers who have the ability and interest in interacting with the IRS digitally, many cannot do so. To protect taxpayer accounts from hacking, the IRS has imposed stringent authentication requirements. As a result, only about 30 percent of taxpayers seeking to create an online account have been able to do so. Fourth, the IRS has run two small pilot programs in which IRS divisions (including TAS) have offered taxpayers the opportunity to interact through secure electronic communication. The number of taxpayers who have elected to participate has been extremely low.

The report recommends that the IRS undertake a comprehensive study of taxpayer needs and preferences by taxpayer segment, using telephone, online, and mail surveys, focus groups, town halls, and research studies, and then develop a multi-faceted omnichannel service strategy based on the results of the study.

Taxpayer Rights in "Real" vs. "Unreal" Audits. The law provides significant protections for taxpayers under audit. Over time, however, the IRS has been increasingly notifying taxpayers that they owe additional tax through means that do not fit within the traditional definition of an audit. From a taxpayer perspective, these tax adjustments feel like audits because they generally require the taxpayer to either accept the adjustment or provide documentation or information to dispute it. Yet the taxpayer protections that apply in the case of "real" audits do not apply in the case of "unreal" audits. These "unreal audits" include proposed adjustments under math error authority, the Automated Underreporter document-matching program, and the Automated Substitute for Return program. In FY 2016, the "real" audit rate was only 0.7 percent, but when these "unreal" audits are added in, the rate rose to 6.2 percent. Among the rights taxpayers generally do not have in unreal audits is the right to seek an administrative review with the Office of Appeals. In the case of math error adjustments, a taxpayer who fails to respond within the required time also loses the right to a prepayment review by the United States Tax Court.

The National Taxpayer Advocate is concerned that as the IRS increasingly relies on "unreal" audits, the taxpayer protections Congress put in place to protect taxpayers from wrongful adjustments are being diluted. In addition, the report says that measures of IRS compliance activity that focus on the audit rate are misleading, because the overwhelming majority of tax adjustments are now made through "unreal" audits. The report says the IRS is planning to further increase the use of "unreal" audits as part of its "Future State" plan, and it recommends that the IRS reevaluate and revise its definition of an audit and the application of taxpayer protection through the lens of the Taxpayer Bill of Rights.

Streamlined Section 501(c)(3) Approval Process. In 2014, the IRS adopted a streamlined application and approval process to reduce processing times for certain organizations seeking tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. Organizations applying under the streamlined procedures do not have to submit their articles of incorporation or bylaws, and the IRS does not evaluate whether applicants are properly organized, have adopted the appropriate charitable purpose clause, and have adopted protections against the misuse of funds. In 2015 and 2016, TAS reviewed a representative sample of organizations that obtained favorable rulings from the IRS and were organized in states that post articles of incorporation on their websites. In those years, the studies found that 37 percent and 26 percent, respectively, of these organizations did not meet the Section 501(c)(3) eligibility requirements. TAS repeated the study in 2017 and found an erroneous approval rate of 42 percent.

The report says that erroneous grants of tax-exempt status can have significant repercussions. They can harm the organizations by failing to give them an opportunity to correct problems before they begin operations. They can reduce federal revenue by allowing organizations that should be paying tax to avoid it and by allowing donors to claim tax deductions for contributions to organizations that should not be treated as tax exempt. Erroneously recognizing organizations as exempt also can undermine public trust in the integrity of the charitable sector. The National Taxpayer Advocate recommends that the IRS review an applicant's narrative statement of actual or planned activities and the applicant's organizing documents before deciding whether to approve the application for tax-exempt status.

Passport Denial and Revocation. Under a law passed by Congress in 2015, the Department of State is required to deny an individual's passport application and is authorized to revoke or limit an existing passport if the IRS has certified the individual as having a seriously delinquent federal tax debt (*i.e.*, a federal tax debt exceeding $50,000, adjusted annually for inflation, including assessed interest and penalties). The report says the right to travel internationally is a fundamental right of citizenship, and it should not be restricted unless and until a taxpayer has been given adequate advance notice that his or her passport may be denied or revoked and an opportunity to resolve the debt or challenge the IRS's position. Yet under current procedures, the IRS sends the only stand-alone notice to the taxpayer regarding explaining the passport consequences of the debt at the same time it certifies the debt as seriously delinquent, depriving the taxpayer of the opportunity to be heard before the certification is made.

The IRS has also refused to hold off on certifying cases in which a taxpayer is actively working with the Taxpayer Advocate Service to try to resolve the debt. In addition, the IRS notice does not include information that would be helpful for taxpayers who may have been victims of identity theft or who may be unable to afford to pay their debts and may qualify for currently not collectible status, both of which may result in decertification. Moreover, neither the IRS's notice nor the Department of State's letter includes information about a statutory exception for taxpayers with an emergency need or humanitarian reason to travel.

While Congress enacted this law to penalize taxpayers who do not resolve their tax debts and to induce them to do so, it did not intend to abridge otherwise applicable taxpayer rights. The National Taxpayer Advocate makes several recommendations to ensure taxpayers receive adequate advance notice and an opportunity to be heard, including that the IRS send a stand-alone notice to all taxpayers at least 30 days prior to certifying their seriously delinquent tax debts (90 days when addressed to a taxpayer outside the United States), which describes the consequences of certification and outlines all options available to the taxpayer to avoid or reverse a certification.

TAS RESEARCH STUDIES AND LITERATURE REVIEWS

Volume 2 of the report contains or outlines research studies on the following topics: (1) the financial circumstances of taxpayers who entered into installment agreements and made payments while their tax debts were assigned to private collection agencies; (2) the subsequent filing behavior of taxpayers who claimed Earned Income Tax Credits, apparently in error, and were not audited but received an educational letter from TAS (follow-on to an earlier study); (3) the effectiveness of the offer-in-compromise program; (4) taxpayers' various abilities and attitudes toward IRS service channels (follow-on to an earlier study); (5) the effect of audits and identity theft investigations on taxpayer attitudes; (6) taxpayer responsiveness to marginal changes in penalty rates (description of future study); and (7) the effectiveness of tax amnesty programs and what the findings suggest about how tax settlement programs such as the IRS's Offshore Voluntary Disclosure Program should be structured.

The report also contains literature reviews on two topics: (1) best practices for telephone call centers utilized in the private sector and by other government agencies and (2) local outreach initiatives undertaken by large businesses, U.S. government agencies, and foreign tax administrations to foster customer or taxpayer engagement.

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Please visit www.TaxpayerAdvocate.irs.gov/2017AnnualReport for more information.

Related Items:

- Complete Report: 2017 Annual Report to Congress
- Executive Summary
- National Taxpayer Advocate Blog

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About the International Conference on Taxpayer Rights

The National Taxpayer Advocate has organized and will convene the third International Conference on Taxpayer Rights in Amsterdam, Netherlands on May 3-4, 2018. The conference will be hosted by the International Bureau of Fiscal Documentation and sponsored by Tax Analysts. Registration is now open on the Taxpayer Rights Conference website. The conference will bring together government officials, scholars, and practitioners from around the world to explore how global taxpayer rights serve as the foundation for effective tax administration. The second International Conference on Taxpayer Rights, organized by the National Taxpayer Advocate in 2017, attracted more than 160 attendees from over 40 countries. "The International Conferences on Taxpayer Rights broadened the focus on taxpayer rights beyond the United States. Tax administrators, academics, and tax professionals from all over the world were afforded the opportunity to discuss the reasons for and challenges in adopting and implementing a Taxpayer Bill of Rights or taxpayer charter. Equally important, the Conference engendered serious scholarship about the role of tax administration in promoting fairness and effectiveness in tax administration.'" said Nina Olson, National Taxpayer Advocate. "One thing we learned very clearly is that effective tax systems place a high priority on taxpayer rights and earning the trust of their taxpayers. I'm delighted there has been strong interest in institutionalizing international conferences on taxpayer rights to share ideas and build on our success."

About the Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an *independent* organization within the IRS that helps taxpayers and protects taxpayer rights. Your local advocate's number is in your local directory and at https://taxpayeradvocate.irs.gov/contact-us.You can also call TAS toll-free at 1-877-777-4778. TAS can help if you need assistance resolving an IRS problem, if your problem is causing financial difficulty, or if you believe an IRS system or procedure isn't working as it should. And our service is free. For more information about TAS and your rights under the Taxpayer Bill of Rights, go to https://taxpayeradvocate.irs.gov. You can get updates on tax topics at facebook.com/YourVoiceAtIRS, Twitter.com/YourVoiceatIRS, and YouTube.com/TASNTA.

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IRS COMMUNICATIONS & STAKEHOLDER OUTREACH

Stakeholder Liaison

Web Conference for:

Tax Professionals

Understanding How to Use the IRS Withholding Calculator to Check and Correct Withholding

Thursday, June 21, 2018

This web conference will provide an overview of the following:

- Illustrate why some major segments of the population need to change their withholding soon
- Familiarize tax professionals with how to use the IRS withholding calculator to help taxpayers change their withholding
- Plus a live Q & A

Register and Attend:

https://www.webcaster4.com/Webcast/Page/1148/26076

2:00 p.m. Eastern; 1:00 p.m. Central; 12:00 p.m. Mountain; 11:00 a.m. Pacific, 8:00 a.m. Hawaii

CLOSED CAPTIONING WILL BE OFFERED

Continuing Education:

All participants who qualify will receive a Certificate of Completion
Tax Professionals – Earn up to 2 CE Credits – Category: Federal Tax

Questions? Email us at: SBSE.SL.Web.Conference.Team@irs.gov