

IRS CUTS NUMBER OF THIRD-PARTY NOTICES TO TAXPAYERS

WASHINGTON – The Internal Revenue Service announced a major policy change Tuesday that will sharply reduce the need for sending out third-party contact letters to taxpayers.

Responding to concerns from tax practitioners and others, IRS Commissioner Charles O. Rossotti said a new, more selective process will be used to send out third-party notices. The change is being made to reflect the agency's long-standing policy of contacting outside parties about a person's tax case only as a last resort.

For the vast majority of IRS field examinations, the switch means the third-party notice will go out only if the agency has been unable to collect the needed information from the taxpayer. Previously, the notification that the IRS might contact outside parties for information has been sent at an earlier step during the initial contact with a taxpayer.

"This is a common sense change," Rossotti said. "Many of these letters have gone out too early and needlessly alarmed taxpayers in cases where the IRS had no need to contact outside parties."

The change, which is effective March 29, means the IRS will stop sending third-party letters on a blanket basis to taxpayers facing examination questions. The new standard will be using the letters on an "as needed" basis when the agency is unable to obtain the information from the taxpayers.

The third-party contacts are sometimes made to resolve unanswered questions about the assets, address or tax liability of a taxpayer.

"There's no reason to send out these letters when we can work directly with the taxpayer in most cases," Rossotti said.

On issues involving tax collection, the letters will continue being sent out on a general basis because of legal requirements.

(more)

However, the IRS is in the process of rewriting this letter (Number 3164) after tax practitioners raised concerns about its wording. Rossotti said the letter needed to be revised because it could unnecessarily alarm taxpayers about the IRS contacting outside parties on sensitive tax matters.

The IRS is working hand-in-hand with tax practitioners to come up with a new version of the letter that clearly spells out the agency's procedure of working cooperatively with individual taxpayers before contacting outside parties. The revised letter also will highlight new taxpayer rights provisions, which includes the IRS's responsibility to notify individuals of which outside parties the agency has contacted.

The IRS plans to finish the new, clearer version of the letter soon. In the meantime, the current version of the letter will remain in use because of legal requirements to send a notice to some taxpayers.

"In the end, what we'll have is a clearer, better written notice," Rossotti said. "And with our new policy on sending out fewer letters, this means fewer taxpayers will have to needlessly worry about an outside party becoming involved in their tax issues."

X X X