

December 13, 2017

CPA Continuing Education Society of Pennsylvania

“IRS Federal Tax Update”

Topics:

- 1) Tax Law Update: Preparing for 2018 Tax Season*
- 2) Don't Take the Bait: Protect Your Clients, Protect Yourself*
- 3) IRS Private Debt Collection Program*
- 4) IRS Updates*
- 5) Rental Use of the Home (Including the Sharing Economy)*

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IRS Statement on 2018 Filing Season Start Date

Nov. 3, 2017

The IRS has not yet announced a date that it will begin accepting individual tax returns for the 2018 tax filing season. At the present time, the IRS is continuing to update its programming and processing systems for 2018. In addition, the IRS continues to closely monitor potential legislation that could affect the 2018 tax season, including a number of “extender” tax provisions that expired at the end of 2016 that could potentially be renewed for tax year 2017 by Congress.

The IRS anticipates it will not be at a point to announce a filing season start date until later in the calendar year. The IRS will continue to work closely with the nation’s tax professionals and software community as preparations continue for the 2018 tax filing season.

Speculation on the Internet that the IRS will begin accepting tax returns on Jan. 22 or after the Martin Luther King Jr. Day holiday in January is inaccurate and misleading; no such date has been set.

Refund Timing

In addition, the IRS cautions taxpayers from relying on misleading refund charts on the internet that project tax refund dates. Any speculation about refund dates in 2018 is premature. In addition, these refund charts can overlook that many different factors affect the timing of tax refunds, ranging from the accuracy of information on the return to whether a taxpayer files electronically. In addition, the IRS and state revenue departments have increased their security protocols against identity theft and refund fraud, which also can affect the timing of federal and state refunds.

The IRS issues more than nine out of 10 refunds in less than 21 days. However, it’s possible your tax return may require additional review and take longer. [Where’s My Refund?](#) has the most up to date information available about your refund. The tool is updated no more than once a day so you don’t need to check more often. If you use a mobile device you can download the IRS2Go app to check your refund status.

E-File coupled with Direct Deposit remains the fastest way for taxpayers to receive their refunds.

Due to law changes first affecting last year’s returns, the IRS cannot issue refunds for tax returns claiming the EITC or ACTC before mid-February. This law requires the IRS to hold the entire refund — even the portion not associated with the EITC or ACTC. However, there is no need to wait to file such returns since the IRS will process them to the point of refund and then begin refund release when permitted by law.

Timeline for Security Breach of PICPA Member

1. My IT provider monitors our server and all activity 24/7.
2. December 19, 2016: My IT provider contacted me to indicate that there were about a half dozen failed login attempts on one of the workstations. As a result, IT locked down the server, allowing no remote access until they could speak to me.
3. December 19, 2016: IT recommended that we add a VPN for each workstation, rather than just using simple remote access. This would require a 2-step validation procedure for everyone working remotely: a log-in to the VPN and then a log-in to our network. The VPN set-up was completed and successfully activated for all 3 of my staff on January 19, 2017 (delay due to the Christmas holiday).
4. February 10, 2017: The first 4883C letter came in from a client. I hadn't seen this letter before, and frankly, its format made me a little suspicious that it was some sort of spam.
5. February 13, 2017: About a half dozen more clients received 4883C letters, and on Tuesday, February 14, 2017 another 8-10 also received them. At this point I definitely knew that the letter was legitimate and that there was a problem-- a potential hack of my server. The first 2 returns to fail efile also happened at this time. The error notification indicated that a return had already been filed using the taxpayers' information.
6. February 14, 2017: This was my first phone call to Richard Furlong, my IRS Senior Stakeholder Liaison in Philadelphia, to inform him of my suspicions about a security breach. I also checked IRS e-services to look at the volume of returns filed using my EFIN. The number of returns filed was correct and easily discernible since it was so early in the filing season. He recommended that I immediately contact my software provider, my insurance carrier, local police and my IT provider. All were contacted within 24 hours.
7. February 16, 2017: I US mailed and e-mailed a letter to all of my clients informing them of the potential security breach, and telling them what to do if they receive a 4883C letter or 12C letter, requiring them to contact the IRS to validate their identity. I invited clients to come to the office so that we could make the call together if they were uncomfortable calling the IRS on their own in the event that they received one of these letters.
8. February 17, 2017: The IRS was provided with my entire client list so that it could be forwarded to Criminal Investigation and to the Return Integrity and Compliance Services (RICS) Divisions. All returns were marked as potential identity theft victims within the IRS systems.
9. February 21, 2017: I spoke with the Global Security Specialists with ProSeries. After looking at my EFIN it didn't appear to be compromised, but my entire client database was migrated to their Fraud Division. A hack via ProSeries was unlikely due to the multiple layers of encryption used to move data between practitioners, Intuit, and the various governmental entities. Many times these hackers will establish a fraudulent tax prep firm using the professional software.

10. February 24, 2017: Upon calling my insurance carrier (CNA) and speaking to the Claims Specialist assigned to me, she immediately referred me to legal counsel. The referral was to attorney XXXX of Law Firm ABC in Philadelphia. Within the next 24 hours I had a conference call with Attorney XXXX and my claims specialist to discuss my liability exposure, if any, and how to proceed from this point on. Attorney XXXX indicated that my insurance coverage would provide Experian coverage to my clients, free of charge to them, for a period of one year. The law office was provided with my client data base and they issued the individualized enrollment letters on my behalf. He also recommended that a forensic IT investigation would likely be necessary to determine how exactly the breach occurred, recognizing that locating the perpetrators would be a very remote possibility. But, it was more important to identify how someone gained access, rather than determining who gained access. In addition, the attorneys took care of the required notifications to the Attorney Generals in all the states where we file returns. They would normally notify all of our clients of the breach, but I had already provided that notification.
11. February 24, 2017: Senior Stakeholder Liaison Richard Furlong, after conferring within the IRS, suggested that I get a new EFIN, even though it doesn't appear that mine was compromised. I applied and received a new EFIN that day and it was uploaded to ProSeries.
12. March 14, 2017: I discussed the forensic IT investigation of my server and workstations with Crypsis, of McLean, VA, along with my own IT firm. Based on our discussion Crypsis indicated it was most likely that my system was breached via the remote desktop protocol. My own IT firm was extremely concerned that they were not able to determine any breaches, malware or virus software anywhere on the server or workstations.
13. March 31, 2017: Crypsis provided the results of the forensic IT investigation. As they thought, one of my workstations was hacked as someone piggy-backed in through remote access, prior to the installation of the VPN for everyone. They determined the access came through one particular workstation which did NOT have a soft password; the first breach was on March 30, of 2016 and the last was on January 18, 2017, just prior to the individual VPN completions. There were 56 log-ins from 10 countries. Work files established by the hackers ("Xeedic") targeting 2015 and 2014 tax data were identified. These files looked innocent until they were critically examined and they escaped notice by my own IT.
14. Additional information: My IRS Stakeholder Richard Furlong has been a very great source of information and helped to guide me through this process. Other than the security breach, there have been 3 extremely large issues that have loomed and permeated the tax season right through April 18, 2017:
 - 1) The inordinate amount of time that it has taken providing information to clients;
 - 2) The additional time consumed with paper-filing returns and attaching the 14039 identity theft information to them; and
 - 3) The number of 5747C notices that have been received by clients whether or not they are victims of identity theft and the amount of time taken to deal with those notices.
15. To date, 107 clients have been the victims of identity theft. I have lost only 1 client due to the incident, and that client was not an identity theft victim.



Department of Treasury
Internal Revenue Service
PO Box 149342
Austin, TX 78714-9342

ERIC D. JOHNSON
123 N HARRIS ST
HARVARD, TX 12345

Notice	CP40
Notice date	January 26, 2017
Taxpayer ID number	XXX-XX-NNNN
Tax form	
Tax year	
Taxpayer authentication number	
To contact us	Phone: nnn-nnn-nnnn
Page 1 of 2	

We assigned your overdue tax account to a private collection agency

Current law requires us to contract with qualified private collection agencies to assist in collecting certain overdue federal taxes. We have assigned your account to the following agency:

[Agency name]
[Address line 1]
[Address line 2]
[Phone number]

What happens next

The private collection agency will work with you to resolve your overdue account. The private collection agency will explain payment options to help you find one that is best for you. It also will provide you with a payment plan if you can't pay the full amount at this time.

You can pay online now at www.irs.gov/directpay or visit www.irs.gov/payments for more information about ways to pay. If paying by check or money order, make the check or money order payable to the United States Treasury. Include your name, social security number, and the tax year on your payment and send it to the address on this notice. These are the only forms of payment the IRS accepts. We'll never ask you to pay using any form of pre-paid card or store or online gift card.

The private collection agency is required to maintain the security and privacy of your tax information. To do this, it will ask you to provide your name and address of record before assisting you in resolving your account. Also, it will perform two-party verification by asking you for the first five numbers of your taxpayer authentication number at the top of this notice. The private collection agency will then provide the subsequent five numbers.

Keep this notice for your records. You'll need information from it to complete the two-party verification.

See the enclosed Publication 4518, What You Can Expect When the IRS Assigns Your Account to a Private Collection Agency, for more information.

Additional information

- Visit www.irs.gov/cp40
- You can also find the following online:
 - Publication 1, Your Rights as a Taxpayer
- For tax forms or publications, visit www.irs.gov/formspubs or call 1-800-TAX-FORM (1-800-829-3676).
- The Taxpayer Advocate Service (TAS) is an independent organization within the IRS that can help protect your

Additional information – **continued**

taxpayer rights. TAS can offer you help if your tax problem is causing a hardship, or you've tried but haven't been able to resolve your problem with the IRS. If you qualify for TAS assistance, which is always free, TAS will do everything possible to help you. Visit www.taxpayeradvocate.irs.gov or call 1-877-777-4778.

- Assistance can be obtained from individuals and organizations that are independent from the IRS. The Directory of Federal Tax Return Preparers with credentials recognized by the IRS can be found at <http://irs.treasury.gov/rpo/rpo.jsf>. IRS Publication 4134 provides a listing of Low Income Taxpayer Clinics (LITCs) and is available at www.irs.gov. Also, see the LTC page at www.taxpayeradvocate.irs.gov/litcmap. Assistance may also be available from a referral system operated by a state bar association, a state or local society of accountants or enrolled agents or another nonprofit tax professional organization. The decision to obtain assistance from any of these individuals and organizations will not result in the IRS giving preferential treatment in the handling of the issue, dispute or problem.

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.317.4000

www.irs.gov/newsroomPublic Contact: 800.829.1040

Security Summit Partners Mark Progress in Identity Theft Battle; Prepare for 2018 Tax Season

IR-2017-176, Oct. 17, 2017

WASHINGTON – The IRS, state tax agencies and private-sector industry leaders today detailed their continued progress against tax-related identity theft and prepared additional safeguards for the 2018 filing season to curb refund fraud.

The latest IRS data continued to show significant improvements as fewer identity theft returns entered the tax system, fewer fraudulent refunds were issued and fewer taxpayers were reporting themselves as victims of identity theft.

The progress also underscored that the Security Summit partnership created in March 2015 has led to stronger federal and state tax systems than just a few years ago with important new protections for taxpayers – which take on even greater importance given recent high-profile data breaches,

“We’ve made tremendous progress since the Security Summit partnership held its first session in 2015,” said IRS Commissioner John Koskinen. “We’ve seen the number of identity theft-related tax returns fall by about two-thirds since 2015. This dramatic decline helped prevent hundreds of thousands of taxpayers from facing the challenges of dealing with identity theft issues. This reflects the unique collaboration between the tax industry, the states and the IRS. But we have much more work facing us. As we evolve, so do the cybercriminals here and abroad. We must constantly be on guard.”

“The collaborative work of the Summit is helping states, industry and the IRS identify fraudulent schemes and tax returns earlier,” said Courtney M. Kay-Decker, director of the Iowa Department of Revenue and a representative of the Federation of Tax Administrators. “These efforts mean we are better able to protect our taxpayers from tax refund fraud and from the effects of identity theft.”

This is Koskinen’s final Security Summit meeting prior to the end of his term as IRS commissioner in November. Koskinen convened the various groups together for an unprecedented meeting in 2015. This session led to the creation of the Security Summit and a series of initiatives that resulted in greater protections for the taxpayers and the tax system.

Significant Progress Against Identity Theft in 2016 and 2017

Since 2015, the IRS has put in place numerous safeguards as the federal, state and private sectors worked together. For example, the tax industry shares dozens of important data points from returns that help the IRS and states identify potential identity theft fraud. Password protocols for both individual and tax professional software have been enhanced. States have worked with financial institutions to create their own program to help identify suspect refunds. The IRS continues to pilot a Form W-2 Verification Code that helps verify income information and employers.

“These efforts have made a remarkable difference for taxpayers,” Koskinen said. “The numbers show we are making progress on multiple fronts, with significant improvements in 2016. And we continued this dramatic trend in 2017.”

Among the highlights seen by the IRS since 2015:

- Confirmed identity theft returns declined. In calendar year 2016, the IRS stopped 883,000 confirmed identity theft returns, a 37 percent drop in confirmed identity theft returns from 2015. During the first eight months of 2017, the IRS has stopped 443,000 confirmed identity theft returns, a 30 percent decline from same time last year.
- Financial firms stopped suspect refunds. Financial institutions stopped 124,000 suspect refunds in 2016, a 50 percent decline from 2015. Financial institutions have stopped 127,000 suspect refunds so far this year, which in part reflects a handful of cases involving several thousand accounts.
- Identity theft victim numbers fell substantially. The number of people reporting that they were victims of identity theft fell to 376,000 in 2016, a 46 percent decline from 699,000 in 2015. This year the strong trend line has continued through August: 189,000 taxpayers have reported themselves as victims of identity theft, which is down approximately 40 percent from the same time last year.

The IRS and its Security Summit partners are already looking at how to refine existing protections and add new ones for the 2018 filing season. For example, Summit partners will be sharing more data points from tax returns than in the past.

Also for 2018, there will be a new “Verification Code” box included on all official Forms W-2 for the first time. Many taxpayers will see a 16-character code on about 66 million Forms W-2 to assist with authenticating the Form W-2. Taxpayers preparing their own returns and tax professionals are urged to enter the code if the box contains the 16-digit number.

Due to security concerns, not everything the partners do is visible to the public or fraudsters. For example, the Summit partners continue to implement information sharing in the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (ISAC) where emerging identity theft schemes and alerts are shared within the partnership. So far this year, 67 security alerts have already been shared through this process.

New Protections for Business Returns

The Summit partners also are putting an increased emphasis on identity theft protections for business returns in the Form 1120 and 1041 series. The IRS will be asking tax professionals to gather more information on their business clients. The data being collected assists the IRS in authenticating that the tax return being submitted is actually a legitimate return filing and not an identity theft return. Some of the new questions people may be asked to provide when filing their business, trust or estate client returns include:

- The name and Social Security number of the company individual authorized to sign the business return. Is the person signing the return authorized to do so?
- Payment history – Were estimated tax payments made? If yes, when were they made, how were they made, and how much was paid?
- Parent company information – Is there a parent company? If yes, who?
- Additional information based on deductions claimed.

- Filing history – Has the business filed Form(s) 940, 941 or other business-related tax forms?

To help businesses and business return preparers, the IRS has created a new [Identity Theft Guide for Business, Partnerships and Estate and Trusts](#).

Taxpayers, Tax Professionals Can Help Protect Themselves

The IRS warned all tax and payroll professionals and other entities holding personally identifiable information to be especially alert to cybercriminals impersonating clients to steal additional sensitive information from their files. The IRS urged tax professionals and others to perform due diligence steps regarding email requests for personal information and watch out for phishing emails.

“We know that cybercriminals are planning for the 2018 tax season just as we are. They are stockpiling the names and SSNs they have collected. They try to leverage that data to gather even more personal information. This coming filing season, more than ever, we all need to work diligently and together to combat this common enemy,” Koskinen said. “We all have a role to play in this fight.”

The IRS and Summit partners again will continue a public awareness campaign [“Taxes. Security. Together.”](#) to remind taxpayers what steps they can take to better protect their financial data while online. The third year of this campaign will begin next month.

The IRS and Summit partners have a similar awareness program for tax professionals called [“Protect Your Clients, Protect Yourself.”](#) This summer, partners promoted a 10-week [“Don’t Take the Bait”](#) campaign aimed at warning tax preparers about various phishing scams. The Summit plans to continue this education and outreach effort to tax professionals in the months ahead.

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Highlights of 2017 Tax Law Changes



Richard Furlong, Jr.
Senior Stakeholder Liaison

December 13, 2017
CPA Continuing Education Society of PA

Due Date

- Returns and payments otherwise due April 15, 2018, are timely if filed or paid by Tuesday, April 17, 2018



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Expired Provisions

- Tuition and fees deduction (Form 8917)
- Mortgage insurance premiums
- Credits (including Form 5695)
- Discharge of principal residence debt
- 7.5% medical expense AGI floor



3

Expired Business Provisions

- Certain depreciation provisions
- TV, film, & theatrical production expenses
- Credits
- Special rate for qualified timber gains
- Alternative fuel excise tax provisions



4

Qualifying Widow(er)

- Qualifying child no longer must be a dependent
- Name must be provided if not dependent (as with head of household)
- Name changed to "Qualifying Widow(er)"
- Other changes

Proposed Regulations 137604-07



5

Oil and Gas Credits

- New Form 8904, Credit for Oil and Gas Production From Marginal Wells (Sec. 45I) for tax year 2016
- Form 8830, Enhanced Oil Recovery Credit



6

Education Credits

- Federal Identification Number of the educational institution is required on Form 8863 for all claimants of American Opportunity Tax Credit (AOTC), even if institution didn't issue Form 1098-T
- Form 8862 revised to encompass AOTC (and child tax credit)
- Form 1098-T qualified tuition reporting



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Form 8863 (2017) Page 2
Name(s) shown on return Your social security number

Complete Part III for each student for whom you're claiming either the American opportunity credit or lifetime learning credit. Use additional copies of page 2 as needed for each student.

Part III Student and Educational Institution Information. See instructions.

20 Student name (as shown on page 1 of your tax return)	21 Student social security number (as shown on page 1 of your tax return)
22 Educational institution information (see instructions)	
a. Name of first educational institution	b. Name of second educational institution (if any)
(1) Address. Number and street (or P.O. box), city, town or post office, state, and ZIP code. If a foreign address, see instructions.	(1) Address. Number and street (or P.O. box), city, town or post office, state, and ZIP code. If a foreign address, see instructions.
(2) Did the student receive Form 1098-T from this institution for 2017? <input type="checkbox"/> Yes <input type="checkbox"/> No	(2) Did the student receive Form 1098-T from this institution for 2017? <input type="checkbox"/> Yes <input type="checkbox"/> No
(3) Did the student receive Form 1098-T from this institution for 2016 with box 2 filled in and box 7 checked? <input type="checkbox"/> Yes <input type="checkbox"/> No	(3) Did the student receive Form 1098-T from this institution for 2016 with box 2 filled in and box 7 checked? <input type="checkbox"/> Yes <input type="checkbox"/> No
If you checked "No" in both (2) and (3), skip (4). However, you must complete (4) if you're claiming the American opportunity credit.	If you checked "No" in both (2) and (3), skip (4). However, you must complete (4) if you're claiming the American opportunity credit.
(4) If you checked "Yes" in (2) or (3), enter the institution's employer identification number (from Form 1098-T).	(4) If you checked "Yes" in (2) or (3), enter the institution's employer identification number (from Form 1098-T).

Education Credits

- Eligible educational institutions, therefore, will continue to have the option of reporting either the amount of payments of qualified tuition and related expenses received in Box 1 of Form 1098-T or the amount of qualified tuition and related expenses billed in Box 2 of Form 1098-T for the 2017 calendar year without being subject to penalties.

IRS Announcement 2016-42



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1098-T

☐ CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number

2017 OMB no. 1545-1074

Tuition Statement

Form 1098-T

Copy B For Student

This is important tax information and is being furnished to the Internal Revenue Service. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.

1 Payments received for qualified tuition and related expenses	2 Amounts billed for qualified tuition and related expenses	3 If this box is checked, your educational institution changed its reporting method for 2017	4 Adjustments made for a prior year	5 Scholarships or grants
\$	\$	<input type="checkbox"/>	\$	\$
6 Adjustments to scholarships or grants for a prior year	7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January–March 2017	8 Check if at least half-time student	9 Checked if a graduate student	10 Inst. contract reimb./refund
\$	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	\$

Form 1098-T (keep for your records) www.irs.gov/form1098T Department of the Treasury - Internal Revenue Service

Partnership Penalty Relief

- The IRS will grant relief from the penalties *failure to file and furnish returns* for the first taxable year of any partnership that began after December 31, 2015
- If the partnership filed the *Form 1065, 1065-B, or 8804 and Schedules K-1 or 8805* by April 18, 2017 for calendar-year taxpayers

IRS Notice 2017-47



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New Partnership Audit Rules

- TEFRA audit rules replaced by Bipartisan Budget Act of 2015 (BBA) rules
- Form 1065B not applicable after TY 2017
- Form 7036, Election Under Section 1101(g)(4) of the Bipartisan Budget Act of 2015

REG-136118-15



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Expiring ITINs

- ITINs with middle digits 70, 71, 72 or 80 will expire at the end of 2017.
- Notice CP-48 Notice explains the steps these taxpayers need to take to renew the ITIN if it will be included on a U.S. tax return filed in 2018.
- All ITINs not used on a federal tax return at least once in the last three years will also expire at the end of 2017.



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Expiring ITINs

- Federal tax returns submitted in 2018 with an expired ITIN will be processed. However, exemptions and/or certain tax credits will be disallowed until renewed.

IR-2017-128



14

REVOCATION OR DENIAL OF PASSPORT

- Legislation review
- Implementation date
- Roles of IRS and Department of State
- Avoiding passport denial/revocation

IRC 7345



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Changes to user fees, effective Jan. 1, 2017

	Old Fee	Fee as of 1/1/2017
Regular Installment Agreement	\$120	\$225
Regular Installment Agreement W/ Direct Debit	\$52	\$107
Low Income Installment Agreement	\$43	\$43
On-line Payment Agreement (Regular Installment Agreement)	\$120	\$149
On-line Payment Agreement (Direct Debit Installment Agreement)	\$52	\$31



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Refundable Credits Due Diligence



Richard Furlong, Jr.
Senior Stakeholder Liaison

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Under PATH, IRC 6695(g) Preparer Due Diligence Now Includes. . .



Earned Income
Tax Credit



Child & Additional Child Tax
Credit



American Opportunity
Tax Credit



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Common Due Diligence Errors

- Failing to meet the knowledge requirement
- Failing to keep records and documentation



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Knowledge Requirement

It's not just about knowing the law. You must...

Apply
common
sense
standard

Not ignore
the
information
you have

Ask
questions
when
needed

Record your
questions
and client's
responses



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Recordkeeping

Keep paper or electronic records of:

- Form 8867, Paid Preparer's Due Diligence Checklist
- All applicable worksheets and computations
- Who, when and how eligibility information provided
- Documents you relied on to determine eligibility or compute the credit
- Additional inquiries made to meet the knowledge requirement and client's responses



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Interview Techniques

- Is the picture you have of your client correct, consistent and complete?
 - Ask open ended questions
 - Address all eligibility requirements



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Focus Your Attention on Common EITC Errors

Claiming child who does not meet residency or relationship requirements

Reporting income or expenses, particularly Schedule C's correctly

Filing as single or head of household when married



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These EITC Qualifying Child Situations Call for Additional Inquiries

- Claiming qualifying child other than son or daughter
- Single parent claiming a son or daughter
- Claiming disabled adult as qualifying child



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Relationship and Residency



Schedule C Income Verification



- Books and records to support income
- Per services charges & frequency
- Cleaning supplies cost
- Equipment cost



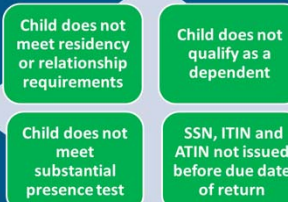
26

A diligent preparer considers...



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Focus Your Attention on Common Child Tax Credit Errors



28

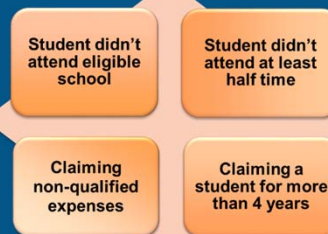
These CTC Situations Call for Additional Inquiries

- If a new client, determine when the SSN/ITIN/ATINs were issued
- Claiming qualifying child other than son or daughter
- Divorced/single parent claiming a son or daughter
- Child not a US citizen and may have lived outside of the US during the year



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Focus Your Attention on Common American Opportunity Tax Credit Errors



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Questions to Ask While Reviewing Form 1098-T

Form 1098-T Tuition Statement for 2017. The form includes fields for filer's name, address, and contact information; filer's federal identification number; student's name, address, and contact information; and various boxes for reporting tuition, fees, and scholarships. It also includes a section for the student's reporting method for 2017 and a section for the preparer's information.



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These AOTC Situations Call for Additional Inquiries

- No Form 1098-T
- Student is not typical college age
- Name of school is unusual
- Form 1098-T does not show at least half time student
- Form 1098-T shows graduate student
- If college age student return, find out about parent claiming student



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A Cautionary Tale

Court Denies
Return Preparer
Penalty Refund



Tax Analysts, Tax Notes Today, FEBRUARY 08, 2017
Reference CODE: Section 6694 -- Understatement by Return



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Resources on EITC Central

- Found at eitc.irs.gov/TaxPreparerToolkit
- Refundable Credit Hot Topics for Preparers
- Due Diligence Training Module for CE credit
- Frequently asked questions by preparers
- Due Diligence training videos
- Examples on how to handle common due diligence situations
- Publications, forms and instructions



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Due Dates for W-2s, W-3s & 1099-MISC, box 7



Richard Furlong, Jr.
Senior Stakeholder Liaison

December 13, 2017
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Due Date January 31

- PATH Act requires due dates for certain information reporting forms by January 31
 - Electronic and paper Forms W-2 & W-3 are due to the Social Security Administration
 - Forms 1099-MISC, box 7 (for non-employee compensation) are due to the Internal Revenue Service



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Hints to Help You Get Ready

- Verify employees' information
- Ensure company's account information is current and active with SSA
- Touch base early with agency that helps you complete Forms W-2 on time
- Order paper Forms W-2 early if you need them



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Information Return Penalties

- Failure to file these forms correctly and timely may result in penalties
- For more information
 - Pub 1586
 - Tax Topic 752



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Information Return Penalties

- Find more information about these penalties:
 - Search IRS.gov for: information return penalties
 - ✓ Scroll to find page, *Increase in Information Return Penalties – IRS tax forms*
 - ✓ Includes links to PDF versions of instruction for:
 - Forms W-2 and W-3
 - Certain Information Returns



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Extension of Time to File

- Extension of time to file Forms W-2 is no longer automatic
 - IRS will only grant extensions for specific reasons
- For details
 - Form 8809



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Additional Assistance & Info

- Contact the IRS Monday through Friday
 - 1-866-455-7438 Toll Free
 - 1-304-263-8700 International
 - 1-304-579-4827 Telecommunications Device for the Deaf (TDD)
- Instructions for Forms W-2 & W-3 and Certain Information Returns
- FIRE webpage on IRS.gov



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Other New Forms

- Form 8973, Certified Professional Employer Organization Customer Reporting Agreement
- Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities
- Form 8975, Country-by-Country Report
- Form 9100, Notice of Late Election
- See IRS.gov/DraftForms, IRS.gov/LatestForms



42

Research Credit

- Eligible small businesses can ... apply part or all of their research credit against their payroll tax liability, instead of their income tax liability.
- To qualify ... a business must have gross receipts of less than \$5 million and could not have had gross receipts prior to 2012.
- Eligible small business with qualifying research expenses can choose to apply up to \$250,000 of its research credit against its payroll tax liability.

Notice 2017-23



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Other Changes

- Electing to treat a federally declared disaster area loss as sustained in the preceding year (Form 4684)
- Example: Casualty loss incurred in a federally declared disaster area from hurricane Harvey, Irma or Maria in 2017.
- Taxpayers have until 10/15/2018 to make the election to amend their 2016 tax return to claim the casualty loss or to claim the loss on their 2017 tax return.



Rev. Proc. 2016-53

44

Other Changes

- Qualified Small Employer Health Reimbursement Arrangements
- Notice 2017-67 (October 31, 2017)



45

Resources

- [IRS.gov/DraftForms](https://www.irs.gov/draftforms) for early drafts of forms and instructions
- [IRS.gov/TaxMap](https://www.irs.gov/taxmap) for searching forms, instructions, publications, and articles on IRS.gov, all at once
- [IRS.gov/IRC](https://www.irs.gov/irc) for Internal Revenue Code, etc.



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Stay Up-to-Date

- Subscribe to:
 - E-News for Tax Professionals
 - E-News for Payroll Professionals
 - QuickAlerts
- Follow:
 - @IRStaxpros



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Contact information

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48

Don't Take the Bait: Protect Your Clients, Protect Yourself



William Mealy
Senior Stakeholder Liaison

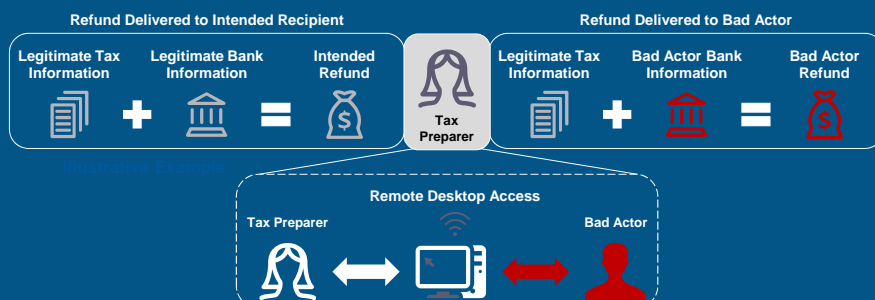
December 13, 2017
CPA Continuing Education Society of PA

Bad actors attempt to gain access to tax preparer accounts in order to alter return information and divert refunds to themselves.

Common Schemes

Common schemes that bad actors use:

- Spear phishing emails
- Account takeovers
- Remote access takeover
- Exploiting a lack of firewall and/or anti-virus



How to Report a Preparer Account Takeover

Preparers should contact the **IRS Stakeholder Liaison** for their state.

<https://www.irs.gov/businesses/small-businesses-self-employed/stakeholder-liaison-local-contacts-1>

Spear Phishing

- Targets a specific audience
- 91% of all cyber attacks/data breaches start with spear phishing email
- Appears as a trusted source
 - Fellow tax practitioner/software provider
 - Potential or current client
 - IRS e-Services
- Objective: entice you to open link or download attachment



3

Spear Phishing

----- Original Message -----
 Subject: Tax return
 From: [REDACTED]
 Date: Tue, February 28, 2017 5:10 am
 To:

Hello,

I got your email from the local directory. Hope your doing good and actively involved in the tax filing season.

I would like to file my tax return, which includes that of me and [REDACTED]. Click to follow link <https://bit.ly/2loxgsa> are below. I would like you to have a review and let me know the cost. Click [here](#) to view my details

Regards
 [REDACTED]

Thief targets specific audience - such as tax pros

Email may be ungrammatical or oddly worded

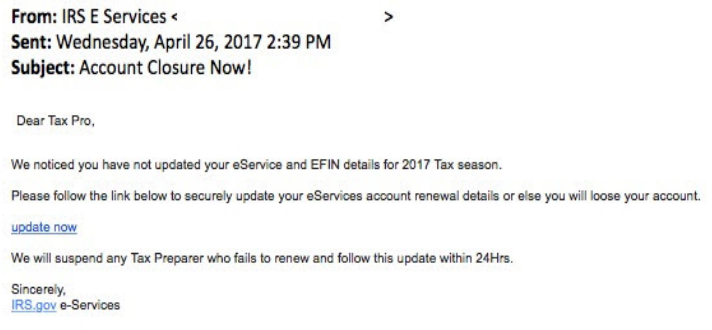
Includes hyperlink using a tiny URL to disguise link destination.



4

Account Takeover

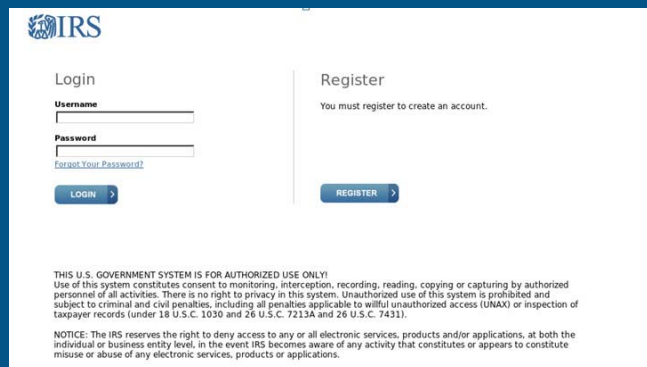
Often starts with a spear phishing email like this:



5

Account Takeover

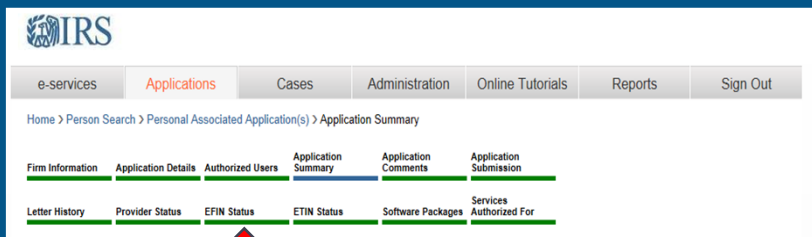
Fake e-Services site copies real one



6

Account Takeover

Monitor your EFIN: Check EFIN Status Weekly during filing season



7

Account Takeover

Maintain your EFIN: Keep it current

- Update within 30 days of any personnel, address or telephone changes
- EFIN is not transferable
- EFIN application required for each office location where e-File transmissions occur



8

Ransomware



9

Remote Access Attack



10

Protect Your Business

How to get started?

- Small Business Information Security – The Fundamentals at NIST.gov
- Publication 4557, Safeguarding Taxpayer Data, at IRS.gov



11

The Fundamentals

NIST's five action-item categories:

- Identify
- Protect
- Detect
- Respond
- Recover



12

The Fundamentals - Identify

- Identify and control who has access to your business information
- Conduct background checks on new employees
- Require individual user computer accounts for each employee
- Create policies and procedures for information security



13

The Fundamentals - Protect

- Limit employee access to data and information
- Keep software/security programs updated
- Install firewalls on all business networks
- Secure all wireless access points
- Set up web and email filters



14

The Fundamentals - Protect

- Use encryption for sensitive business information
- Dispose of old computers and media safely
- Train your employees
- Passwords (At least 16 characters long)
- Alpha / Numeric values / Punctuation
- Example: Meatthrowmetheball2017%!
(This is a line is a phrase from a movie)



15

The Fundamentals - Detect

- Install and update anti-virus, spyware and other malware programs
- Maintain and monitor logs



16

The Fundamentals - Respond

- Develop a plan for disasters and information security incidents
 - Review Publication 4557, Safeguarding Taxpayer Data
- Develop response plan should you have a data breach
 - See Data Breach Information for Tax Professionals on IRS.gov



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The Fundamentals - Recover

- Make full backups of important business data/information
- Make incremental backups of important business data/information
- Consider cyber insurance
- Make improvements to processes / procedures / technologies



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IRS Publication 4557

Checklist 2

ONGOING	DONE	N/A	Facilities Security
<input type="checkbox"/>	<input type="checkbox"/>		Protect from unauthorized access and potential danger (e.g., theft, floods and tornados) all places where taxpayer information is located.
<input type="checkbox"/>	<input type="checkbox"/>		Write procedures that prevent unauthorized access and unauthorized processes.
<input type="checkbox"/>	<input type="checkbox"/>		Assure that taxpayer information, including data on hardware and media, is not left un-secured on desks or photocopiers, in mailboxes, vehicles, trash cans or rooms in the office or at home where unauthorized access can occur.
<input type="checkbox"/>	<input type="checkbox"/>		Authorize and control delivery and removal of all taxpayer information, including



19

Data Theft? Here's what to do

www.irs.gov/identitytheft

Tax Professionals	<ul style="list-style-type: none"> • Data Theft Information for Tax Professionals • Identity Theft Information for Tax Preparers • Publication 5199, Tax Preparer Guide to Identity Theft (PDF) • Tax Practitioner Guide to Business Identity Theft
--------------------------	---



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Data Theft? Here's what to do

- Contact the IRS and law enforcement
 - IRS Stakeholder Liaisons
- Contact states in which you prepare state returns
 - StateAlert@taxadmin.org
- Contact experts
 - Cyber and insurance agency
- Contact clients and other services
 - See FTC suggestions



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Protect Your Clients

- Warn employers of W-2 scam
- Information at www.irs.gov/identitytheft

Businesses

- [Form W-2/SSN Data Theft: Information for Businesses and Payroll Service Providers](#)
- [Identity Theft Guide for Business, Partnerships and Estate and Trusts](#)
- [Information for Businesses About Data Breaches and Identity Theft](#)
- [Security Summit Partners Update Identity Theft Initiatives for 2017](#)



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Protect Your Clients

- Complete trusted customer information fields for individual returns
 - Example: Driver's license number
 - Example: Authentication document
- Complete trusted customer information fields for business returns
 - Example: Name and SSN of person signing return



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Protect Yourself

- Sign up for e-News for Tax Professionals at IRS.gov
- Sign up for Quick Alerts for e-Services users at IRS.gov
- Follow us on social media:
 - [Twitter.com/IRStaxpros](https://twitter.com/IRStaxpros)
 - [Twitter.com/IRSews](https://twitter.com/IRSews)
 - [Facebook.com/IRStaxpros](https://facebook.com/IRStaxpros)



24

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25

How to Monitor your EFIN



Richard Furlong, Jr.
Senior Stakeholder Liaison

December 13, 2017
CPA Continuing Education Society of PA

Protect your EFIN

- IRS reviewing improvements to EFIN safeguards
 - Stepped up efforts to expel EFIN abusers;
 - Increased on-site visits as part of monitoring process
- EFIN holders should review return numbers during filing season
 - e-Services Account updated weekly
 - Excessive numbers can be reported to e-Help Desk (866-255-0654)



2

Access e-Services

Tax Professionals

Enrolled Agents

Annual Filing Season Program Participants

Enrolled Retirement Plan Agents

Certified Professional Employer Organizations (CPEO)

Enrolled Actuaries

E-File Providers

Modernized e-File

Popular

- Forms, Publications and Instructions
- [EIN](#)
- [ITIN](#)
- [Refund](#)
- [Pay](#)
- [ACA](#)
- Power Of Attorney (POA)
- [Notice or Letter](#)
- [Fraud or Scam](#)
- [Where to File](#)
- [Research Guidance](#)
- [Identity Theft](#)

e-Services


Get access to Transcript Delivery System, TIN Matching, e-file and ACA Applications.

[Access e-Services](#)

PTIN System

Status: Online

[Renew or Register](#)



3

Click Login or Register

e-Services - Online Tools for Tax Professionals

Registration Services

All tax professionals and payers who wish to use e-Services must register online to create an individual user account. Registration Services allows you to confirm your registration, revise your information, change your password or PIN and recover a lost password or PIN.

[GO](#)

e-file Application

Use our online e-file Application to [become an authorized e-file provider](#). Learn more about IRS e-file that's [required for most tax return preparers](#).

It is only through an approved e-file application that tax professionals, who are [Electronic Return Originators \(EROs\)](#), [Circular 230 Practitioners](#), or [Reporting Agents \(RAs\)](#), can gain access to the Transcript Delivery System. EROs must e-file five or more returns in a tax season to be eligible. Circular 230 Practitioners need only apply and be approved.

[GO](#)



Click on Application



The screenshot shows the IRS e-services website. The header includes the IRS logo and the text "Internal Revenue Service United States Department of the Treasury". Below the header is a navigation bar with links: "e-services", "On-line Tutorials", "Help", "Mailbox", "Sign out", and "Contact Us". On the left, a "services" menu lists several options: "Application", "Remove Affiliation", "Reporting Agent e-Services", "Transcript Delivery System", and "Registration Services". A red arrow points to the "Application" link. To the right of the menu, a "Welcome to IRS e-services" message is displayed, followed by a box stating "Your name and firm you are representing." Below this, the "Application" link is repeated, followed by a description: "Access to apply or revise an existing application on-line for participation in IRS e-file Program or Taxpayer Identification Number (TIN) Matching." Below that, the "Remove Affiliation" link is shown with its description: "Provides access to the Firm Disassociation page that will allow you to remove your affiliation to the e-file firm or organization you selected. Disassociating yourself from the e-file application will remove your name from each of the e-file applications shown and will eliminate all authority that resulted from your affiliation."

Internal Revenue Service
United States Department of the Treasury

e-services On-line Tutorials Help Mailbox Sign out Contact Us

services

Application
Remove Affiliation
Reporting Agent e-Services
Transcript Delivery System
Registration Services

Welcome to IRS e-services

Your name and firm you are representing.

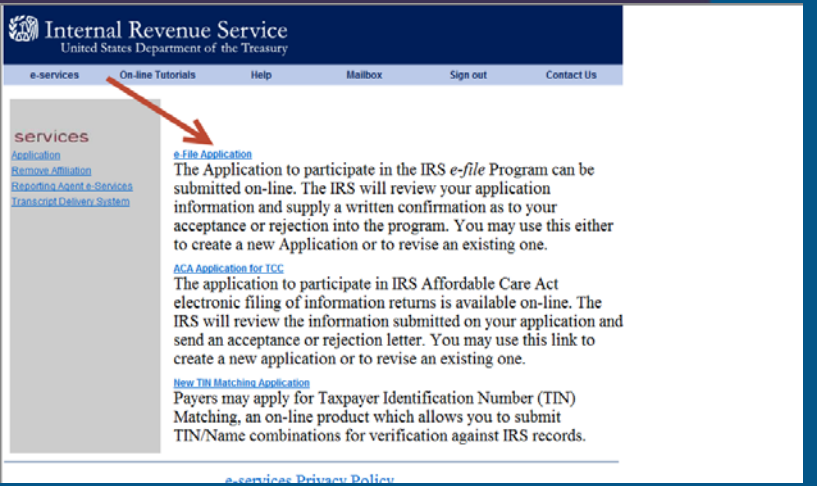
Application
Access to apply or revise an existing application on-line for participation in IRS e-file Program or Taxpayer Identification Number (TIN) Matching.

Remove Affiliation
Provides access to the Firm Disassociation page that will allow you to remove your affiliation to the e-file firm or organization you selected. Disassociating yourself from the e-file application will remove your name from each of the e-file applications shown and will eliminate all authority that resulted from your affiliation.

IRS

5

Click on e-file Application



The screenshot shows the IRS e-services website. The header includes the IRS logo and the text "Internal Revenue Service United States Department of the Treasury". Below the header is a navigation bar with links: "e-services", "On-line Tutorials", "Help", "Mailbox", "Sign out", and "Contact Us". On the left, a "services" menu lists several options: "Application", "Remove Affiliation", "Reporting Agent e-Services", "Transcript Delivery System", and "Registration Services". A red arrow points to the "Application" link. To the right of the menu, the "e-file Application" link is highlighted, followed by a description: "The Application to participate in the IRS e-file Program can be submitted on-line. The IRS will review your application information and supply a written confirmation as to your acceptance or rejection into the program. You may use this either to create a new Application or to revise an existing one." Below that, the "ACA Application for TCC" link is shown with its description: "The application to participate in IRS Affordable Care Act electronic filing of information returns is available on-line. The IRS will review the information submitted on your application and send an acceptance or rejection letter. You may use this link to create a new application or to revise an existing one." Below that, the "New TIN Matching Application" link is shown with its description: "Payers may apply for Taxpayer Identification Number (TIN) Matching, an on-line product which allows you to submit TIN/Name combinations for verification against IRS records."

Internal Revenue Service
United States Department of the Treasury

e-services On-line Tutorials Help Mailbox Sign out Contact Us

services

Application
Remove Affiliation
Reporting Agent e-Services
Transcript Delivery System
Registration Services

e-file Application
The Application to participate in the IRS e-file Program can be submitted on-line. The IRS will review your application information and supply a written confirmation as to your acceptance or rejection into the program. You may use this either to create a new Application or to revise an existing one.

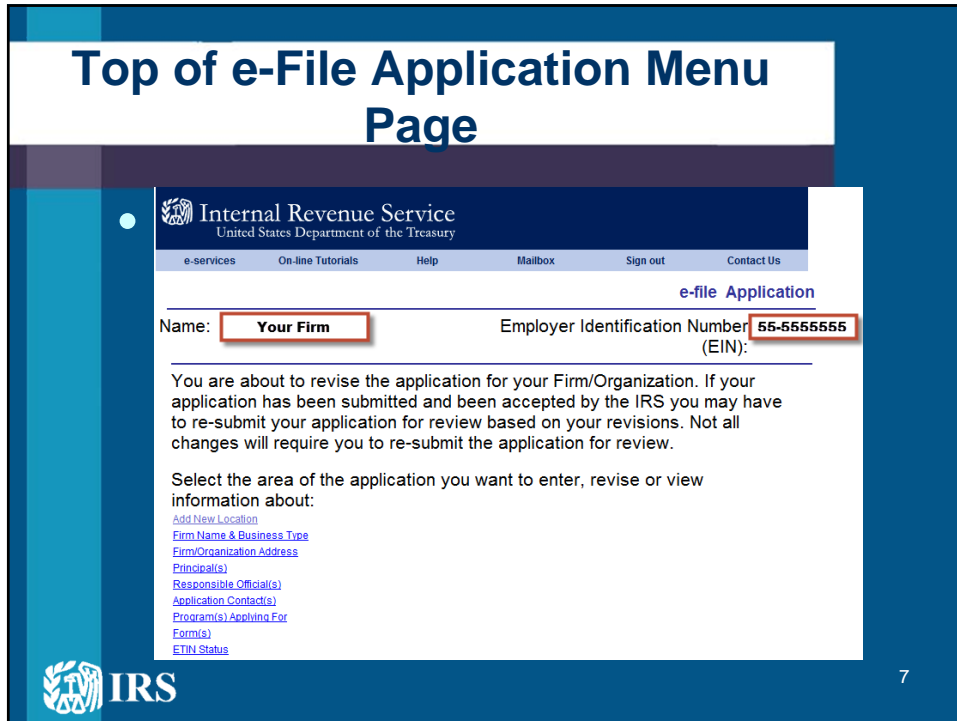
ACA Application for TCC
The application to participate in IRS Affordable Care Act electronic filing of information returns is available on-line. The IRS will review the information submitted on your application and send an acceptance or rejection letter. You may use this link to create a new application or to revise an existing one.

New TIN Matching Application
Payers may apply for Taxpayer Identification Number (TIN) Matching, an on-line product which allows you to submit TIN/Name combinations for verification against IRS records.

IRS

6

Top of e-File Application Menu Page



Internal Revenue Service
United States Department of the Treasury

e-services On-line Tutorials Help Mailbox Sign out Contact Us

e-file Application

Name: **Your Firm** Employer Identification Number **55-5555555**
(EIN):

You are about to revise the application for your Firm/Organization. If your application has been submitted and been accepted by the IRS you may have to re-submit your application for review based on your revisions. Not all changes will require you to re-submit the application for review.

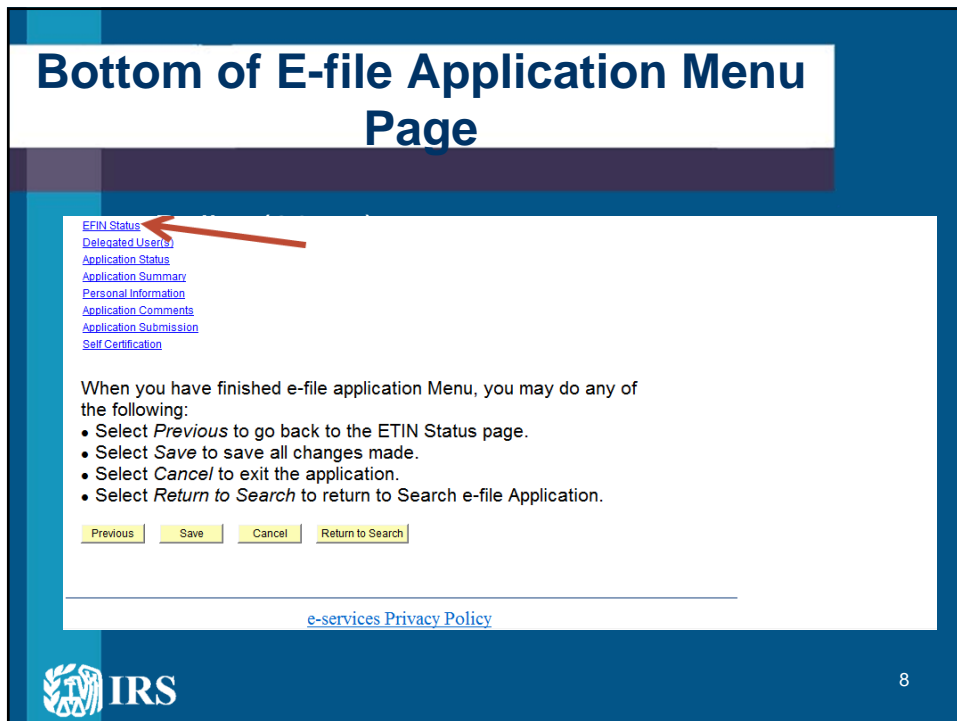
Select the area of the application you want to enter, revise or view information about:

[Add New Location](#)
[Firm Name & Business Type](#)
[Firm/Organization Address](#)
[Principal\(s\)](#)
[Responsible Official\(s\)](#)
[Application Contact\(s\)](#)
[Program\(s\) Applying For](#)
[Form\(s\)](#)
[ETIN Status](#)

IRS

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Bottom of E-file Application Menu Page



[ETIN Status](#)
[Delegated User\(s\)](#)
[Application Status](#)
[Application Summary](#)
[Personal Information](#)
[Application Comments](#)
[Application Submission](#)
[Self Certification](#)

When you have finished e-file application Menu, you may do any of the following:

- Select *Previous* to go back to the ETIN Status page.
- Select *Save* to save all changes made.
- Select *Cancel* to exit the application.
- Select *Return to Search* to return to Search e-file Application.

[Previous](#) [Save](#) [Cancel](#) [Return to Search](#)

[e-services Privacy Policy](#)

IRS

8

Top of EFIN Status Page

Internal Revenue Service
United States Department of the Treasury

e-services On-line Tutorials Help Mailbox Sign out Contact Us

e-file Application : EFIN Status

Name: **Your Firm** Employer Identification Number (EIN): **55-555555**

Listed below are the EFIN(s) Electronic Filing Identification Number(s) and their statuses that have been assigned to this application.

EFIN	EFIN Status	Begin Date/Time
555555	Valid/Active	10/26/2012 4:09:27PM

Do you own or operate Web site(s) through which taxpayer information is collected, transmitted, stored, or processed? Yes ☐ No ☐

If you own or operate Web site(s) through which taxpayer information is collected, transmitted, stored, or processed you are required to register their URLs with us. If you own or operate any such Web site that you have not previously registered with us, select the URL Collection link on the Application Information page menu to register now.



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Bottom of EFIN Status Page

Electronic Return Originator (ERO) Activity by EFIN/Return Type

The activity shown below by EFIN and Return Type represents the total YTD counts for returns submitted electronically to the IRS.

Customize Find View All First 1-5 of 5 Last						
EFIN	Return/Form Type	Processing Year	Transmitted YTD	Accepted YTD	Rejected YTD	
1	1040	2016	51	50	1	
2	1041	2016	9	9	0	
3	555555 1065	2016	12	12	0	
4	1120	2016	10	10	0	
5	1120S	2016	10	10	0	

- Too many returns filed with your EFIN?
Contact e-Help Desk (866) 255-0654



10

Monitoring your PTIN



Richard Furlong, Jr.
Senior Stakeholder Liaison

December 13, 2017
CPA Continuing Education Society of PA

Monitor Your PTIN for Suspicious Activity

- Monitor "Returns Filed per PTIN"
- Information available via online PTIN system for tax preparers who meet both of the following criteria:
 - Have a professional credential or are an Annual Filing Season Program participant,
and
 - Have at least 50 Form 1040 series tax returns processed in the current year



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How to Access PTIN Information

To access “Returns Filed Per PTIN” information, follow these steps:

1. Log into your PTIN account
2. From the Main Menu, find “Additional Activities”
3. Under Additional Activities, select “View Returns Filed Per PTIN”



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Returns Filed per PTIN Chart

Returns Filed per PTIN

See the chart below for the number of tax returns with your PTIN processed by the IRS **this year**. The data is updated weekly and includes only Form 1040 series returns **processed** through the date specified.

If the number is **substantially higher** than the number of tax returns you've prepared and you suspect possible misuse of your PTIN, complete [Form 14157](#).

Note: A minimum of 50 returns must be processed for data to be shown. At this time the data is only available for enrolled agents, CPAs, attorneys, and participants in the IRS Annual Filing Season Program, but will be expanded to other PTIN holders in the future.

Definitions:

- Processing Year: the current calendar year
- Tax Year: the tax year of the returns
- 1040s Processed: includes **only** 1040 series returns (1040, 1040-PR, 1040-SS, 1040A, 1040EZ, 1040EZ-T, 1040NR, and 1040NR-EZ)

140 Returns as of 06/27/2016

Processing Year	Tax Year	1040s Processed
2016	2015	90
	2014	47
	2013	1



14

Report Misuse of your PTIN

- Number of returns processed is greater than the number of returns prepared = possible misuse of a PTIN
- Report misuse of PTINs:
 - Form 14157, *Complaint: Tax Return Preparer*



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Report Misuse of your PTIN

11a. Review the complaints below and check all that apply

- ☐ Theft of Refund (Diverted refund to unknown account, return filed does not match taxpayer's copy)
- ☐ E-File (e-filed returns using pay stub, non-commercial software or Free File without properly securing taxpayer's signature)
- ☐ Preparer Misconduct (Failed to provide copy of return, return records, sign returns or remit payments for taxes due; misrepresentation of credentials; agreed to file return but did not, filed return without authorization or consent.)
- ☐ PTIN Issues (Failed to include Preparer Tax Identification Number (PTIN) on tax return; improperly used a PTIN belonging to another individual)
- ☐ False Items/Documents (False expenses, deductions, credits, exemptions or dependents; false or altered documents; false or overstated Form W-2 or 1099; incorrect filing status)
- ☐ Employment Taxes (Failed to file forms 940, 941, 943, or 945 or remit Employment Tax payment)
- ☒ Other (explain below)

I checked my PTIN return numbers from IRS.gov and there is a discrepancy

Section D - Your Information (do not complete if you are the taxpayer)

(We never share this information with the person or business you are reporting)

This information is not required to process your complaint but is helpful if we need to contact you for additional information.

18. Name (Last, First, MI)

19. Date of complaint

20. Mailing address (street, city, state, ZIP code)

21. Telephone number(s) (include area code)

22. Email address

23. Your relationship to Preparer

- ☐ Client
- ☐ Return preparer working for a different firm*
- ☐ Return preparer working for the same firm*

☐ IRS employee

☒ Other (specify) Self



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17

Private Debt Collection



Stephen Connor
Stakeholder Liaison

December 13, 2017
CPA Continuing Education Society of PA

Private Collection Agencies

- CBE Group
- Conserve
- Performant
- Pioneer



2

Private Collection Agencies

- Assign initial cases to agencies in the spring of 2017.
- Covers tax debts owed that are currently not being worked by the IRS.
- Agencies will work with the taxpayer and the representative to resolve the unpaid account.



3

Taxpayer Rights

- Taxpayers working with agencies will have same rights as taxpayers working with IRS.
- Agencies will be able to identify themselves as contractors of the IRS collecting taxes.
- Private debt collectors will be expected to be courteous and respect taxpayers' rights.



4

Efforts to Mitigate Scams

- IRS will send taxpayer and rep written notice that it's transferring their accounts.
- Agency will send separate letter to taxpayer and rep confirming transfer.
- Agency employees must follow Fair Debt Collection Practices Act.
- Visit IRS.gov, "Tax Scams and Consumer Alerts" page



5

Scams (cont.) - Payments

- Agencies won't ask for payment on prepaid debit card.
- Electronic payment options are on IRS.gov, Pay Your Tax Bill.
- Checks payable to U.S. Treasury and sent directly to IRS, not private collection agency.



6

More Information

- Percentage of amount collected for program to hire/train IRS collection personnel
- Revenue collected will be in addition to revenue coming in through IRS operations
- Search "private debt collection" on IRS.gov



7

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8

IRS Updates



Richard Furlong, Jr.
Senior Stakeholder Liaison

December 13, 2017
CPA Continuing Education Society of PA

W-2 Verification Code Pilot Update



Richard Furlong, Jr.
Senior Stakeholder Liaison

December 13, 2017
CPA Continuing Education Society of PA

W-2 Verification Code Pilot

- To verify wage/withholding data included with e-filed Form 1040
- On 47M Forms W-2 in filing season 2017:
 - ADP, Ceridian, Intuit, Paychex, Payroll People, Prime Pay, Ultimate Software
 - Almost 1 in 5 Forms W-2
 - Each included the VC on the W-2s of some of their clients (708K EINs in total)
 - Each PSP gave IRS its list of EINs whose W-2s contained VCs



3

Form W-2 Verification Code Pilot

- Unique 16-character code
- Calculated using data from the W-2
- Valid characters: A-F, 0-9
- In box, "Verification Code," on copies B & C
 - B: "To be filed with employee's federal tax return"
 - C: "For employee's records"
- W-2 Instructions: If you are e-filing and if there is a code in this box, enter it when prompted by your software. This code assists the IRS in validating the W-2 data submitted with your return. The code is not entered on paper-filed returns.



4

Form W-2 Verification Code Pilot

- Missing or incorrect VCs did not prevent or delay the processing of a return or refund.
- IRS calculated the VC and compared it with the VC the taxpayer entered.
 - Allows validation before any data is received from SSA.
- If VC validated, we treated the W-2 data submitted with a 1040 to be valid, thereby reducing false fraud-selections.



5

Form W-2 Verification Code Pilot

W2VC Result				W2VC Result Total
Exact	Inexact	Expected, But Not Received	Received, But Not Expected	
30.6%	1.1%	61.3%	7.0%	100.0%

Filing season 2017

—If taxpayer/preparer had a W-2 with a VC, the VC was entered 34% of the time

- $(\text{Exact} + \text{Inexact}) / (\text{Exact} + \text{Inexact} + \text{Expected Not Received})$

—If VC was entered, it validated 97% of the time

- $\text{Exact} / (\text{Exact} + \text{Inexact})$



6

Form W-2 Verification Code Pilot

- **Filing season 2018**
 - 10-12 participants
 - 7 from FS 2017; Natl Finance Ctr; few more PSPs
 - 66M Forms W-2 (1 in 4 W-2s); 951K EINs
 - 56M will have letters of VC in lower case
 - To better distinguish, e.g., "B" vs. "8," "D" vs. "0"
 - Form W-2 has box 9, "Verification code"
 - Will allow 1040 software to more effectively direct taxpayer to find the VC
 - 1040 software: info and edits for valid characters (a-f, 0-9)



NATIONAL RESEARCH PROGRAM (NRP) AUDITS

- Replaced Taxpayer Compliance Measurement Program (TCMP) in 2002
- Measures compliance
- Provides data to aid strategic planning
- Uses case building data to determine return accuracy
- Streamlines electronic data collection
- Internal Revenue Manual § 4.22.1.4



8

Benefits of NRP

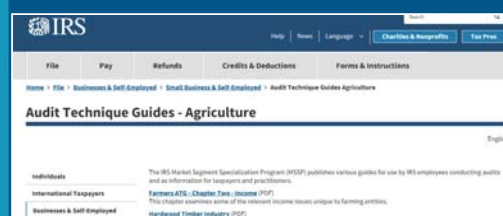
- Minimize taxpayer burden
- Collects data to meet business objectives
- Update discriminant function (DIF) formulas
 - Update workload selection models yearly
- Effective use of limited IRS resources
- Pre-filing activities enhance compliance
- Redesigned forms, improve communications, and suggest law changes



9

Audit Technique Guides

Provides IRS examiners insight into issues and accounting methods unique to specific industries



10

Form W-2 Phishing Scam

- Poses as company executive, asks payroll employee for list of all employees W2s
 - 50 victims last year; 200 this year
 - Hundreds of thousands of new IDT victims
- Targets: businesses, public schools, universities, tribes
- Employer/victims should email dataloss@irs.gov and provide POC



11

Security Summit Initiatives

- Shared data elements from return
- Required stronger password protocols
- Agreed on ISAC
- Agreed on stronger cybersecurity framework
- Two-factor authentication protections for certain IRS.gov tools



12

Initiative Results for 2016

- More returns stopped before entering processing pipeline
- Confirmed identity theft returns dropped 30 percent
- Fraudulent refunds identified by banks fell 50 percent
- People identifying themselves as IDT victims fell 46 percent



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Security Summit Initiatives - 2017

- Shared data elements expanded to business tax returns
- W-2 Verification Code test expanded to 50 million forms
- Additional data elements identified
- States partnering with banks
- Summit partners working to identify "ultimate bank accounts"



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Tax Practitioner Awareness

- Protect Your Clients, Protect Yourself
- Register for e-News for Tax Professionals
- Follow the IRS Twitter for tax professionals



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Responding to a Data Breach

- Contact your local Stakeholder Liaison
 - www.irs.gov keyword search "stakeholder liaison" to find contact for your state
 - IRS may be able to help protect your clients if notified quickly
- Review "Data Loss Information for Tax Professionals" at IRS.gov/identitytheft for additional steps



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Beware W-2 Scam

- Impersonates CEO and asks for list of all employees and their W-2
- 50 victims last year; 200 victims so far this year
- Report thefts at dataloss@irs.gov
- Details at IRS.gov/identitytheft



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Beware W-2 Scam

VERIFY!



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Frequently Used Email Subjects

- Request
- Important Request
- Review
- Manual Review
- Urgent
- EMPLOYEES YYYY
- Urgent Request
- CONFIRM



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Example #2 We Have Seen

Subject: URGENT!!!

Hello [EMPLOYEE],

Kindly send me the individual YYYY W-2 (PDF file) and earnings summary of all W-2 of our company staff for a quick review.

Thanks.
[C-LEVEL EXECUTIVE]



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Example #3 We Have Seen

Subject: Important Request

[EMPLOYEE],

I'm working on a wage analysis for the board, i need you to send me the individual YYYY W-2 (PDF) and earnings summary of all W-2 of all staffs for a quick review via email.

Thanks
[C-LEVEL EXECUTIVE]



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Look Ahead

- Focus on authentication
- Expand ISAC capabilities
- W-2 Verification Code test will continue into next year
- "Verification Code" box will appear on 2017 Form W-2



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E-Services & Online Tools



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Staying Current

- Tools for Tax Professionals (IRS.gov)
- Quick Alerts
- e-News for Tax Professionals
- Other Subscriptions



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Taxpayer Digital Communications (TDC) – Secure Messaging Correspondence Examination Pilot Program




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December 13, 2017
CPA Continuing Education Society of PA


SB/SE TDC Pilot Program

- Correspondence Examinations
 - SB/SE Schedule A audits by mail
 - Philadelphia Correspondence Examination Operation
- Secure Messaging
 - Interaction using secure online environment
- Invitation only
 - Taxpayers and POA clients receive marketing insert


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Power of Attorney Participation

- Taxpayers signed up for Secure Messaging
- Taxpayers and their POAs must pass the IRS Secure Access
 - POA already in the CAF database
 - POAs authenticate under their SSN


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TDC – Secure Messaging


- TDC Secure Messaging pilot launched FY 17
 - Last about 12 months.
 - Mail-outs/invitations completed for FY 17
- 9,150 taxpayer invites


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PTIN Issuance and Renewals


On June 1, 2017, the United States District Court for the District of Columbia upheld the IRS' authority to require the use of a Preparer Tax Identification Number (PTIN), but enjoined the IRS from charging a user fee for the issuance and renewal of PTINs.

As a result of this order, PTIN registration and renewal was suspended on June 2.


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PTIN Issuance and Renewals

- PTIN issuance resumed, without charge, on June 21, 2017
- The IRS, working with DOJ, is still considering how to address the court order
- Additional information will be posted on the IRS.gov [Tax Pros](#) page when it becomes available


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The Taxpayer Component

- A more complete online experience
- Freeing up resources for those who need 1-on-1 assistance
- More up-front issue identification when the return is filed
- Improved authentication to prevent fraudulent returns using stolen identities



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Online Account Features

- Key features now available allow taxpayers to
- View amount of tax owed as of today's date
 - See the balance for each tax year for which they owe tax
 - Pay by bank account, debit or credit card
 - Set up an online payment agreement
 - Review up to 18 months of tax payment history
 - Access Get Transcript to view, print or download tax records
 - Get key information including adjusted gross income and filing status from the current year tax return as originally filed (primary taxpayers)



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Data Book Statistics

- SOI Tax Stats – IRS Data Book
- Published annually
 - Contains statistical tables and organizational information on a fiscal year basis
 - Provides data on:
 - Collecting the revenue
 - Issuing refunds
 - Enforcing the law
 - Assisting the taxpayer
 - Budget and workforce



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IRS Commissioner Remarks 2017 Nat'l Press Club

- IRS Commissioner John Koskinen (excerpts)
- Since 2010, IRS full-time workforce has shrunk to 77,000 employees
 - In next two years, 35% of IRS workforce are eligible for retirement
 - IRS has only 122 full-time employees 25 years old or younger



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Contact Information

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Rental Use of Home (Including the Shared Economy)



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Objectives

- At the end of this learning experience, you will be able to:
- Define personal use and rooms for let
- Make an allocation of deductible vs. nondeductible expenses
- Explain the limitations involved
- Explain the tax impact when a property is disposed



2

Schedule E / Form 8825

1a	Physical address of each property (street, city, state, ZIP code)				
A					
B					
C					
1b	Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A		A			<input type="checkbox"/>
B		B			<input type="checkbox"/>
C		C			<input type="checkbox"/>

Type of Property:

1 Single Family Residence	3 Vacation/Short-Term Rental	5 Land	7 Self-Rental
2 Multi-Family Residence	4 Commercial	6 Royalties	8 Other (describe)



3

Dwelling Unit Defined

- Property providing basic living accommodations
- Sleeping space
- Toilet
- Cooking facilities
- Prop. Reg 1.280A-1(c)



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Example 1

FRV/Personal Days	365/0		
Income	20,000		
Management Fee	2,000		
Mortgage Interest	10,000		
Real Estate Tax	1,000		
Depreciation	12,000		
Rental Expenses	25,000		
Personal Expenses	n/a		
Excess 280A Expenses	n/a		



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Personal Use Defined

- Occupancy by any owner
- Occupancy by family
- Occupancy by others that enables the taxpayer to use some other dwelling unit
- Occupancy by others at < FRV
- IRC 280A(d)(2)



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Room for Let

- Example: “Airbnb”
- Exclusive Use
- Allocable Space
- Employer Rental
- IRC 280A(c)(6)



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Allocation – Step 1

- Begins with the 1st day of deemed personal use
- Personal expenses:
- Otherwise Allowable – Schedule A
- Non-deductible
- IRC 280A(e)



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Example 2

FRV/Personal Days	365/0	150/10	
Income	20,000	20,000	
Management Fee	2,000	2,000	
Mortgage Interest	10,000	9,375	
Real Estate Tax	1,000	938	
Depreciation	12,000	11,250	
Rental Expenses	25,000	23,563	
Personal Expenses	n/a	1,473	
Excess 280A Expenses	n/a	n/a	



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Limitation – Step 2

- Use as a Residence
- Greater of 14 days or 10% FRV days
- Rental expenses limited to income
- Excess rental expenses carried forward
- IRC 280A(c)(5)



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Example 3

FRV/Personal Days	365/0	150/10	150/20
Income	20,000	20,000	20,000
Management Fee	2,000	2,000	2,000
Mortgage Interest	10,000	9,375	8,824
Real Estate Tax	1,000	938	882
Depreciation	12,000	11,250	10,588
Rental Expenses	25,000	23,563	22,294
Personal Expenses	n/a	1,473	2,706
Excess 280A Expenses	n/a	n/a	2,294



IRS

Dispositions

- Excess rental expenses from prior years
- Loss on Disposition
- Like-Kind Exchange



IRS

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Other Implications

- Residence rented for less than 15 days
- Passive Activity Loss consideration
- Primary Residence Exclusion for Family



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Case Law

- Akers, T.C. Memo 2010-85
- Van Malssen, T.C. Memo 2014-236
- Jackson, T.C. Memo 1999-226
- Jackson, T.C. Memo 2014-160
- Anderson, T.C. Memo 2006-33



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Resources

- www.irs.gov
- Pub 527, Residential Rental Property
- Pub 544, Sales and Dispositions of Assets
- Pub 547, Casualties, Disasters, and Thefts
- Pub 925, Passive Activity and At-Risk Rules



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IRS.gov

Hot Topics on IRS.gov	Search Word(s)
IRS Future State	future state
IRS Audits	audits
Tax Scams – How to Report Them	tax scams
Identity Theft	ID theft
Voluntary Certification Program for Professional Employer Organizations (CPEOs)	CPEO
Sharing Economy	Sharing Economy
Offer in Compromise	Offer in compromise
E-Services – Online Tax Tools	eservices
Private Debt Collection	private debt collection



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