

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL (IRSAC)**

**SMALL BUSINESS & SELF-EMPLOYED (SB/SE)
SUBGROUP REPORT**

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**SMALL BUSINESS & SELF-EMPLOYED
SUBGROUP REPORT**

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I. INTRODUCTION

The IRSAC Small Business & Self-Employed Subgroup (hereafter “SB/SE Subgroup”) is comprised of tax professionals who represent tax preparers and small and medium sized businesses, having significant representation in professional organizations comprised of such preparers. Many of the current SB/SE Subgroup have had three years of experience in their capacity as Subgroup members and, during this time, have had the opportunity to become knowledgeable about SB/SE operations and programs. The SB/SE Subgroup is thankful to the IRS for arranging meetings with key leadership personnel in Washington D.C. and visits to key field locations such as the Offers in Compromise Group 10 Field Office in Austin, Texas.

An Executive Summary of our Issues and Recommendations highlights several key observations:

1. Offer in Compromise Program. There has been significant improvement in inventory management and cycle time. Yet significant IRS resources are still being expended for a low payback upon the amount of time invested in this program.
2. Abusive Tax Schemes – Shelters and Scams. A continuous stream of new and creative shelters and scams are marketed to the taxpaying public. The new initiatives of the IRS are beginning to crack down on these but much education needs to be done to create public awareness of what is right and wrong.

II. ISSUES AND RECOMMENDATIONS

ISSUE ONE: OFFER IN COMPROMISE PROGRAM (OIC)

In OIC taxpayers with admitted tax debt who can't full pay ask to pay a personal maximum. In contrast are the large numbers of delinquent taxpayers that know the IRS has no effective way to collect and ignore their responsibility to settle their obligations. Year after year these “unreachable” tax receivables swell while legislative permission to engage outside collection agencies is sought. The OIC should become the model, the funnel, the vortex for pulling these citizens who ignore their tax obligations into monitored compliance and payment agreements. The SBSE subgroup has been following the progress of the OIC program for the last 3 years with the encouragement and support of the IRS. Over the last 3 years we have seen significant improvement in inventory management and cycle time.

The OIC inventory of cases has dropped from 94,931 in FY 2001 to 49,683 in FY 2004. The total OIC inventory thru June 2004, at 49,683, is at the lowest level since May 1999.

This drop in caseload is a result of the implementation of the centralized sites at Brookhaven and Memphis in July, 2001. The implementation of these Centralized OIC processing sites (COIC) along with revised, streamlined procedures in the areas of returns and financial analysis have contributed significantly to reversing the past history of growth in case inventory. Positive improvements noted are:

- a) COIC fully processes almost all “wage & investment” OICs
- b) All processability determinations are made in COIC
- c) COIC completes internal case-building on Field cases

Prudent use of return procedures has substantially reduced the impact of taxpayer procrastination on inventory growth and OIC cycle time.

- d) “Full Pay” screening process quickly resolves unrealistic offers, as well as mitigates the negative impact of the “offer mills.”

The IRS implemented the OIC application fee in November 2003. Through June 2004, the IRS has collected approximately \$4.7 million in application fees. The application fee requirement appears to have contributed substantially to a 15-20% reduction in OIC receipts. Implementation of the fee has also increased the number of OIC’s returned as not processable.

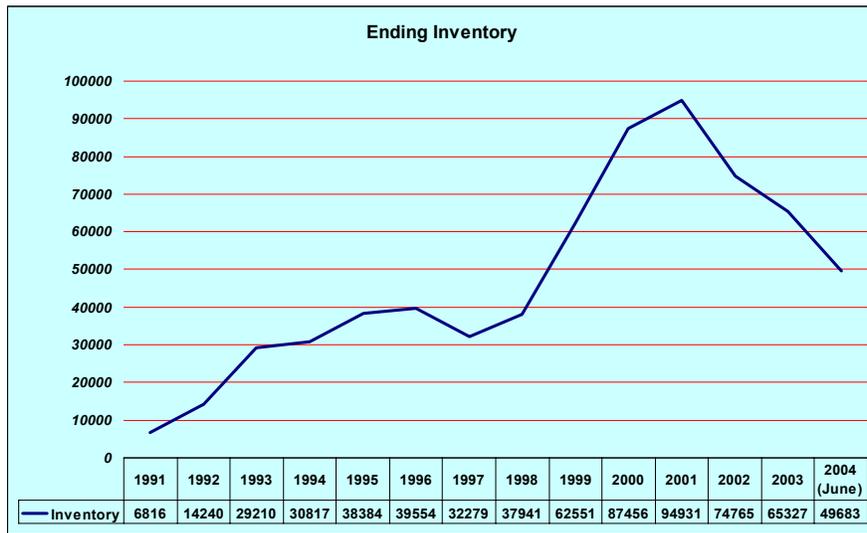
These actions have helped reduce cycle time and increase the number of cases that are worked. Along with the COIC sites and the processing fee the technology being used to help case building was improved and decreased the length of time that it is taking to complete cases. The result is a drop from an average 18 months in FY 2001 to 6 months in FY 2003. *Congratulations IRS, this is a great accomplishment.* The OIC application fee, along with the new return procedures have contributed to a 30% reduction in OICs that have to be closed as process able returns. COIC also reports that the quality of responses to additional information requests has improved considerably. The investment of field-based revenue officers into the OIC program has been reduced from almost 1100 in FY-01 to approximately 435 today.

OIC Handbook (IRM 5.8) was revised in May 2004. The revision includes considerable feedback from OIC employees, as well as other stakeholders such as TAS and Appeals. It addresses a variety of common complaints from external stakeholders and taxpayers. There are new procedures on process able returns designed to improve communication and service

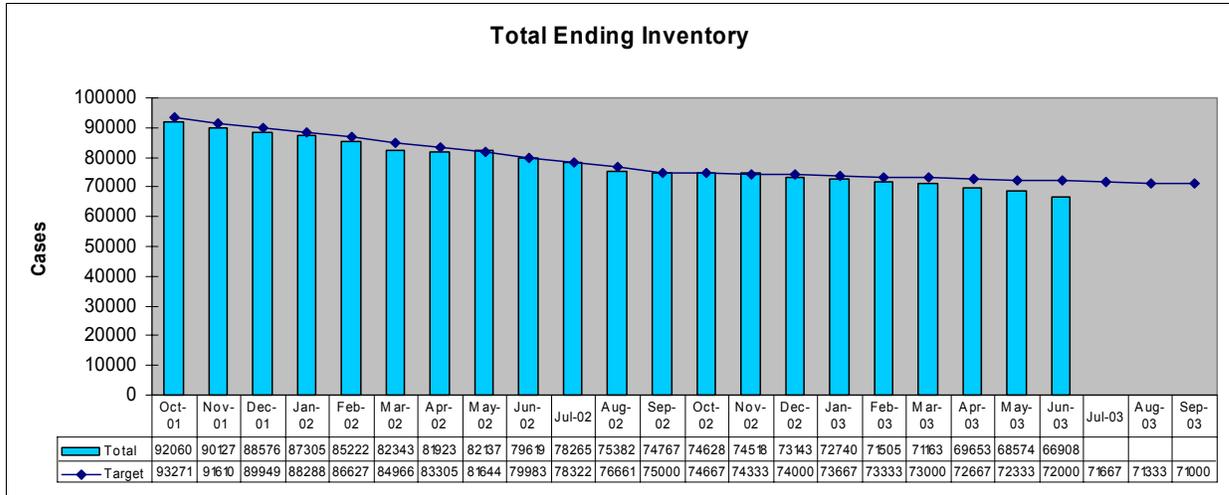
to taxpayers, as well as mitigate any unintended negative impact of the OIC application fee. Along with the new procedures on process able returns there is also new procedures for taxpayers who “substantially complied” to our requests for additional information, and return reconsideration procedures for taxpayers who did not respond timely due to circumstances beyond their control.

The exhibits that follow illustrate that the OIC program has made major improvements and is setting goals and achieving them.

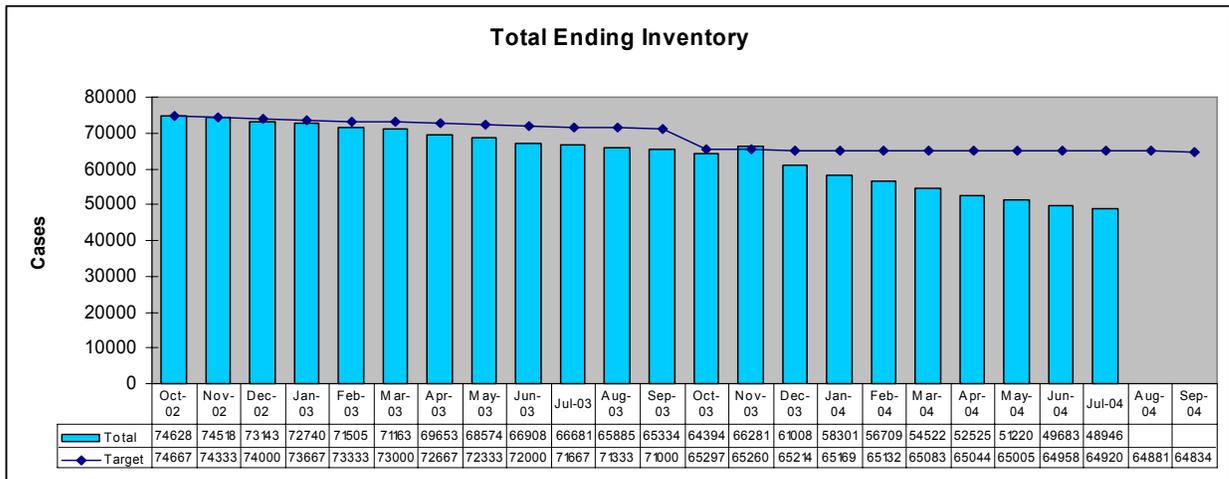
1991 – 2004



October 2001 thru September 2003



October 2002 thru January 2004



The SBSE Committee had the opportunity to visit both Brookhaven’s COIC site as well as Area 10’s group field office in Austin, Texas, to review the OIC process. Revenue Offer Specialists explained their OIC procedures and their concerns. Their hard work and professionalism is worthy of recognition.

Although the OIC program is improved there is a still concern that far too many scarce IRS resources are utilized compared to the amount of actual tax assessed and collected; particularly given the billions in receivables that remain uncollected and untouched.

ISSUE ONE: RECOMMENDATIONS

1. The SBSE Subgroup encourages the IRS to take a hard look at the types of tax accounts that are routinely considered for offers in compromise. In particular we question the business sense of compromising relatively current accounts receivable, where most or all of the collection statute is available to pursue more productive collection alternatives. A more focused approach on the type of tax delinquencies that more realistically warrant OIC consideration would not only help the IRS better manage its resources in this area, but could also result in more accepted offers in appropriate situations.
2. Offer Specialists need ongoing Continued Education in appropriate tax law forensic accounting and financial investigative tools and skills to improve quality and timeliness of case fieldwork. The Offer Specialist needs strong understanding of how to analyze routine and complex business financial statements in an efficient manner.
3. In conjunction with recommendation number two Continued Education needs to be ongoing with both the Service and the practitioner community so there is a joint understanding of what is a processable offer.
4. In order to improve the quality and efficiency of field investigations, the financial statement for businesses, Form 433-B should be required from self employed taxpayers, in addition to corporations and partnerships.

5. The SBSE Subgroup recommends better training for RO's and practitioners on the differences of an 8821 Tax Information Authorization, 2848 Power of Attorney and the check box on the 656 would ensure consistent application of the rules in the area of taxpayer representation.

6. The SBSE subgroup supports the inclusion of the practitioner signature line on the revised 656. This can help define those individuals or firms that submit fraudulent filings. Along with this the group also recommends that the paid preparer of the OIC whether licensed or non-licensed should be subject to the same Circular 230 prepare penalties as are enrolled preparers.

ISSUE TWO: ABUSIVE TAX SCHEMES – SHELTERS AND SCAMS

It has been said that there are two types of tax debtors – the “can’t pays” and the “won’t pays.” Those who seek out scams, or who fall for a shelter con artist, are gullible due to their own greed.

The IRSAC has heard a number of presentations on tax schemes. In a news release dated March 1, 2004 (IR-2004-26), the Service details in plain English the types of scams the average American is likely to stumble over. “Put it all in a trust! Deduct everything – your home, your kids, and your food. Deduct other people’s kids! And deduct all your income because taxes are illegal!”

Another production, Publication 3995, was released just over a year ago. Called “Recognizing Illegal Tax Avoidance Schemes” and subtitled “Is It Too Good to Be True?” this two page document furnishes the reader with tools for critically evaluating any tax saving

pitch. The reader can judge the merits and see the difference between a bona fide scam vs. tax planning with aggressive marketing by comparing the elements.

The IRSAC commends IRS on these clear, straightforward documents. They provide a valuable service to the taxpaying consumer who can fall prey to skillful marketing of fraudulent and abusive tax schemes.

For the “high end” taxpayer, IRS has provided a number of Regulations, Notices and Rulings which spell out the intricacies of some of the craftiest scams. Titles like “Lease Strips” and “Producer Owned Reinsurance Corp” and “Debt Straddles” clog the comprehension pathways of the average, middle class tax practitioner. In Notice 2003-76, the Service collected over a dozen years worth of these Abusive Transaction promulgations, and numbered them. A paragraph each was provided to describe the content. These leave the reader with the impression that abuses are only found in the LMSB world. Currently, there are 31 of them. They are listed with links to each at this address:

<http://www.irs.gov/businesses/corporations/article/0,,id=120633,00.html>

Sadly, as soon as the IRS bears down on the abusive schemes, the promoters close up shop and reopen elsewhere remarketing another tactic. They peddle watered down versions of complicated schemes to SBSE individuals and investors. Those same wordsmiths who produced the publication and the news release mentioned above need to be assigned a more detailed publication. This would be addressed to the middle class preparer who thinks that Notice 2003-76 and Form 8886, “Reportable Transaction Disclosure Statements” are not applicable to his or her practice. For instance, the very existence of a Roth IRA scam means a taxpayer with middle class income. A punch list of questions should be worked out

to assist the practitioner with ferreting out the legitimate plans from those requiring disclosure and more. The practitioner needs to know that the middle class is quite capable of tools such as:

“dummy” offshore employee leasing companies

“dummy” annuity and or insurance vendors

“dummy” suppliers, landlords or anyone else.

ISSUE TWO: RECOMMENDATIONS

1) The IRS should improve and expand informative publications to educate taxpayers and preparers about abusive tax schemes. The practitioner needs to know that in today’s world, Form TD F 90-22.1, “Report of Foreign Bank and Financial Accounts” might be the most important form they screen for. The Service should not stop there, and should translate into plain examples how schemes can be adapted to the SBSE realm. We can’t just settle for the 31 nasties on an interview sheet: “You can be caught” and “it rips off every taxpayer in the country” just doesn’t inspire much contrite compliance. It is more likely to be labeled as a scold with no enforcement teeth behind it.

Go for the heart. Fill the remainder of this publication with true life stories. Turn, for example, to the testimony of Dale F. Brown. He testified on July 21, 2004 to the Senate Finance Committee holding hearings on *Bridging the Tax Gap*. Reprint his story. He explains how he was lured down the easy money path and ruined his life in the process. There are others. Their families are suffering as much or more than they are.

Dale wished that he had seen a story like his years ago, in time to reverse his course. He wished it was written up in Parade Magazine or aired on TV or radio. Unfortunately, the IRS has little budget to run public service announcements on radio or to buy prime air time during sports playoffs. Still, enough true stories posted on the IRS web site or other public venues might get the message moving.

We compliment Commissioner Everson on his brilliant telephone call to the “Car Talk” radio show. He exposed the negative issues surrounding donated cars and promoted legitimate deduction methodology. He made excellent use of his gravitas as Commissioner.

2) The Service should give taxpayers information on how to cope if they have been scammed or burned by a promoter or an unscrupulous preparer. A flowchart, some FAQ’s on the Web or other quick start method would point victimized taxpayers to file complaints with the Office of Professional Responsibility or with other consumer watchdogs, such as the BBB, Attorney General or Small Claims Court.

ISSUE THREE: TAX GAP

The tax gap is the difference between what the Internal Revenue Service collects from taxpayers and what taxpayers actually owe. Recent estimates hold it to be over \$311 billion annually. The overall compliance rate is now 85% and declining. This growth in noncompliance threatens the integrity of our voluntary tax system. Senator Baucus challenged the IRS on April 13, 2004 to raise the voluntary compliance rate to 90% by 2010.

The IRS Oversight Board was created in 1998 to provide long-term guidance and direction to the agency. The 2004 report listed the agency's first priority as closing the

compliance gap. It commissioned a public opinion survey of taxpayer attitudes, and received the results last year. Nearly one in five taxpayers thinks occasional tax cheating is acceptable.

The National Taxpayer Advocate, in her 2003 Annual Report to Congress, called the Tax Gap the second largest problem facing taxpayers today. It costs each taxpayer \$2,000 per year.

On July 21, 2004, the Senate Finance Committee held a hearing entitled “Bridging the Tax Gap.” Commissioner Mark Everson was summoned to the Hill, as were Taxpayer Advocate Nina Olsen and representatives of TIGTA, GAO, and other stakeholders.

The Commissioner and the Oversight Board seek budget increases for the IRS to increase enforcement. Congress believes that more can be done by the Service to make better use of existing IRS resources, coupled with changes to the tax law.

Noncompliance types are classified in three groups. First is *filing*, as in non-filing and/or late filing. Second is *reporting*. Returns are filed with incomplete or incorrect information. *Paying* compliance refers to tardy and partial payments as well as non payment.

The IRS has reengineered the examination and collection processes. A virtual mosaic of new strategies are in various stages of deployment for coping with the multitude of this group. The National Research Project will also furnish sorely needed target data for areas of high noncompliance.

Self-employed taxpayers account for the largest segment of the overall tax gap; 26% of it. This amounts to \$81 billion in unpaid income taxes and \$51 billion in unpaid self-

employment taxes. One in ten self-employed taxpayers *never* files; 82% of the unfiled returns have balances due. One in six pays late. In fact, they also account for half of the income tax portion of the tax gap! A full 40% of the payroll tax gap comes from Schedule C filers.

The ranks of the self-employed continue to grow. Some are the proverbial proprietors founding their own firm, making their own dream. Many more are involuntarily self-employed. They may be immigrants barred by language, experience, education or documentation. They are factory workers, whose livelihoods have been outsourced beyond our oceans, pensions and reach. They are wage earners who moonlight nights and weekends to make ends meet, or just make party money. And, they are wage earner wannabes, who get handed checks or cash (wink wink), each week, and a 1099 at years' end. They need their jobs, they want their jobs, they won't complain, and they remember how easy was to do their taxes, when the withholdings were done at work. They want help, they want it now, and they want it from the IRS Commissioner. They want help in systemic processes that makes it easy to succeed at paying their taxes. Make tax paying easy and effortless for the self-employed. Offer withholding at the source!

One can comb American history, government reports and internal service research to find many of the following ideas. Studies have shown repeatedly that withholding the tax at the source is the most effective device for proper collection. Tax withholding was first set up during the Civil War. It was discontinued after the war debts were recouped.

When contemporary wage withholding was legislated in 1942 to collect the Victory Tax, most personal service and labor earnings were in the form of wages. The growth of self-employment has eroded the success of wage withholding for income and social tax

collections. *Policy changes should enable all who want to pay as early as possible to do so with minimum friction.* Setting up processes for the masses who will be served by withholding enablement serves two goals:

It brings in the “swing” payers who cannot budget or keep books, or who are otherwise just passive, overwhelmed or otherwise disconnected;

It allows the Service to test withholding, matching, collection and filing methods prior to mandates, should they be legislated.

Currently, procedures block the ability of taxpayers who want to pay timely. Procedure and policy changes could remove compliance obstacles.

Businesses with bona fide contractors have no direct way to offer withholding as an option. Today, withholding is only available if the contractor signs, under oath, on form W-9, that he or she *is* subject to backup withholding. So, the contractor needs to commit perjury to work around the form language and request payer to withhold. There is no range of tax rate. No other *passive* option of voluntary compliance is offered! Not on the form, not in the instructions or the publications is there any voluntary, passive payment compliance opportunity. Furthermore, that W-9 stays on file forever. It is not updated annually like a W-4, which addresses withholding rate changes for employees.

The self-employed are expected to be proactive. They must gauge their annualized tax balances of both income and self-employment taxes. Then, they need to save their funds. Four preset payment dates which range from two to four months apart are presented as the only venue for fiscal compliance.

ISSUE THREE: RECOMMENDATIONS

Address the causes of non compliance, and reduce the opportunities for noncompliance! Enable and simplify voluntary payment and filing compliance!

1. Make available voluntary withholding at the source.

The IRS should make it simple for any taxpayer to withhold and prepay taxes from any income type. Streamline and encourage both sides of the process, for the payor and the payee. Then, encourage it.

2. Estimated Tax Adaptations

With EFTPS, any taxpayer can set up online voluntary Estimated Tax drafts from their bank account. Taxpayers and practitioners should be provided screen picture samples of weekly or monthly estimated tax management. Anyone with paper ES payment vouchers can pay more often than once per “quarter.” IRS needs to tell some taxpayers that frequency is good, welcome and not penalized.

3. Data Mining

Touch the more compliance resistant occupations by utilizing their trade associations and their licensing authorities. Furnish timely articles for their periodicals. Speak at the conventions. Have the compliance presentations pre-qualified where possible for continuing education credit. Work with state and local governments issuing the licenses to include tax information handouts. Check the feasibility of the various trade unions carrying the message. Post notices or leave handouts with tax information, criminal referral numbers and

education opportunities in malls and superstores with community bulletin boards or handout racks.

4. Tip Reporting

- a. Verify tip income reported on Form 941
- b. Monitor and periodically adjust as appropriate the allocated tip rate
- c. Treat all charged tips as wages.
- d. Expand the Form 8027 requirement so it applies to more industries.
- e. Work with representatives of all industries with tipped employees to optionally allow all tips to be included on the invoice.

5. Public Opinion, Compliance and Personal Integrity

The public's attitude towards taxation needs to be refocused, emphasizing integrity, responsibility and commitment to the public good. Our system is *voluntary*. Proper voluntary compliance will maintain the integrity of the nation's tax system. Therefore, the IRS should continue to inform the public about the ways it is enforcing the law. Enforcement needs to be perceived as fair and evenhanded, and likely to occur when a taxpayer is noncompliant.

ISSUE FOUR: PARTNERSHIPS AND FLOW-THROUGH ENTITIES

The IRS is aware of the continuing rise in filings for flow-through entities. Their studies show the number of filings has risen steadily over the past 4 years from 1998 to 2002 by approximately 4% per year. The K-1 matching program was a major compliance initiative, which resulted in a high no change rate. A high no-change rate implies to the Service that its classification and selection criteria are not efficient in selecting the returns most in need of examination. Because the IRS has not increased

resources for compliance for the 1065 and 1120S return types, it is important for them to have a better method of “targeting” the returns which will net a result of an increase in collectible tax. In resolving mismatches in the K-1 matching program, agents have gained a better understanding of current business practices although the process was labor intensive. They need to build automated selection models because manual selection processes are unaffordable. Past methods of identification were a DIF score used for pass through entities which is a 15 year old formula and needs to be reevaluated. The Service performed a High Income Study of individuals with Total Positive Income (TPI) in the ranges of \$250K to \$1million and over \$1million using 4 measurement techniques and found 60% of issues were in the flow-through entities reported to these individuals. This study suggests there needs to be more compliance resources devoted to understand and plan targeted enforcement strategies for the flow-through entities.

The SB/SE Subgroup supports expanding the National Research Project into the flow-through area to get more information about current business practices and update the DIF score tabulation formulas. The SB/SE Subgroup also supports the K-1 matching program and its continuation for increased compliance.

The SBSE Subgroup suggests that high no change rates are not the only measurement to use to evaluate the effectiveness of a compliance initiative. The mere fact taxpayers got notices made them aware that flow-through entities were not exempt from examination. The resulting increase in compliance cannot be easily measured. The SB/SE Subgroup feels effective tax administration is to “Touch More Taxpayers” regardless of whether or not more tax is collected and the process will encourage more compliance. The SB/SE Subgroup supports the changes which have been made in page two of Schedule E which help to identify possible differences in matching K-1’s to individual tax

3. Tax Gap. The tax gap continues to grow between what is the proper amount of tax due and what is actually reported, remitted and paid. Withholding at the source needs to be expanded to enhance the perception of fairness and to simplify payment. Good business practices need to be advertised and rewarded.
4. Partnerships and Flow-Through Entities. More partnerships and flow-through entities need to be “touched” by the IRS to create an awareness of the importance of compliance and proper reporting. The K-1 matching program was a positive step in the right direction to increase reporting compliance.
5. E-Services. E-services has had a successful launch and will have a powerful effect on the way the IRS interacts with the tax preparing public. It creates a strong incentive for tax preparers to e-file and should provide significant cost savings for both the IRS and the preparers. To achieve these efficiencies and savings, e-services should be expanded to include Reporting Agents and other taxpayer representatives as quickly as possible.
6. Office of Professional Responsibility. OPR is in the process of enhancing public confidence in the tax preparer community. For this to take place, OPR has begun a process to improve what information the OPR receives and the handling of that information. It appears that the internal process developed has strengthened the Office of Professional Responsibility and should continue to accomplish the goal of improving the professional integrity of the tax preparer community.

returns and also educates the taxpayer of the presence of the matching program. The SB/SE Subgroup also supports a uniform K-1 to better compare information reported on the K-1 form to individual taxpayer returns.

ISSUE FOUR: RECOMMENDATION

1) The SBSE Subgroup recommends continuing the current compliance initiatives. The SB/SE Subgroup would like to see more resources devoted to compliance for flow-through entities even if it means reallocating compliance resources from individual taxpayers as there is a feeling among individual taxpayers that corporations “get away” with more non-compliance than individuals do.

2) The SB/SE Subgroup supports the compliance initiative to further investigate any S-Corporation in a service type business with no wages or salaries reported on form 1120S or with an unreasonably low officers compensation reported. Other areas of possible compliance deficiencies include the following:

- Reporting of multi-year losses for an S-Corporation without basis for those losses.
- Final year issues for both partnerships and S-corporations
- Employment tax issues regarding misclassification of employees
- Invalid TIN's
- Improper classification of partners as active or passive

ISSUE FIVE: E-SERVICES

E-services is a suite of web-based products designed to allow tax professionals and payers to do business with the IRS electronically. E-services is an important element of the IRS Business Systems Modernization agenda and of the President's E-Government initiative. It is an essential ingredient toward the achievement of the IRS mandate of 80 percent electronically filed returns by 2007.

Reporting Agents. This is a group that is computer literate and has been requesting e-services through their organizations. They would embrace e-services immediately on behalf of over one million business taxpayers and would significantly reduce IRS' resources that are devoted to the human handling of Reporting Agent inquiries.

The SB/SE Subgroup commends the Service for the e-services features that were developed this past year. Since e-services are so new, and adequate capacity and turnaround times must be ensured, it is understandable that the Service has proceeded at a measured pace in further implementations.

ISSUE FIVE: RECOMMENDATIONS

1) Though mindful of the rationale for a measured implementation approach, the SBSE Subgroup recommends the development of additional e-services features as soon as possible. Doing so will speed the penetration of e-services in the tax preparer community, contributing toward both cost reduction and transition to electronic tax return filing.

2) Through August 2004, there were 30,000 registered e-services users, and this number was increasing at an average rate of 1,000 per week. However, only 8,500 of these users were eligible for the premium services. Furthermore, the total population of firms eligible to use the premium services is estimated at 50,000. A study should be done to determine why only 8,500 firms of the 50,000 populations, that are eligible for the premium e-services, have registered for e-services. There is suspicion that this is due to lack of authorization from the principals of firms. This should be verified and a strategy developed to dramatically expand adoption of the program.

3) The SBSE Subgroup agrees with the position of the IRS Oversight Board as stated in its 2003 Annual Report on Electronic Filing, "Ultimately, the more incentives the

IRS can reasonably provide to all types of electronic filers, the more it will encourage e-filing. In the Board's view similar electronic services should be extended to other third party partners such as payroll providers, as both the IRS and the third party providers will benefit from quicker, less error prone electronic services."

4) The SBSE Subgroup believes that significant cost reductions can be obtained by increasing the e-services customer base. This can be accomplished by lowering the 100 e-file threshold for individual returns and providing e-services to Reporting Agents and others, such as the mortgage industry, who have thus far been excluded. Although the 100 return threshold for e-services is an incentive for preparers to e-file, rather than paper file, returns, cost savings could be achieved at little or no extra cost to the Service by reducing, and eventually eliminating, this entry requirement.

5) Because of the 2007 mandate and the cost reductions that both IRS and the tax preparer community can achieve from the use of e-services, we support all initiatives that will increase the utilization of e-services. This includes both increasing the number of features in the e-services suite of products and broadening the population that can partake of e-services. The SBSE Subgroup believes that e-services has been very successfully launched and would like to ensure that momentum in this project continues.

Issue: Office of Professional Responsibility

The Office of Professional Responsibility (OPR) is charged with the oversight of those who may practice before the Internal Revenue Service as defined by Circular 230.

This group comprises a relatively small percentage of the approximately 1.2 million preparers. Best estimates are that between 300,000-600,000 tax return preparers are not

regulated by any licensing authority. In addition, they are not subject to any minimum requirement of competency or requirement to engage in continuing professional education for their field of endeavor. Those who are licensed and so regulated by virtue of Circular 230 or by state licensing, may be punished for substandard work by OPR. The rest, who are unregulated are subject only to the civil suit process brought by their clients or criminal/civil suit brought by the Justice Department.

Fraudulent preparation, failure to sign as the paid preparer and promotion of abusive tax shelters are some of the more egregious acts of those less than qualified in the tax preparation field. Preying upon unsuspecting clientele who assume there is oversight and control of this field, is made easy under the current system. In the past OPR generally waited for the problem to be brought to them, either the taxpayer filed a formal complaint or another operating division of the Service would sometimes forward such concerns internally. OPR has developed an internal communication and action process to address the numerous issues that involve this office. The sharing of information and concerns regarding the preparer/practitioner community by internal stakeholders has been almost nonexistent. At the present OPR has recognized 68 separate areas of concern where the internal IRS process needs improvement to elevate the involvement, awareness and strengthen IRS' programs in the tax preparer/practitioner arena. The areas fall into four separate categories: a) Communications-Education and Outreach, b) Penalties, c) Fraud/Referrals/Ethics, and d) Legislation and Regulation. Within each area there are Recommendations, Resolutions, Stakeholder ownership and Status to help improve the communication process as well as the result. Of the 68 areas 58 have been addressed and completed or are of such a nature that

they are ongoing. One of the areas under Communication-Education and Outreach is to encourage best practices and positive behavior of a tax preparer, as well as educating the public on choosing a preparer and the importance of a preparer's signature. The 68 internal process improvements were identified just a few months ago and are already seeing improvement. The SB/SE Subgroup fully supports this process. Elevation of the office of OPR was long overdue and will only increase overall compliance especially in the practitioner community.

The SB/SE Subgroup understands that there is an issue as to once the program is completed and functioning who should have ownership, since there are many stakeholders involved. The options are a) leave the program with OPR, b) hand the program to SB/SE, or c) give each item back to the major stakeholder.

ISSUE SIX: RECOMMENDATIONS

- 1) The SB/SE Subgroup recognizes the effort expended by OPR and the enormous task that lies ahead. We also understand that ownership of these issues is paramount. We recommend that OPR should continue to oversee these internal process and whatever ultimate action taken will be jointly determined. If the process is given back to each stakeholder or SBSE only, OPR may be left out of the loop.
- 2) The SB/SE Subgroup recommends that future concerns as related to the office of OPR, initially identified within the operating divisions, be immediately forwarded to OPR for cooperative action.

The SB/SE Subgroup believes that e-services has the potential to significantly improve the interaction between IRS and the tax preparing public. It will have an impact similar to that of e-pay and e-file and, quite simply, could completely change the way IRS provides service to tax professionals. Since e-services is available 24/7, tax preparers have the ability to receive needed information at any time – a vast improvement over telephone-based customer service methods, especially during the January-April tax period.

The first, basic e-services (registration, PTIN and e-file applications, TIN matching) were launched in October 2003. In the spring of 2004, IRS added important new “premium” features to e-services: Disclosure Authorization, Electronic Account Resolution, and Transcript Delivery System. While the combination of basic and premium services reduces telephone calls and provides a more cost effective, efficient experience for both IRS and e-services users, the premium services create the biggest impact. However, the premium services are available only to tax professionals who are active participants in the IRS e-file program and who e-file more than 100 *individual* income tax returns per year. These restrictions preclude the use of e-services by many individual income tax return preparers and by all business tax preparers and payroll processors.

Especially noteworthy is the lack of e-services for the 2,200 registered Reporting Agents. They represent the payroll provider industry that services more than one million employers with a combined total of more than 35 million employees – one third of the entire private sector workforce. By partnering with the Service, Reporting Agents have been instrumental in the development of the e-file and EFTPS systems. Nevertheless, Reporting Agents have been excluded from e-services to the detriment of both the Service and the tax paying public. In terms of cost reductions, there is a compelling case for e-services to