

June 21, 2017

CPA Continuing Education Society of Pennsylvania

“IRS Updates”

Topics:

- 1) IRS Automated Underreporter Program*
- 2) Data Security for Tax Professionals*
- 3) IRS Correspondence Examination Program*
- 4) IRS Private Debt Collection Program*
- 5) S Corporations: Stock & Debt Basis Issues*

Presenters:

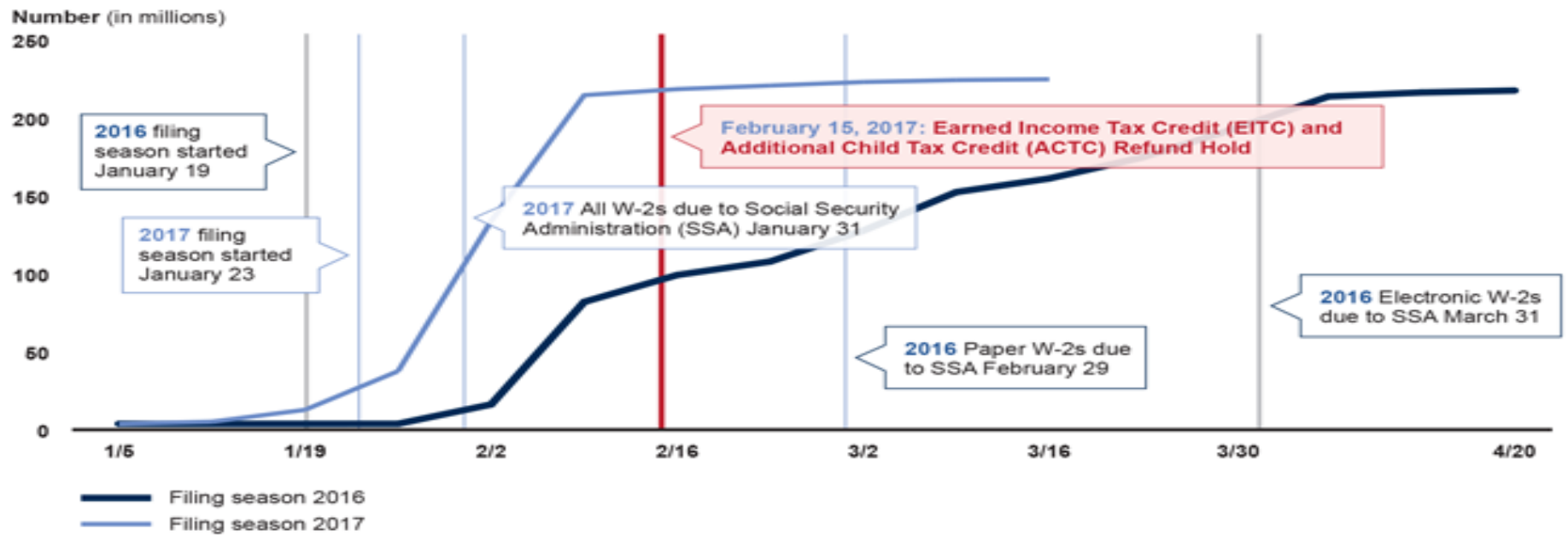
Richard G. Furlong, Jr.
Senior Stakeholder Liaison
Communications and Liaison
267-941-6343
Richard.G.Furlong@irs.gov

William Mealy
Senior Stakeholder Liaison
Communications & Liaison
267-941-6293
William.J.Mealy@irs.gov

Filing Season Statistics for Week Ending May 12, 2017

| 2017 FILING SEASON STATISTICS | | | |
|---|------------------|------------------|----------|
| Cumulative statistics comparing 05/13/2016 and 05/12/2017 | | | |
| Individual Income Tax Returns: | 2016 | 2017 | % Change |
| Total Returns Received | 140,258,000 | 139,586,000 | -0.5 |
| Total Returns Processed | 134,438,000 | 134,127,000 | -0.2 |
| | | | |
| E-filing Receipts: | | | |
| TOTAL | 123,737,000 | 123,634,000 | -0.1 |
| Tax Professionals | 71,740,000 | 71,463,000 | -0.4 |
| Self-prepared | 51,997,000 | 52,171,000 | 0.3 |
| | | | |
| Web Usage: | | | |
| Visits to IRS.gov | 348,401,089 | 336,315,094 | -3.5 |
| | | | |
| Total Refunds: | | | |
| Number | 102,424,000 | 102,863,000 | 0.4 |
| Amount | \$279.857Billion | \$284.862Billion | 1.8 |
| Average refund | \$2,732 | \$2,769 | 1.4 |
| | | | |
| Direct Deposit Refunds: | | | |
| Number | 84,273,000 | 85,067,000 | 0.9 |
| Amount | \$244.843Billion | \$250.081Billion | 2.1 |
| Average refund | \$2,905 | \$2,940 | 1.2 |

Page Last Reviewed or Updated: 18-May-2017



Source: GAO analysis of Internal Revenue Service and Social Security Administration information. | GAO-17-525T

| Number of Locations, Employees, or Visitors | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|--------|--------|--------|-------|-------|-------|
| IRS Offices (Cities) | 541 | 523 | 510 | 499 | 479 | 470 |
| Appeals Officers (AOs) | 1,129 | 1,058 | 958 | 881 | 795 | 739 |
| Revenue Officers (ROs) | 4,402 | 4,035 | 3,703 | 3,441 | 3,191 | 3,072 |
| Revenue Agents (RAs) | 11,959 | 11,258 | 10,502 | 9,776 | 9,090 | 8,871 |
| Stakeholder Liaison Outreach Employees | 137 | 123 | 119 | 110 | 105 | 98 |
| Stakeholder Partnerships, Education and Communication Outreach Employees | 522 | 475 | 444 | 405 | 386 | 365 |
| Taxpayer Assistance Centers (TACs) | 401 | 401 | 398 | 382 | 378 | 376 |
| TAC Service Reps | 1,639 | 1,515 | 1,484 | 1,520 | 1,423 | 1,267 |



Department of the Treasury
Internal Revenue Service
PO Box 16335
Philadelphia, PA 19114-0439

s018999546711s

JAMES & KAREN Q. HINDS
22 BOULDER STREET
HANSON, CT 00000-7253

| | |
|------------------------|--|
| Notice | CP2000 |
| Tax Year | 2010 |
| Notice date | January 23, 2017 |
| Social Security number | 999-99-9999 |
| AUR control number | 99999-9999 |
| To contact us | Phone 1-800-829-8310 Fax 1-215-516-2335 |

Page 1 of 8

AUR Bar Code

Proposed changes to your 2010 Form 1040

Amount due: \$2,349.00

The information you provided in your December 10, 2016 request for removal or reduction of penalties associated with your 2010 Form 1040 did not meet our guidelines. As a result, we are not removing or reducing any penalties, and the total amount you owe for tax due, including penalties and interest, is \$2,349.00.

Billing Summary

| | |
|--|-------------------|
| Tax you owe | \$2,519.00 |
| Payments and credits | -410.00 |
| Negligence penalty | 60.00 |
| Interest charges | 180.00 |
| Amount due by February 22, 2017 | \$2,349.00 |

What you need to do immediately

Review this notice, and compare our changes to the information on your 2010 tax return.

If you agree with the changes we made

- Complete, sign and date the Response form on Page 5, and mail it to us along with your payment of \$2,349.00 so we receive it by February 22, 2017.
- If you can't pay the amount due, pay as much as you can now, and make payment arrangements that allow you to pay off the rest over time. If you want to apply for an installment plan, send in your Response form AND a completed Installment Agreement Request (Form 9465). Download Form 9465 from www.irs.gov, or call 1-800-829-3676 to request a copy. You can also save time and money by applying online if you qualify. Visit www.irs.gov and search for keyword: "tax payment options" for more information about:
 - Installment and payment agreements
 - Payroll deductions
 - Credit card payments

Or, call us at 1-800-829-8310 to discuss your options.

If you don't agree with the changes

- Complete the Response form on Page 5, and send it to us along with a signed statement and any documentation that supports your claim so we receive it by February 22, 2017.

If we don't hear from you

If we don't receive your response by February 22, 2017, we will send you a Statutory Notice of Deficiency followed by a final bill for the proposed amount due. During this time, interest will increase and penalties may apply.

Changes to your 2010 tax return

| Your income and deductions | Shown on return | As corrected by IRS | Difference |
|-----------------------------------|-----------------|---------------------|-----------------|
| Wages | \$18,000 | \$30,075 | \$12,075 |
| Other income | 0 | 592 | 592 |
| Nonemployee compensation | 0 | 1,875 | 1,875 |
| Income net difference | | | \$14,542 |
| Miscellaneous deductions | 12,000 | 11,709 | 291 |
| Self-employment tax deduction | 0 | -132 | -132 |
| Deduction net difference | | | 159 |
| Change to taxable income | | | \$14,701 |

| Your tax computations | Shown on return | As corrected by IRS | Difference |
|------------------------------|-----------------|---------------------|----------------|
| Taxable income, line 43 | \$32,000 | \$46,701 | \$14,701 |
| Tax, line 44 | 4,000 | 6,254 | 2,254 |
| Self-employment tax, line 58 | 0 | 265 | 265 |
| Total tax, line 63 | \$4,000 | \$6,519 | \$2,519 |

| Your payments and credits | Shown on return | As corrected by IRS | Difference |
|-----------------------------------|-----------------|---------------------|---------------|
| Income tax withheld, line 64 | \$8,745 | \$9,155 | -\$410 |
| Total payments and credits | | | -\$410 |

Explanation of changes to your 2010 Form 1040

This section tells you specifically what income information the IRS received about you from others (including your employers, banks, mortgage holders, etc.). This information doesn't match the information you reported on your tax return.

Use the table to compare the data the IRS received from others to the information you reported on your tax return to understand where the difference(s) occurred. To assist you in reviewing your income amounts, the table may include both reported and unreported amounts.

Tax withheld

| Received from | Address | Account information | Shown on return | Reported to IRS by others | Difference |
|---------------|---------------------------------------|-----------------------------|-----------------|---------------------------|--------------|
| Employer A | 20 Clinton Street Hanson, CT 99999 | SSN 999-99-9999 Form W-2 | \$8,745 | \$9,155 | \$410 |

Wages

| Received from | Address | Account information | Shown on return | Reported to IRS by others | Difference |
|---------------|---------------------------------------|-----------------------------|-----------------|---------------------------|-----------------|
| Employer A | 20 Clinton Street Hanson, CT 99999 | SSN 999-99-9999 Form W-2 | \$18,000 | \$30,075 | \$12,075 |

Nonemployee compensation

| Received from | Address | Account information | Shown on return | Reported to IRS by others | Difference |
|------------------|---------------------------------------|-----------------------------------|-----------------|---------------------------|----------------|
| Payer & Partners | 80 Fleming Hill Chambers, CT 00000 | SSN 999-99-9999 Form 1099-MISC | \$0 | \$1,875 | \$1,875 |

Explanation of changes to your 2010 Form
1040—continued

Other income

| Received from | Address | Account information | Shown on return | Reported to IRS by others | Difference |
|---------------|---|------------------------------|-----------------|---------------------------|--------------|
| Payer Casino | 25 Lubbock Hill, Suite 25A Chambers, CT 00000 | SSN 999-99-9999 Form W-2G | \$0 | \$592 | \$592 |

Misidentified income

If any of the income shown on this notice is not yours, send us the name, address, and social security number of the person who received the income. Please notify the payers to correct their records to show the name and social security number of the person who actually received the income, so that future reports to us are accurate.

Form W-2 or 1099 not received

The law requires you to report your income correctly. If your payers did not send you a yearly income statement (Form W-2, Form 1099, etc.), you must use the information you have (pay stubs, monthly income statements, deposit slips, etc.) to estimate the total amount of income you received during the year.

Schedule A miscellaneous deductions percentage limitation

Miscellaneous deductions are reduced by 2% of your adjusted gross income (Form 1040, line 37). Since we refigured your adjusted gross income, we also refigured your miscellaneous deduction.

Self-employment tax on self-employment (SE) income

Self-Employment (SE) generally includes nonemployee compensation and other income from part-time or full-time work and is subject to Self-Employment Tax. We figured the Self-Employment Tax on the net SE income reported on your return and/or on the underreported SE income. Self-Employment Tax consists of Social Security Tax of 12.4% and Medicare Tax of 2.9%. (Even if you have paid the maximum amount of Social Security Tax, you are still liable for additional Medicare Tax.) The deduction for one-half of the Self-Employment Tax is based on the change we made to your Self-Employment Tax. If you were an employee, you will be liable for income tax and the employee's share of Social Security (6.2%) and Medicare taxes (1.45%). Your social security account will be credited with the amount of Self-Employment income shown on this notice.

Overclaimed withholding

Our records indicate you are entitled to a lesser amount of withholding than the amount claimed on your tax return. Please send us a copy of Form(s) W-2, 1099, and/or over withholding documentation from the payer(s) to verify the additional withholding claimed on your tax return.

Next steps

- You don't need to file an amended tax return for 2010. We will make the correction when we receive your response. However, if you choose to file an amended tax return Form 1040X, write "CP2000" on the top of your amended federal tax return Form 1040X and attach it behind your completed Response form. Go to www.irs.gov to download Form 1040X or call 1-800-TAX-FORM (1-800-829-3676).
- Please file an amended tax return Form 1040X for any other tax years in which the same error occurred.
- We send information about these changes to state and local tax agencies, so if the changes we made apply, file an amended state or local tax return as soon as possible.

Penalties

We are required by law to charge any applicable penalties. We assess a 1/2% monthly penalty for not paying the tax you owe by the due date. We base the monthly penalty for paying late on the net unpaid tax at the beginning of each penalty month following the payment due date for that tax. This penalty applies even if you filed the return on time.

We charge the penalty for each month or part of a month the payment is late; however, the penalty can't be more than 25% in total.

- The due date for payment of the tax shown on a return generally is the return due date, without regard to extensions.
- The due date for paying increases in tax is within 21 days of the date of our notice demanding payment (10 business days if the amount in the notice is \$100,000 or more).

If we issue a Notice of Intent to Levy and you don't pay the balance due within 10 days of the date of the notice, the penalty for paying late increases to 1% per month.

For individuals who filed on time, the penalty decreases to 1/4% per month while an approved installment agreement with the IRS is in effect for payment of that tax.

For a detailed computation of the penalty call 1-800-829-8310.

(Internal Revenue Code Section 6651)

Negligence

| Description | Amount |
|-------------|--------|
|-------------|--------|

| | |
|-------------------------|----------------|
| Total negligence | \$60.00 |
|-------------------------|----------------|

An accuracy-related penalty is charged if there is any underpayment of tax on your return due to negligence. This penalty is 20% of the net tax increase on the portion due to negligence. (Internal Revenue Code section 6662(c))

If you think we should not charge this penalty, please explain why, send any supporting documents, and request that we waive the penalty. We will review your request and determine if there is reasonable cause to waive the penalty.

Interest charges

We are required by law to charge interest when you do not pay your liability on time. Generally, we calculate interest from the due date of

| | |
|-------------------------------|------------------|
| Notice | CP2000 |
| Tax Year | 2010 |
| Notice date | January 23, 2017 |
| Social Security number | 999-99-9999 |
| Page 5 of 8 | |

your return (regardless of extensions) until you pay the amount you owe in full, including accrued interest and any penalty charges. Interest on some penalties accrues from the date we notify you of the penalty until it is paid in full. Interest on other penalties, such as failure to file a tax return, starts from the due date or extended due date of the return. Interest rates are variable and may change quarterly. (Internal Revenue Code Section 6601)

| Description | Amount |
|-----------------------|-----------------|
| Total interest | \$180.00 |

The table below shows the rates used to calculate the interest on your unpaid amount due. For a detailed calculation of your interest, call 1-800-829-8310.

| Period | Interest rate |
|-----------------------------------|---------------|
| July 1, 2006–December 31, 2007 | 8% |
| January 1, 2008–March 31, 2008 | 7% |
| April 1, 2008–June 30, 2008 | 6% |
| July 1, 2008–September 30, 2008 | 5% |
| October 1, 2008–December 31, 2008 | 6% |
| Beginning January 1, 2009 | |

5%

Additional Information

- Visit www.irs.gov/cp2000. You can also find the following online: Amended U.S. Individual Tax Return (Form 1040X).
- For tax forms, instructions, and publications, visit www.irs.gov or call 1-800-TAX-FORM (1-800-829-3676).
- Review the enclosed document Publication 3498-A, The Examination Process.
- Keep this notice for your records.

If you need assistance, please don't hesitate to contact us.

| | |
|-------------------------------|------------------|
| Notice | CP2000 |
| Tax Year | 2010 |
| Notice date | January 23, 2017 |
| Social Security number | 999-99-9999 |
| Page 6 of 8 | |



Department of Treasury
Internal Revenue Service
PO BOX 16335
Philadelphia, PA 19114-0439

| | |
|------------------------|------------------|
| Notice | CP2000 |
| Tax year | 2010 |
| Notice date | January 23, 2017 |
| Social Security number | 999-99-9999 |
| AUR control number | 99999-9999 |
| Page 7 of 8 | |

[AUR BAR CODE]

INTERNAL REVENUE SERVICE
PO BOX 105404
ATLANTA, GA 30348-5404

Fold here

Response form

Complete both sides of this form, and send it to us in the enclosed envelope so we receive it by February 22, 2017. Be sure our address shows through the window.

To request more time to respond, call us at 1-800-829-8310. Remember: Additional interest will be charged during this period if the information in this notice is correct.

Provide your contact information

If your address has changed, please make the changes below.

James & Karen Q. Hinds
22 Boulder Street
Hanson, CT 00000-7253

| | | | |
|---------------|--|-----------------|--|
| | <input type="checkbox"/> a.m. <input type="checkbox"/> p.m. | | <input type="checkbox"/> a.m. <input type="checkbox"/> p.m. |
| Primary phone | Best time to call | Secondary phone | Best time to call |

1. Indicate your agreement or disagreement

☐ I agree with all changes

I agree with the changes to my 2010 tax return, and understand that:

- I owe \$2,349.00 in additional tax, payment adjustments, and interest.
- The IRS is required by law to charge interest on taxes that weren't paid in full by April 15, 2011.
- The IRS will continue to charge interest until we've paid the tax in full. Certain penalties may also apply.
- I can challenge these changes in the U.S. Tax Court only if the IRS determines after the date we sign this form that we owe additional taxes for 2010.
- I can file for a refund at a later date.

Please sign and return this form with your payment.

| | |
|--------------------|------|
| Signature | Date |
| Spouse's signature | Date |

Indicate your agreement or disagreement--
Continued

☐ **I don't agree with some or all of the changes**
Please return this form and include a statement signed by you that explains what you don't agree with. Also include copies of any documents, such as corrected W-2, 1099, or missing forms that support your statement.

Note: You can fax documentation to 1-215-516-2335.

Signature _____ Date _____

Spouse's signature _____ Date _____

2. Indicate your payment option

I am enclosing (check all that apply):

- ☐ Full payment of \$2,349.00
- ☐ Partial payment of \$
- ☐ No payment
- ☐ A completed Installment Agreement Request (Form 9465)
 - Write your Social Security number xxx-xx-xxx, the tax year 2010, and the notice number CP2000 on your payment and any correspondence.
 - Make your check or money order payable to the United States Treasury.

3. Authorization optional

If you would like to authorize someone, in addition to you, to contact the IRS concerning this notice, please include the person's information, your signature, and the date.

The authority granted is limited as indicated by the statement above the signature line. The contact may not sign returns, enter into agreements, or otherwise represent you before the IRS. If you want to have a designee with expanded authorization, see IRS Publication 947, Practice Before the IRS and Power of Attorney.

Full name of authorized person _____

Address _____

City _____ State _____ Country _____ Zip code _____

| | | |
|---------------------|-------------------------------|-------------------------------|
| | <input type="checkbox"/> a.m. | <input type="checkbox"/> a.m. |
| | <input type="checkbox"/> p.m. | <input type="checkbox"/> p.m. |
| Primary phone _____ | Best time to call _____ | Secondary phone _____ |
| | | Best time to call _____ |

I authorize the person listed above to discuss and provide information to the IRS about this notice.

Signature _____ Date _____

Spouse's signature _____ Date _____



Department of the Treasury
Internal Revenue Service
PO BOX 16335
Philadelphia, PA 19114-0439

s018999546711s

JAMES & KAREN Q. HINDS
22 BOULDER STREET
HANSON, CT 00000-7253

2D Bar Code

| | |
|-------------------------------|--|
| Notice | CP3219A |
| Tax Year | 2006 |
| Notice date | January 23, 2017 |
| Social Security number | Nnn-nn-nnnn |
| AUR control number | 9 |
| To contact us | Phone 1-800-829-8310 Fax 1-215-516-2335 |

Last date to petition Tax Court April 23, 2017

Page 1 of 5

Notice of Deficiency

Increase in tax and notice of your right to challenge

We have determined that there is a deficiency (increase) in your 2006 income tax. You have the right to challenge this determination in U.S. Tax Court. This notice explains how the increase in tax was calculated and how you can challenge it in U.S. Tax Court. Your petition to the Tax Court must be filed by April 23, 2017.

Summary

| | |
|------------------------------|------------|
| Increase in tax (deficiency) | \$2,519.00 |
| Failure-to-file penalty | 527.00 |

You have the right to petition the Tax Court

You have the right to challenge our deficiency determination, including penalties, before making any payment by filing a petition with the U.S. Tax Court. You must file your petition within 90 days (or 150 days if the notice is addressed to a person outside of the United States) from the date of this letter, which is [insert date 90 days from date of letter]. The Court can't consider your case if the petition is filed late, so you should consider filing your petition as early as possible. If you decide to file a petition, send that petition to the following address:

United States Tax Court
400 Second Street, NW
Washington, DC 20217

You can download a petition form and rules from the U.S. Tax Court's website (www.ustaxcourt.gov) or by contacting the Office of the Clerk of the U.S. Tax Court at the address directly above or at 1-202-521-0700 (not a toll-free number). Attach a complete copy of this letter including attachments to your petition. The Tax Court has a simplified procedure for small tax cases when the amount in dispute is \$50,000 or less (including penalties) for any one tax year. You can obtain a copy of these simplified procedures on the Tax Court's website or by contacting the Tax Court.

What else to do immediately

Review this notice and compare our changes to the information on your 2006 tax return. NOTE: The amounts shown above may differ from your previous notice because not all items can be challenged in Tax Court.

If you agree with the changes we made

- Sign the enclosed Form 5564—Notice of Deficiency Waiver and mail it to the IRS in the envelope provided at the following address:

Internal Revenue Service
PO BOX 16335
Philadelphia, PA 19114-0439

- You can send a payment of your tax liability with Form 5564. Otherwise, you'll receive a bill for the amount due (including any interest and applicable penalties).
- Do NOT mail the Form 5564 or any payment of your tax liability to the Tax Court

If you don't agree with the changes

- If you want us to consider additional information, please immediately mail it to us in the enclosed envelope to the following address:

Internal Revenue Service
PO BOX 16335
Philadelphia, PA 19114-0439

- Do NOT mail the Form 5564 or any payment of your tax liability to the Tax Court.
- Our consideration of any additional information will not extend the April 23, 2017 deadline to file a petition with the U.S. Tax Court.

If we don't hear from you

- If you don't submit a signed Form 5564-Notice of Deficiency Waiver, or
- You don't provide additional information for the IRS to consider, or
- You don't file a petition with the U.S. Tax Court by **April 23, 2017,**

We will assess the additional tax you owe plus any penalties and interest that apply and you will be billed

| | |
|-------------------------------|------------------|
| Notice | CP3219A |
| Tax Year | 2006 |
| Notice date | January 23, 2017 |
| Social Security number | Nnn-nn-nnnn |
| Page 3 of 5 | |

Additional information

- Visit www.irs.gov/cp3219a.
- For tax forms, instructions, and publications, visit www.irs.gov or call 1-800-TAX-FORM (1-800-829-3676).
- Review the enclosed publication for additional information. Keep this notice for your records.
- If you'd like to authorize someone, in addition to you, to contact the IRS concerning this notice, please complete and send us the Power of Attorney and Declaration of Representative (Form 2848), before your representative contacts us on your behalf. Download Form 2848 from www.irs.gov, or call 1-800-TAX-FORM (1-800-829-3676) to request a copy.
- The IRS office whose phone number appears at the top of the notice can best address and access your tax information and help get you answers.
- We're required to send a copy of this notice to both you and your spouse. Each copy contains the same information about your joint account.

Low Income Taxpayer Clinics

Low Income Taxpayer Clinics (LITCs) are independent from the IRS. Some clinics serve individuals whose income is below a certain level and who need to resolve a tax problem. These clinics provide professional representation before the IRS or in court on audits, appeals, tax collection disputes, and other issues for free or for a small fee. Some clinics can provide information about taxpayer rights and responsibilities in many different languages for individuals who speak English as a second language. For more information and to find a clinic near you, see the LTC page on www.irs.gov/advocate or IRS Publication 4134, Low Income Taxpayer Clinic List. This publication is also available by calling 1-800-829-3676 or at your local IRS office.

Taxpayer Advocate Service

The Taxpayer Advocate Service (TAS) is an independent organization within the IRS. We help taxpayers whose problems with the IRS are causing financial difficulties; who have tried but have not been able to resolve their problems with the IRS; and those who believe an IRS system or procedure is not working as it should. If you believe you are eligible for TAS assistance, you can reach TAS by calling the TAS toll-free number at 1-877-777-4778 or TTY/TDD 1-800-829-4059 or by contacting your local TAS office at the phone number and address shown on the enclosed Notice 1214. You can find additional information about TAS at www.irs.gov/advocate.

If you need assistance, please don't hesitate to contact us.

Changes to your 2006 tax return

| Your income and deductions | Shown on return | As corrected by IRS | Difference |
|-----------------------------------|-----------------|---------------------|-----------------|
| Wages | \$18,000 | \$30,075 | \$12,075 |
| Other income | 0 | 592 | 592 |
| Nonemployee compensation | 0 | 1,875 | 1,875 |
| Income net difference | | | \$14,542 |
| Miscellaneous deductions | 12,000 | 11,709 | 291 |
| Self-employment tax deduction | 0 | -132 | -132 |
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| Change to taxable income | | | \$14,701 |
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| Taxable income, line 43 | \$32,000 | \$46,701 | \$14,701 |
| Tax, line 44 | 4,000 | 6,254 | 2,254 |
| Self-employment tax, line 58 | 0 | 265 | 265 |
| Total tax, line 63 | \$4,000 | \$6,519 | \$2,519 |
| Tax you owe | | | \$2,519 |
| Your payments | Shown on return | As corrected by IRS | Difference |
| Income tax withheld, line 64 | \$8,745 | \$9,155 | -\$410 |
| Total payments | | | -\$410 |

Explanation of changes to your 2006 Form 1040

This section tells you specifically what income information the IRS received about you from others (including your employers, banks, mortgage holders, etc.). This information doesn't match the information you reported on your tax return.

Use the table to compare the data the IRS received from others to the information you reported on your tax return to understand where the difference(s) occurred. To assist you in reviewing your income amounts, the table may include both reported and unreported amounts.

Tax withheld

| Received from | Address | Account information | Shown on return | Reported to IRS by others | Difference |
|---------------------------|---------------------------------------|---------------------|-----------------|---------------------------|--------------|
| Employer A | 20 Clinton Street Hanson, CT 99999 | SSN Form W-2 | | \$8,745 | |
| Employer B | 10 Clinton Street Hanson, CT 99999 | SSN Form W-2 | | \$410 | |
| Total tax withheld | | | \$8,745 | \$9,155 | \$410 |

Wages

| Received from | Address | Account information | Shown on return | Reported to IRS by others | Difference |
|---------------|---------------------------------------|---------------------|-----------------|---------------------------|------------|
| Employer A | 20 Clinton Street Hanson, CT 99999 | SSN Form W-2 | \$18,000 | \$18,000 | \$0 |
| Employer B | 10 Clinton Street Hanson, CT 99999 | SSN Form W-2 | \$0 | \$12,075 | \$12,075 |

| | |
|-------------------------------|------------------|
| 2D Bar Code | |
| Notice | CP3219A |
| Tax Year | 2006 |
| Notice date | January 23, 2017 |
| Social Security number | Nnn-nn-nnnn |
| Page 4 of 5 | |

| | | | |
|--------------------|-----------------|-----------------|-----------------|
| Total wages | \$18,000 | \$30,075 | \$12,075 |
|--------------------|-----------------|-----------------|-----------------|

Nonemployee compensation

| Received from | Address | Account information | Shown on return | Reported to IRS by others | Difference |
|------------------|---------------------------------------|------------------------|-----------------|---------------------------|----------------|
| Payer & Partners | 80 Fleming Hill Chambers, CT 00000 | SSN Form 1099- MISC | \$0 | \$1,875 | \$1,875 |

Other income

| Received from | Address | Account information | Shown on return | Reported to IRS by others | Difference |
|---------------|---|---------------------|-----------------|---------------------------|--------------|
| Payer Casino | 25 Lubbock Hill, Suite 25A Chambers, CT 00000 | SSN Form W-2G | \$0 | \$592 | \$592 |

Misidentified income

If any of the income shown on this notice is not yours, send us the name, address, and social security number of the person who received the income. Please notify the payers to correct their records to show the name and social security number of the person who actually received the income, so that future reports to us are accurate.

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Miscellaneous deductions are reduced by 2% of your adjusted gross income (Form 1040, line 37). Since we refigured your adjusted gross income, we also refigured your miscellaneous deduction.

Self-employment tax on self-employment (SE) income

Self-Employment (SE) generally includes nonemployee compensation and other income from part-time or full-time work and is subject to Self-Employment Tax. We figured the Self-Employment Tax on the net SE income reported on your return and/or on the underreported SE income. Self-Employment Tax consists of Social Security Tax of 12.4% and Medicare Tax of 2.9%. (Even if you have paid the maximum amount of Social Security Tax, you are still liable for additional Medicare Tax.) The deduction for one-half of the Self-Employment Tax is based on the change we made to your Self-Employment Tax. If you were an employee, you will be liable for income tax and the employee's share of Social Security (6.2%) and Medicare taxes (1.45%). Your social security account will be credited with the amount of Self-Employment income shown on this notice.

| | |
|-------------------------------|------------------|
| | 2D Bar Code |
| Notice | CP3219A |
| Tax Year | 2006 |
| Notice date | January 23, 2017 |
| Social Security number | Nnn-nn-nnnn |
| Page 5 of 5 | |

Penalties

We are required by law to charge any applicable penalties.

Failure-to-file

| Description | Amount |
|------------------------------|-----------------|
| Total failure-to-file | \$527.00 |

We assess a 5% monthly penalty for filing a return late for each month or part of a month the return is late, for up to 5 months.

When a penalty for paying late applies for the same month, the amount of the penalty for filing late for that month is reduced by the amount of the penalty for paying late for that month. The penalty for paying late is 1/2% for each month or part of a month.

We base the monthly penalty for filing late on the tax required to be shown on the return that you didn't pay by the original return due date, without regard to extensions. We base the monthly penalty for paying late on the net unpaid tax at the beginning of each penalty month following the payment due date for that tax.

When an income tax return is more than 60 days late, the minimum penalty is \$135 or 100% of the amount of tax required to be shown on the return that you didn't pay, whichever is less.

(Internal Revenue Code Section 6651)

Interest charges

We are required by law to charge interest when you do not pay your liability on time. Generally, we calculate interest from the due date of your return (regardless of extensions) until you pay the amount you owe in full, including accrued interest and any penalty charges. Interest on some penalties accrues from the date we notify you of the penalty until it is paid in full. Interest on other penalties, such as failure to file a tax return, starts from the due date or extended due date of the return. Interest rates are variable and may change quarterly. (Internal Revenue Code Section 6601)



TAXES. SECURITY. TOGETHER.

The IRS, the states and the tax industry are committed to protecting you from identity theft. We've strengthened our partnership to fight a common enemy – the criminals – and to devote ourselves to a common goal – serving you. Working together, we've made many changes to combat identity theft, and we are making progress. However, cybercriminals are constantly evolving, and so must we. The IRS is working hand-in-hand with your state revenue officials, your tax software provider and your tax preparer. But, we need your help. We need you to join with us. By taking a few simple steps, you can better protect your personal and financial data online and at home.

Please consider these steps to protect yourselves from identity thieves:

Keep Your Computer Secure

- Use security software and make sure it updates automatically; essential tools include:
 - Firewall
 - Virus/malware protection
 - File encryption for sensitive data
- Treat your personal information like cash, don't leave it lying around
- Check out companies to find out who you're really dealing with
- Give personal information only over encrypted websites – look for “https” addresses.
- Use strong passwords and protect them
- Back up your files

Avoid Phishing and Malware

- Avoid phishing emails, texts or calls that appear to be from the IRS and companies you know and trust, go directly to their websites instead
- Don't open attachments in emails unless you know who sent it and what it is
- Download and install software only from websites you know and trust
- Use a pop-up blocker
- Talk to your family about safe computing

Protect Personal Information

Don't routinely carry your social security card or documents with your SSN. Do not overshare personal information on social media. Information about past addresses, a new car, a new home and your children help identity thieves pose as you. Keep old tax returns and tax records under lock and key or encrypted if electronic. Shred tax documents before trashing.

Avoid IRS Impersonators. The IRS will not call you with threats of jail or lawsuits. The IRS will not send you an unsolicited email suggesting you have a refund or that you need to update your account. The IRS will not request any sensitive information online. These are all scams, and they are persistent. Don't fall for them. Forward IRS-related scam emails to phishing@irs.gov. Report IRS-impersonation telephone calls at www.tigta.gov.

Additional steps:

- Check your credit report annually; check your bank and credit card statements often;
- Review your Social Security Administration records annually: Sign up for My Social Security at www.ssa.gov.
- If you are an identity theft victim whose tax account is affected, review www.irs.gov/identitytheft for details.



Tax Preparer Guide to Identity Theft



Tax preparers play a critical role in assisting clients, both individuals and businesses, who are victims of tax-related identity theft. The IRS is working hard to prevent and detect identity theft as well as reduce the time it takes to resolve these cases.

What is tax-related identity theft?

Tax-related identity theft occurs when someone uses a stolen Social Security number to file a tax return claiming a fraudulent refund. Thieves also may use stolen Employer Identification Numbers to create false Forms W-2 to support refund fraud schemes.

Warning signs for individual clients

Your client's SSN has been compromised, putting them at risk when:

- A return is rejected; IRS reject codes indicate the taxpayer's SSN already has been used.
- Your client notices activity on or receives IRS notices regarding a tax return after all tax issues have been resolved, refund paid or account balances have been paid.
- An IRS notice indicates your client received wages from an employer unknown to them.

Remember: You must have a power of attorney on file and authenticate your identity before an IRS customer service representative can provide you with any taxpayer information.

Warning signs for business clients

- Your client's return is accepted as an amended return, but the taxpayer has not filed a return for that year.
- Your client receives IRS notices about fictitious employees.
- Your client notices activity related to or receives IRS notices regarding a defunct, closed or dormant business after all account balances have been paid.

Tax preparers also can become targets of criminals. Remember to follow the security guidelines outlined in [Publication 1345](#). Online providers who experience a data breach must contact the IRS within one business day.

Assisting victims of identity theft

The Federal Trade Commission, the lead federal agency for identity theft, recommends these steps:

1. Report identity theft to the FTC at www.identitytheft.gov.
2. Contact one of the major credit bureaus to place a fraud alert on your records:
 - www.Equifax.com 1-888-766-0008
 - www.Experian.com 1-888-397-3742
 - www.TransUnion.com 1-800-680-7289
3. Close any financial or credit accounts opened fraudulently.

IRS victim assistance

In addition to the FTC recommendations, you should take these steps if clients' SSNs are compromised and they suspect or know they are victims of tax-related identity theft:

- Respond promptly to IRS notices; your client may be directed to IDVerify.IRS.gov to validate their identity
- Complete [Form 14039, Identity Theft Affidavit](#), if your client's e-file return rejects because of a duplicate SSN or you are instructed to do so. This form allows us to put an indicator on the client's tax records for questionable activity.
- Clients should continue to file returns and pay taxes, even if it must be done by paper, while the case is being researched.
- If you previously contacted the IRS and did not have a resolution, call us for specialized assistance at 1-800-908-4490.
- Be aware that the nature of these cases is complex.

Resources for tax preparers

- www.identitytheft.gov (FTC web site)
- www.IRS.gov/identitytheft
- [Pub 1345, Handbook for Authorized IRS e-file Providers \(Security\)](#)
- [Pub 4557, Safeguarding Taxpayer Data](#)
- [Pub 4600, Safeguarding Taxpayer Information](#)
- [Pub 4535 \(EN-SP\), Identity Theft Prevention and Victim Assistance](#)
- Search IRS.gov, Keywords: [Identity Theft](#)

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.317.4000

www.irs.gov/newsroomPublic Contact: 800.829.1040

Dangerous W-2 Phishing Scam Evolving; Targeting Schools, Restaurants, Hospitals, Tribal Groups and Others

IR-2017-20, Feb. 2, 2017

WASHINGTON – The Internal Revenue Service, state tax agencies and the tax industry issued an urgent alert today to all employers that the Form W-2 email phishing scam has evolved beyond the corporate world and is spreading to other sectors, including school districts, tribal organizations and nonprofits.

In a related development, the W-2 scammers are coupling their efforts to steal employee W-2 information with an older scheme on wire transfers that is victimizing some organizations twice.

“This is one of the most dangerous email phishing scams we’ve seen in a long time. It can result in the large-scale theft of sensitive data that criminals can use to commit various crimes, including filing fraudulent tax returns. We need everyone’s help to turn the tide against this scheme,” said IRS Commissioner John Koskinen.

When employers report W-2 thefts immediately to the IRS, the agency can take steps to help protect employees from tax-related identity theft. The IRS, state tax agencies and the tax industry, working together as the Security Summit, have enacted numerous safeguards in 2016 and 2017 to identify fraudulent returns filed through scams like this. As the Summit partners make progress, cybercriminals need more data to mimic real tax returns.

Here’s how the scam works: Cybercriminals use various spoofing techniques to disguise an email to make it appear as if it is from an organization executive. The email is sent to an employee in the payroll or human resources departments, requesting a list of all employees and their Forms W-2. This scam is sometimes referred to as business email compromise (BEC) or business email spoofing (BES).

The Security Summit partners urge all employers to be vigilant. The W-2 scam, which first appeared last year, is circulating earlier in the tax season and to a broader cross-section of organizations, including school districts, tribal casinos, chain restaurants, temporary staffing agencies, healthcare and shipping and freight. Those businesses that received the scam email last year also are reportedly receiving it again this year.

Security Summit partners [warned of this scam’s reappearance](#) last week but have seen an upswing in reports in recent days.

New Twist to W-2 Scam: Companies Also Being Asked to Wire Money

In the latest twist, the cybercriminal follows up with an “executive” email to the payroll or comptroller and asks that a wire transfer also be made to a certain account. Although not tax

related, the wire transfer scam is being coupled with the W-2 scam email, and some companies have lost both employees' W-2s and thousands of dollars due to wire transfers.

The IRS, states and tax industry urge all employers to share information with their payroll, finance and human resources employees about this W-2 and wire transfer scam. Employers should consider creating an internal policy, if one is lacking, on the distribution of employee W-2 information and conducting wire transfers.

Steps Employers Can Take If They See the W-2 Scam

Organizations receiving a W-2 scam email should forward it to phishing@irs.gov and place "W2 Scam" in the subject line. Organizations that receive the scams or fall victim to them should file a complaint with the [Internet Crime Complaint Center](#) (IC3,) operated by the Federal Bureau of Investigation.

Employees whose Forms W-2 have been stolen should review the recommended actions by the Federal Trade Commission at www.identitytheft.gov or the IRS at www.irs.gov/identitytheft. Employees should file a Form 14039, Identity Theft Affidavit, if the employee's own tax return gets rejected because of a duplicate Social Security number or if instructed to do so by the IRS.

The W-2 scam is just one of several new variations that have appeared in the past year that focus on the large-scale thefts of sensitive tax information from tax preparers, businesses and payroll companies. Individual taxpayers also can be targets of phishing scams, but cybercriminals seem to have evolved their tactics to focus on mass data thefts.

Be Safe Online

In addition to avoiding email scams during the tax season, taxpayers and tax preparers should be leery of using search engines to find technical help with taxes or tax software. Selecting the wrong "tech support" link could lead to a loss of data or an infected computer. Also, software "tech support" will not call users randomly. This is a scam.

Taxpayers searching for a paid tax professional for tax help can use the IRS [Choosing a Tax Professional lookup tool](#) or if taxpayers need free help they can review the [Free Tax Return Preparation Programs](#). Taxpayers searching for tax software can use Free File, which offers 12 brand-name products for free, at www.irs.gov/freefile. Taxpayer or tax preparers looking for tech support for their software products should go directly to the provider's web page.

Tax professionals also should beware of ongoing scams related to IRS e-Services. Thieves are trying to use IRS efforts to make e-Services more secure to send emails asking e-Services users to update their accounts. Their objective is to steal e-Services users' credentials to access these important services.

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
[street address/ PO box]
[City State Zip]

| | |
|------------------------|----------------------|
| Notice | CP75A |
| Tax year | 2016 |
| Notice date | October 15, 2017 |
| Social Security number | 999-99-9999 |
| Your Caller ID | 99999 |
| To contact us | Phone 1-999-999-9999 |
| Page 1 of 3 | |

s01899954671s
ERIC D. JOHNSON
123 N HARRIS ST
HARVARD TX 12345

We're auditing your 2016 Form 1040

Supporting documentation requested

We need you to send us information to support items you claimed on your tax return.

Be sure to respond by November 15, 2010, or we may disallow the items being audited, and you may owe additional tax.

What you need to do immediately

- Review the list of items we're auditing and provide copies of documentation to verify what you claimed on your tax return (for complete instructions of what you need to send, see the enclosed forms).
- Complete the Response form on Page 3, and mail or fax it to us along with any documentation by November 15, 2010.
- If you can't get your documentation ready in time, call us at 1-999-999-9999 to discuss your options.

Items that require supporting documentation

The list below summarizes the items that require supporting documentation. For complete instructions on what to send, see the enclosed forms.

To qualify for:

You should:

Earned Income Credit

Line (64a) (form 1040)

- Review the enclosed form 886-H-EIC, Documents You Need to Prove You Can Claim an Earned Income Credit
- Submit the documentation requested to show your child met the relationship, age and residency tests to qualify you for the Earned Income Credit.

Dependents

Line (99) (form 1040)

- Review the enclosed Form 886-H-DEP, Supporting Documents for Dependency Exemptions.
- Submit the documentation requested to show you have eligible dependents.

Filing status

Line (99) (form 1040)

- Review the enclosed Form 886-H-HOH, Supporting Documents to Prove Head of Household Filing Status.
- Submit the documentation requested to show you are the Head of Household.

If we don't hear from you

If you don't provide supporting documentation by November 15, 2010, we'll disallow the items being audited and send you an audit report that shows the proposed changes to your tax return.

Next steps

- We'll review the information that you provide (please allow us at least 30 days).
- If the information supports your tax return, we'll send a letter letting you know your audit is closed
- If the information does not fully support your tax return, we'll send you an audit report that explains the proposed changes, including any additional tax you

| | |
|-------------------------------|----------------------|
| Notice | CP75A |
| Tax year | 2016 |
| Notice date | October 15, 2017 |
| Social Security number | 999-99-9999 |
| Your Caller ID | 1234 |
| To contact us | Phone 1-999-999-9999 |
| Page 2 of 3 | |

may owe plus any penalties and interest that may apply.

Additional information

- Visit www.irs.gov/cp75a.
 - Review the enclosed documents and The Examination Process (Publication 3498-A) which describes your appeal rights.
 - For tax forms, instructions, and publications, visit www.irs.gov or call 1-800-TAX-FORM (1-800-829-3676).
 - Low Income Taxpayer Clinics are independent organizations that provide low income taxpayers with representation in federal tax controversies with the IRS for free or for a nominal charge. The clinics also provide taxpayer education and outreach for taxpayers who speak English as a second language. Publication 4134, Low Income Taxpayer Clinic List, provides information on clinics in your area.
 - The Taxpayer Advocate Service (TAS) is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. If you believe you are eligible for TAS assistance, you can reach TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059. For more information, go to www.irs.gov/advocate.
 - Keep this notice for your records.
- If you need assistance, please don't hesitate to contact us.



s018999546711s
INTERNAL REVENUE SERVICE
STREET ADDRESS]
[CITY STATE ZIP]
01899954671

| | |
|------------------------|----------------------|
| Notice | CP75A |
| Tax year | 2016 |
| Notice date | October 15, 2017 |
| Social Security number | 999-99-9999 |
| Your Caller ID | 1234 |
| To contact us | Phone 1-999-999-9999 |
| Page 3 of 3 | |

Response form

Complete this form, and mail or fax it to us by November 15, 2017. If you use the enclosed envelope, be sure our address shows through the window.

Send by regular mail, Courier, priority, or express services, including certified or registered mail, which requires a signature upon delivery and may delay processing.

Provide your contact information

If your address has changed, please call 1-999-999-9999 or visit www.irs.gov.

ERIC D. JOHNSON
123 N HARRIS ST
HARVARD TX 12345

| | a.m. p.m. | a.m. p.m. |
|--------|--------------|---------------|
| Primar | Best time | Secon dary |
| | Best time | |

1. Indicate which items you are addressing with supporting documents.

I am including documentation

The enclosed documentation supports my 2016 tax return (check all that apply):

- ☐ Earned Income Credit Line 64a (form 1040)
- ☐ Dependents(Line [99] (form 1040)
- ☐ Filing status(Line [99] (form 1040)

2. Send this Response form to us

Mail or fax your Response form to us along with any documentation by November 15, 2017. If you're using your own envelope, mail your package to the address on this form or, fax it to 1-999-999-9999.

Private Debt Collection

The Internal Revenue Service began a new private collection program of certain overdue federal tax debts selecting four contractors to implement it.

The new program, authorized under a federal law enacted by Congress, enables these designated contractors to collect, on the government's behalf, outstanding inactive tax receivables. Authorized under a federal law enacted by Congress in December 2015, Section 32102 of the Fixing America's Surface Transportation Act (FAST Act) requires the IRS to use private collection agencies for the collection of outstanding inactive tax receivables.

General Information

As a condition of receiving a contract, these agencies must respect taxpayer rights including, among other things, abiding by the consumer protection provisions of the Fair Debt Collection Practices Act.

These private collection agencies will work on accounts where taxpayers owe money, but the IRS is no longer actively working them. Several factors contribute to the IRS assigning these accounts to private collection agencies, including older, overdue tax accounts or lack of resources preventing the IRS from working the cases.

The IRS will give taxpayers and their representative written notice that the accounts are being transferred to the private collection agencies. The agencies will send a second, separate letter to the taxpayer and their representative confirming this transfer.

Private collection agencies will be able to identify themselves as contractors of the IRS collecting taxes. Employees of these collection agencies must follow provisions of the Fair Debt Collection Practices Act and should be courteous and respect taxpayer rights.

The IRS will do everything it can to help taxpayers avoid confusion and understand their rights and tax responsibilities, particularly in light of continual phone scams where callers impersonate IRS agents and request immediate payment.

Private collection agencies will not ask for payment on a prepaid debit, iTunes or gift card. Taxpayers will be informed about electronic payment options for taxpayers on IRS.gov/Pay Your Tax Bill. Payment by check should be payable to the U.S. Treasury and sent directly to IRS, not the private collection agency.

The IRS will continue to keep taxpayers informed about scams and provide tips for protecting themselves. The IRS encourages taxpayers to visit [IRS.gov](https://www.irs.gov) for information including the "[Tax Scams and Consumer Alerts](#)" page.

Private Collection Agencies Selected

The IRS will assign cases to these private collection agencies:

- CBE
P.O. Box 2217
Waterloo, IA 50704
1-800-910-5837
- ConServe
P.O. Box 307
Fairport, NY 14450-0307
1-844-853-4875
- Performant
P.O. Box 9045

Pleasanton CA 94566-9045
1-844-807-9367

- Pioneer
PO Box 500
Horseheads, NY 14845
1-800-448-3531

If you do not wish to work with the assigned private collection agency to settle your overdue tax account, you must submit a request in writing to the private collection agency.

Accounts Not Assigned To Private Collection Agencies

IRS will not assign accounts to private collection agencies involving taxpayers who are:

- Deceased
- Under the age of 18
- In designated combat zones
- Victims of tax-related identity theft
- Currently under examination, litigation, criminal investigation or levy
- Subject to pending or active offers in compromise
- Subject to an installment agreement
- Subject to a right of appeal
- Classified as innocent spouse cases
- In presidentially declared disaster areas and requesting relief from collection

Private collection agencies will return accounts to the IRS if taxpayers and their accounts fall into any of these 10 situations after assignment to the private collection agencies.

Stay Vigilant Against Scams

The IRS urges you to be on the lookout for unexpected [scam phone calls](#) from anyone claiming to be collecting on behalf of the tax agency.

The IRS will do everything it can do to help you avoid confusion and ensure you understand your rights and tax responsibilities when it assigns your case to a private collection agency. This is particularly important in light of continuing scams where callers impersonate IRS agents and request immediate payment.

Even with private debt collection, you shouldn't receive unexpected phone calls from the IRS demanding payment. When people owe tax, the IRS always sends several collection notices through the mail before making phone calls.

TIGTA Hotline

To make a complaint about a private collection agency or report misconduct by its employee, call the TIGTA hotline at 800-366-4484 or visit www.tigta.gov or write to:

Treasury Inspector General for Tax Administration
Hotline
Post Office Box 589
Ben Franklin Station
Washington, DC 20044-0589

To report a threat, assault or attempted assault by a private collection agency employee, contact the [TIGTA Office of Investigations](#) with responsibility for your geographic area.



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 Fact Sheet

Media Relations Office

Washington, D.C.

Media Contact: 202.317.4000

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How to know it's really the IRS calling or knocking on your door

FS-2017-07, April 19, 2017

Many taxpayers have encountered individuals impersonating IRS officials – in person, over the telephone and via email. Don't get scammed. We want you to understand how and when the IRS contacts taxpayers and help you determine whether a contact you may have received is truly from an IRS employee.

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.

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.
- 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.

If you owe taxes:

The IRS instructs taxpayers to make payments to the "United States Treasury." The IRS provides specific guidelines on how you can make a tax payment at irs.gov/payments.

Here is what the IRS will do:

If an IRS representative visits you, he or she will always provide two forms of official credentials called a pocket commission and a [HSPD-12](#) card. HSPD-12 is a government-wide standard for

secure and reliable forms of identification for Federal employees and contractors. You have the right to see these credentials.

Collection

IRS collection employees may call or come to a home or business unannounced to collect a tax debt. They will not demand that you make an immediate payment to a source other than the U.S. Treasury.

Learn more about the [IRS revenue officers' collection work](#).

The IRS can assign certain cases to private debt collectors but only after giving the taxpayer and his or her representative, if one is appointed, written notice. Private collection agencies will not ask for payment on a prepaid debit card or gift card. Taxpayers can learn about the IRS payment options on [IRS.gov/payments](#). Payment by check should be payable to the U.S. Treasury and sent directly to the IRS, not the private collection agency.

Learn more about [Private Debt Collectors](#).

Audits

IRS employees conducting audits may call taxpayers to set up appointments, but not without having first notified them by mail. After mailing an initial appointment letter, an auditor may call to confirm and discuss items pertaining to the scheduled audit.

Learn more about the [IRS audit process](#).

Criminal Investigations

IRS criminal investigators may visit a taxpayer's home or business unannounced while conducting an investigation. However, these are federal law enforcement agents and they will not demand any sort of payment.

Learn more about the [What Criminal Investigation Does](#) and [How Criminal Investigations are Initiated](#).

Beware of Impersonations

Scams take many shapes and forms, such as phone calls, letters and emails. Many IRS impersonators use threats to intimidate and bully people into paying a fabricated tax bill. They may even threaten to arrest or deport their would-be victim if the victim doesn't comply.

For a comprehensive listing of recent tax scams and consumer alerts, visit [Tax Scams/Consumer Alerts](#).

Know Who to Contact

- Contact the Treasury Inspector General for Tax Administration to report a phone scam. Use their ["IRS Impersonation Scam Reporting"](#) web page. You can also call 800-366-4484.
- Report phone scams to the Federal Trade Commission. Use the ["FTC Complaint Assistant"](#) on FTC.gov. Please add "IRS Telephone Scam" in the notes.
- Report an unsolicited email claiming to be from the IRS, or an IRS-related component like the Electronic Federal Tax Payment System, to the IRS at phishing@irs.gov.

See also:

- [Security Summit](#)
- [IRS Taxpayers Bill of Rights](#)
- [Secure tax payment options](#)
- [Consumer Alerts](#)
- [Report Phishing](#)
- [Phone Scams](#)

FACT SHEET PART II

How to know it's really the IRS calling or knocking on your door: Collection

Revenue officers are IRS civil enforcement employees who work cases that involve an amount owed by a taxpayer or a delinquent tax return. Their role involves education, investigation, and when necessary, appropriate enforcement.

Generally, home or business visits are unannounced because scheduling appointments for such matters would be inconsistent with their proactive and urgent nature. . For example, many urgent and complex cases involve employers' employment tax withholding requirement.

Revenue officers carry two forms of official identification. Both forms of Identification have serial numbers – and you can ask to see both.

Revenue Officer Visits

- The vast majority of collection cases begin as letters (called “notices”) sent to taxpayers because the case is unresolved. A significant number of these cases are also previously worked by the Automated Collection System – an IRS program that tries to resolve the taxpayer's account over the phone directly with the taxpayer after a notice sent to the taxpayer was unsuccessful at resolving the situation.
- A small portion of the revenue officers' work involves proactive outreach to employers, called Federal Tax Deposit Alerts, sent at the earliest sign that a business taxpayer is falling behind on payroll tax deposits. These are generally not preceded by a notice.

See also:

- [Collection Procedures: Filing or Paying Late](#)
- [Private Debt Collection](#)

FACT SHEET PART III

How to know it's really the IRS calling or knocking on your door: Audits

The IRS examines or audits tax returns to verify that what the taxpayer reported is correct. This doesn't mean that the taxpayer has made an error or been dishonest. In fact, some examinations result in a refund to the taxpayer or acceptance of the return without change.

There are various reasons the IRS may telephone or visit a taxpayer at home during an audit, but at that point the taxpayer would be well aware of the audit.

Audit Contacts

- After mailing an initial appointment letter we may call to confirm and discuss items needed for the audit. An audit may include an interview with the taxpayer or his or her Power of Attorney, if one is appointed, and sometimes include a tour of the taxpayer's business operation.
- Third party contacts – if while examining one taxpayer's return, we need information from someone else, we will first issue a letter to that third party requesting the information. After that we may contact them by telephone.

Revocation or Denial of Passport in Case of Certain Unpaid Taxes



The IRS has not yet started certifying tax debt to the State Department. Certifications to the State Department will begin in early 2017, and this webpage will be updated to indicate when this process has been implemented. The information presented here is for informational purposes only.

If you have seriously delinquent tax debt, IRC § 7345 authorizes the IRS to certify that debt to the State Department for action. The State Department generally will not issue a passport to you after receiving certification from the IRS.

- [Certification Of Individuals With Seriously Delinquent Tax Debt](#)
- [Annual Adjustment For Inflation](#)
- [Taxpayer Notification - Notice CP 508C](#)
- [Reversal Of Certification - Notice CP 508R](#)
- [Judicial Review Of Certification](#)
- [Payment Of Taxes](#)
- [Passport Status](#)
- [Travel](#)

Upon receiving certification, the State Department shall deny your passport application and/or may revoke your current passport. If your passport application is denied or your passport revoked and you are overseas, the State Department may issue you a limited validity passport good only for direct return to the United States.

Certification Of Individuals With Seriously Delinquent Tax Debt

Seriously delinquent tax debt is an individual's unpaid, legally enforceable federal tax debt totaling more than \$50,000* (including interest and penalties) for which a:

- Notice of federal tax lien has been filed and all administrative remedies under IRC § 6320 have lapsed or been exhausted or
- Levy has been issued

Some tax debt is not included in determining seriously delinquent tax debt even if it meets the above criteria. It includes tax debt:

- Being paid in a timely manner under an installment agreement entered into with the IRS
- Being paid in a timely manner under an offer in compromise accepted by the IRS or a settlement agreement entered into with the Justice Department
- For which a collection due process hearing is timely requested in connection with a levy to collect the debt
- For which collection has been suspended because a request for innocent spouse relief under IRC § 6015 has been made

Before denying a passport, the State Department will hold your application for 90 days to allow you to:

- Resolve any erroneous certification issues
- Make full payment of the tax debt
- Enter into a satisfactory payment alternative with the IRS

Annual Adjustment For Inflation

*The \$50,000 threshold is indexed yearly for inflation

Under **new Code Section 7345(f)**, in the case of a calendar year beginning after 2016, the dollar amount in new Code Section 7345 shall be increased by an amount equal to (1) such dollar amount, multiplied by (2) the cost-of-living adjustment determined under Code Section 1(f)(3) for the calendar year, determined by substituting “calendar year 2015” for “calendar year 1992” in Code Section 1(f)(3)(B). If any amount as adjusted under the preceding sentence is not a multiple of \$1,000, such amount shall be rounded to the nearest multiple of \$1,000.

Taxpayer Notification - Notice CP 508C

The IRS is required to notify you in writing at the time the IRS certifies seriously delinquent tax debt to the State Department. The IRS is also required to notify you in writing at the time it reverses certification. The IRS will send written notice by regular mail to your last known address.

Reversal Of Certification - Notice CP 508R

The IRS will reverse a certification when:

- The tax debt is fully satisfied or becomes legally unenforceable.
- The tax debt is no longer seriously delinquent.
- The certification is erroneous.

The IRS will make this reversal within 30 days and provide notification to the State Department as soon as practicable.

A previously certified debt is no longer seriously delinquent when:

- You and the IRS enter into an installment agreement allowing you to pay the debt over time.
- The IRS accepts an offer in compromise to satisfy the debt.
- The Justice Department enters into a settlement agreement to satisfy the debt.
- Collection is suspended because you request innocent spouse relief under IRC § 6015.
- You make a timely request for a collection due process hearing in connection with a levy to collect the debt.

The IRS will not reverse certification where a taxpayer requests a collection due process hearing or innocent spouse relief on a debt that is not the basis of the certification. Also, the IRS will not reverse the certification because the taxpayer pays the debt below \$50,000.

Judicial Review Of Certification

The State Department is held harmless in these matters and cannot be sued for any erroneous notification or failed decertifications under IRC § 7345.

If the IRS certified your debt to the State Department, you can file suit in the U.S. Tax Court or a U.S. District Court to have the court determine whether the certification is erroneous or the IRS failed to reverse the certification when it was required to do so. If the court determines the certification is erroneous or should be reversed, it can order the IRS to notify the State Department that the certification was in error.

IRC § 7345 does not provide the court authority to release a lien or levy or award money damages in a suit to determine whether a certification is erroneous. You are not required to file an administrative claim or otherwise contact the IRS to resolve the erroneous certification issue before filing suit in the U.S. Tax Court or a U.S. District Court.

Payment Of Taxes

If you can't pay the full amount you owe, you can make alternative payment arrangements such as an installment agreement or an offer in compromise to have your certification reversed.

If you disagree with the tax amount or the certification was made in error, you should contact the phone number listed on Notice CP 508C. If you've already paid the tax debt, please send proof of that payment to the address on the Notice CP 508C.

If you recently filed your tax return for the current year and expect a refund, the IRS will apply the refund to the debt and if the refund is sufficient to satisfy your seriously delinquent tax debt, the account is considered fully paid.

Passport Status

If your U.S. passport application is denied or your U.S. passport is revoked, the State Department will notify you in writing.

If you need your U.S. passport to keep your job, once your seriously delinquent tax debt is certified, you must fully pay the balance, or make an alternative payment arrangement to have your certification reversed.

Once you've resolved your tax problem with the IRS, the IRS will reverse the certification within 30 days of resolution of the issue and provide notification to the State Department as soon as practicable.

Travel

If you're leaving in a few days for international travel, need to resolve passport issues and have a pending application for a U.S. passport, you should call the phone number listed on Notice CP 508C. If you already have a U.S. passport, you can use your passport until you're notified by the State Department that it has been revoked.

If your passport is cancelled or revoked, after you're certified, you must resolve the tax debt by paying the debt in full, making alternative payment arrangements or showing that the certification is erroneous.

The IRS will reverse your certification within 30 days of the date the tax debt is resolved and provide notification to the State Department as soon as practicable.

Page Last Reviewed or Updated: 28-Apr-2017

S Corporation Stock and Debt Basis

Shareholder Loss Limitations

An S corporation is a corporation with an "S" election in effect. The impact of the election is that the S corporation's items of income, loss, deductions and credits flow to the shareholder and are taxed on the shareholder's personal return.

The two main reasons for electing S corporation status are:

1. Avoid double taxation on distributions.
2. Allow corporate losses to flow through to its owners.

There are three shareholder loss limitations:

1. Stock and Debt Basis Limitations
2. At Risk Limitations
3. Passive Activity Loss Limitations

Each limitation must be met, and in the order presented, before a shareholder is allowed to claim a flow-through loss.

The fact that a shareholder receives a K-1 reflecting a loss does not mean that the shareholder is automatically entitled to claim the loss.

S Corporation Shareholders are Required to Compute Both Stock and Debt Basis

The amount of a shareholder's stock and debt basis in the S corporation is very important. Unlike a C corporation, each year a shareholder's stock and/or debt basis of an S corporation increases or decreases based upon the S corporation's operations. The S corporation will issue a shareholder a Schedule K-1.

It is important to understand that the K-1 reflects the S corporation's items of income, loss and deduction that are allocated to the shareholder for the year. The K-1 shows the amount of non-dividend distribution the shareholder receives; it does not state the taxable amount of a distribution. The taxable amount of a distribution is contingent on the shareholder's stock basis. It is not the corporation's responsibility to track a shareholder's stock and debt basis but rather it is the shareholder's responsibility.

If a shareholder receives a non-dividend distribution from an S corporation, the distribution is tax-free to the extent it does not exceed the shareholder's stock basis. Debt basis is not considered when determining the taxability of a distribution.

Loss or Deduction Flow-Through Items

If a shareholder is allocated an item of S corporation loss or deduction, the shareholder must first have adequate stock and/or debt basis to claim that loss and/or deduction item. In addition, it is important to remember that, even when the shareholder has adequate stock and/or debt basis to claim the S corporation loss or deduction item, the shareholder must also consider the at-risk and passive activity loss limitations and therefore may not be able to claim the loss and/or deduction item.

S Corporation Stock and Debt Basis

Importance of Stock Basis

It is important that a shareholder know his/her stock basis when:

- **The S corporation allocates a loss and/or deduction item to the shareholder.**
In order for the shareholder to claim a loss, they need to demonstrate they have adequate stock and/or debt basis.
- **The S corporation makes a non-dividend distribution to the shareholder.**
In order for the shareholder to determine whether or not the distribution is non-taxable they need to demonstrate they have adequate stock basis.
- **The shareholder disposes of their stock.**
As with any asset, including C corporation stock, when the asset is sold or disposed of, basis needs to be established in order to reflect the proper gain or loss on the disposition.

Since shareholder stock basis in an S Corporation changes every year, it must be computed every year.

Computing Stock Basis

In computing stock basis, the shareholder starts with their initial capital contribution to the S corporation or the initial cost of the stock they purchased (the same as a C corporation). That amount is then increased and/or decreased based on the flow-through amounts from the S corporation. An income item will increase stock basis while a loss, deduction, or distribution will decrease stock basis.

A shareholder's stock is **increased** by (using 2015 Form 1120S Schedule K-1 box items):

Schedule K-1

- | | |
|-----------------------------------|-----------------|
| 1. Ordinary income | Box 1 |
| 2. Separately stated income items | Boxes 2 - 10 |
| 3. Tax exempt income | Boxes 16A & 16B |
| 4. Excess depletion | Box 15C |

A shareholder's stock basis is **decreased**, but not below zero, by.

Schedule K-1

- | | |
|---------------------------------|-------------------------------|
| 1. Ordinary loss | Box 1 |
| 2. Separately stated loss items | Boxes 2 - 12O and 14L, 14M |
| 3. Nondeductible expenses | Box 16C |
| 4. Non-dividend distributions | Box 16D |
| 5. Depletion for oil and gas | Box 17R |

NOTE: Only non-dividend distributions reduces stock basis, dividend distributions do not. The corporation is responsible for telling the shareholder the amount of non-dividend and dividend distributions. Box 16D of Schedule K-1 reflects non-dividend distributions. Form 1099-DIV is used to report dividend distributions; dividends are not reported on the shareholder's Schedule K-1.

Most distributions from an S corporation are non-dividend distributions. Dividend distributions can occur in a company that was previously a C corporation or acquired C corporation attributes in a non-taxable transaction (i.e., merger, reorganization, QSub election, etc.).

The order in which stock basis is increased or decreased is important. Because both the taxability of a distribution and the deductibility of a loss are dependent on stock basis, there is an ordering rule in

computing stock basis. Stock basis is adjusted annually, as of the last day of the S corporation year, in the following order:

1. Increased for income items and excess depletion;
2. Decreased for distributions;
3. Decreased for non-deductible, non-capital expenses and depletion; and
4. Decreased for items of loss and deduction.

When determining the taxability of a non-dividend distribution, the shareholder looks solely to his/her stock basis (debt basis is not considered).

For loss and deduction items, which exceed a shareholder's stock basis, the shareholder is allowed to deduct the excess up to the shareholder's basis in loans personally made to the S corporation. Debt basis is computed similarly to stock basis but there are some differences.

If a shareholder has S corporation loss and deduction items in excess of stock basis and those losses and deductions are claimed based on debt basis, the debt basis of the shareholder will be reduced by the claimed losses and deductions.

If an S corporation repays reduced basis debt to the shareholder, part or all of the repayment is taxable to the shareholder.

Stock Basis Example

Mark, the sole shareholder of an S corporation, has \$15,000 of stock basis on January 1, 2015. Mark received a 2015 K-1 reflecting the following:

| | | |
|----------|----------|---------------------------------|
| Box 1 | (20,000) | Ordinary business income (loss) |
| Box 9 | 4,000 | Net section 1231 gain |
| Box 12 A | 5,000 | Cash contributions (50%) |
| Box 16 C | 1,000 | Non-deductible expenses |
| Box 16 D | 12,000 | Distributions |

For this example, assume Mark does not have any debt basis.

Using the ordering rule, stock basis is first increased by items of income - so our initial stock basis of \$15,000 is increased by the \$4,000 net section 1231 gain. Our stock basis before distributions is \$19,000.

Then we reduce stock basis by distributions of \$12,000. Since the shareholder has adequate stock basis before distributions, the distribution will reduce stock basis to \$7,000 and the \$12,000 distribution is non-taxable.

Next, stock basis is reduced by the \$1,000 of non-deductible expenses. Stock basis before loss and deduction items is \$6,000.

Mark has (\$25,000) of loss and deduction items:

- (\$20,000) ordinary loss
- \$5,000 charitable contribution

Since loss and deduction items exceed stock basis, we would look to see if the shareholder had valid debt basis. Since there is no debt basis in our example, the loss and deduction items are pro-rated to determine the amount currently allowable:

- $20,000/25,000 * 6,000 = (\$4,800)$ ordinary loss
- $5,000/25,000 * 6,000 = \$1,200$ charitable contribution

| | |
|---|----------|
| January 1, 2015 Stock Basis | 15,000 |
| Plus: Net section 1231 gain | 4,000 |
| Equals: Stock Basis before Distributions | 19,000 |
| Less: Non-dividend distributions | (12,000) |
| Equals: Stock Basis before nondeductible expenses | 7,000 |
| Less: Nondeductible expenses | (1,000) |
| Equals: Stock Basis before Loss & Deductions | 6,000 |
| Less: Ordinary business loss $\{20/25 * 6\}$ | (4,800) |
| Less: Cash contributions $\{5/25 * 6\}$ | (1,200) |
| Equals: December 31, 2015 Stock Basis | 0 |

Therefore, although the corporation allocated Mark a (\$20,000) ordinary loss, he should reflect on his 2015 Schedule E only (\$4,800) due to the stock and debt basis limitations.

| | |
|---------------------------------------|----------|
| 2015 Ordinary business loss | (20,000) |
| Allowable 2015 Ordinary business loss | (4,800) |
| Suspended Ordinary business loss | (15,200) |

In addition, although Mark was allocated a cash contribution of \$5,000, he would only be allowed to take \$1,200 on his 2015 Schedule A, subject to the 1040 contribution deduction limitations.

| | |
|----------------------------------|-------|
| 2015 Cash contribution | 5,000 |
| Allowable 2015 Cash contribution | 1,200 |
| Suspended Cash contribution | 3,800 |

IRC §1366(d)(2) holds that any loss suspended because of lack of stock and debt basis shall be treated as incurred by the corporation in the succeeding taxable year with respect to that shareholder.

For 2016 Mark's K-1 reflected the following:

| | | |
|----------|--------|---------------------------------|
| Box 1 | 35,000 | Ordinary business income (loss) |
| Box 12 A | 1,000 | Cash contributions (50%) |
| Box 16 C | 5,000 | Non-deductible expenses |

Mark's basis in his stock at the beginning of the year is \$0. Losses suspended in a previous year are treated as being incurred in the next tax year and can only be deducted when basis is increased.

Stock basis is computed as follows:

| | |
|---|----------|
| January 1, 2016 Stock Basis | 0 |
| Plus: Ordinary Income | 35,000 |
| Equals: Stock Basis before Distributions | 35,000 |
| Less: Non-dividend distributions | 0 |
| Equals: Stock Basis before nondeductible expenses | 35,000 |
| Less: Nondeductible expenses | (5,000) |
| Equals: Stock Basis before Loss & Deductions | 30,000 |
| Less: Ordinary business loss – 2015 carryover | (15,200) |
| Less: Cash contributions – current year | (1,000) |
| Less: Cash contributions - 2015 Carryover | (3,800) |
| Equals: December 31, 2016 Stock Basis | 10,000 |

Although the K-1 will only show the current year income items, the shareholder will be allowed to take the losses previously suspended due to the stock basis limitations. Suspended losses should not be combined with current income amounts, but listed on a separate line on the [Form 1040, Sch. E](#), Supplemental Income and Loss, or the appropriate schedule when possible.

Suspended ordinary loss carryover is not netted with the current year ordinary income when applying the stock basis ordering rules. See Treas. Reg. §1.1366-2(a)(3)(i).

If the Stock basis before losses and deductions had only been \$17,500 instead of \$30,000, the following losses and deductions would have been allowed in 2016.

| | |
|--|----------|
| Equals: Stock Basis before Loss & Deductions | 17,500 |
| Less: Ordinary business loss - 2015 carryover {15,200/20,000 * 17,500} | (13,300) |
| Less: Cash contributions | |
| Current year {1,000} | |
| 2015 carryover {3,800} | |
| Total {4,800/20,000 * 17,500} | (4,200) |
| Equals: December 31, 2016 Stock Basis | 0 |

The carryover to 2017 would be:

| | |
|---|----------|
| 2016 Ordinary business loss (based on 2015 carryover) | (15,200) |
| Allowable 2016 Ordinary business loss | (13,300) |

| | |
|---|---------|
| Suspended Ordinary business loss | (1,900) |
| 2016 Cash contribution (based on current year and 2015 carryover) | 4,800 |
| Allowable 2016 Cash contribution | 4,200 |
| Suspended Cash contribution | 600 |

The loss and deduction items in excess of stock and debt basis:

- retain their character
- are treated as loss and deduction items incurred in the subsequent tax year and will be allowed if stock or debt basis is increased or restored
- carryover indefinitely or until all the shareholder's stock is disposed of

Once a shareholder disposes of all of their stock, any suspended loss and deduction items are lost and cannot be deducted.

Important Things You Should Know:

- A non-dividend distribution in excess of stock basis is taxed as a capital gain on the shareholder's personal return. It is a long-term capital gain (LTCG) if the S corporation stock has been held for longer than one year.
- Non-deductible expenses reduce a shareholder's stock and/or debt basis before loss and deduction items. If non-deductible expenses exceed stock and/or debt basis, they are not suspended and carried forward.
- If the current year has different types of loss and deduction items, which exceed stock and/or debt basis, the allowable loss and deduction items must be allocated pro rata based on the amount of the particular loss and deduction items.
- A shareholder is not allowed to claim loss and deduction items in excess of stock and/or debt basis. Loss and deduction items not allowable in the current year are suspended due to basis limitations and are carried over to the subsequent year.
- Suspended losses and deductions due to basis limitations retain their character in subsequent years. Any suspended loss or deduction items in excess of stock and/or debt basis are carried forward indefinitely.
- In determining current year allowable losses, current year loss and deduction items are combined with the suspended loss and deduction items carried over from the prior year, though the current year and suspended items should be separately stated on the Form 1040 Schedule E or other appropriate schedule on the return.
- A shareholder is only allowed debt basis to the extent he or she has personally lent money to the S corporation. A loan guarantee is not sufficient to allow the shareholder debt basis.
- If a shareholder contends he or she has contributed or loaned substantial funds to the S corporation, consideration should be given to whether the shareholder had the financial means to make the contribution or loan.
- Part or all of the repayment of a reduced basis debt is taxable to the shareholder.
- If a shareholder sells their stock, suspended losses due to basis limitations are lost. Any gain on the sale of the stock does not increase the shareholder's stock basis.

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.317.4000

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IRS Launches New Online Tool to Assist Taxpayers with Basic Account Information

IR-2016-155, Dec. 1, 2016

WASHINGTON – The Internal Revenue Service announced today the launch of an online application that will assist taxpayers with straightforward balance inquiries in a safe, easy and convenient way.

This new and secure tool, available on IRS.gov allows taxpayers to view their IRS account balance, which will include the amount they owe for tax, penalties and interest. Taxpayers may also continue to take advantage of the various online [payment options](#) available by accessing any of the payment features including: direct pay, pay by card and Online Payment Agreement. As part of the IRS vision for the future taxpayer experience, the IRS anticipates that other capabilities will continue to be added to this platform as they are developed and tested.

“This new tool is part of the IRS’s commitment to improve and expand taxpayer services by providing additional online taxpayer options,” said IRS Commissioner John Koskinen. “The new ‘balance due’ feature, paired with the existing online payment options, will increase the availability of self-service interactions with the IRS. This will give taxpayers another way to take care of their tax obligations in a fast and secure manner.”

Before accessing the tool, taxpayers must authenticate their identities through the rigorous Secure Access process. This is a two-step authentication process, which means returning users must have their credentials (username and password) plus a security code sent as a text to their mobile phones.

Taxpayers who have registered using Secure Access for Get Transcript Online or Get an IP PIN may use their same username and password. To register for the first time, taxpayers must have an email address, a text-enabled mobile phone in the user's name and specific financial information, such as a credit card number or specific loan numbers. Taxpayers may review the [Secure Access](#) process prior to starting registration.

As part of the security process to authenticate taxpayers, the IRS will send verification, activation or security codes via email and text. The IRS warns taxpayers that it will not initiate contact via text or email asking for log-in information or personal data. The IRS texts and emails will only contain one-time codes.

In addition to this new functionality, the IRS continues to provide several self-service [tools](#) and helpful resources available on IRS.gov for individuals, businesses and tax professionals.