

EXHIBIT A

**INTERNAL REVENUE SERVICE
ADVISORY COUNCIL**

**K-1 MATCHING TASK FORCE
REPORT**

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INTRODUCTION

The K-1 Matching Task force met in person and by conference call to identify and discuss issues we believe should be considered in the design of the matching program. Overall, the Task Force commends the IRS for tackling this extremely complex and difficult task. We also believe that the successful design and implementation of a K-1 Matching Program will enhance voluntary compliance.

DISCUSSION

We cannot over-emphasize the need to develop a matching program that will operate successfully from the time it is launched. To avoid a host of potential problems caused by a poorly designed program, the IRS must ensure the success of the program from its earliest beginnings. The Task Force members unanimously agree that serious damage will be done to IRS' credibility should a substantial number of erroneous notices be distributed; with the majority of taxpayer recipients comprised of Small Business & Self-Employed customers.

ISSUE

Thus, the Task Force is quite concerned that the matching program be carefully designed to minimize the chance for error. We believe this will require more extensive investigation than a review and analysis of currently transcribed K-1 data. Given the significant differences that currently exist in the preparation of K-1s, and the confluence of complex partnership, trust, and S corporation tax law, given the overlay of and interplay with various other tax provisions, i.e., the passive loss rules described in Internal Revenue Code section 469, and the at-risk rules contemplated in section 465 of the Internal Revenue Code, the Task Force believes that a rigorous review of the entire reporting process may be a necessary prerequisite to the successful implementation of an effective matching program.

RECOMMENDATIONS

Accordingly, we recommend:

(1) No matching be undertaken unless or until the IRS conducts a thorough feasibility study/analysis of such program, given the existing K-1 structure. However, we do recommend the IRS match listed K-1 partners, shareholders, and beneficiaries with individual tax return data for purposes of determining whether entities having partners, shareholders and/or beneficiaries have filed returns. We understand from our meetings with IRS representatives that this will, in fact, be implemented and are fully supportive of the process.

(2) The IRS should determine whether certain amounts lend themselves to ready matching where no additional calculations are required. For example, interest and dividends should be readily transferable to Form 1040, Schedule B. If so, tests should be conducted to determine whether such matches can easily and accurately be made.

(3) We urge the IRS to correlate data from line 1, Form 1965 (trade or business income) with self-employment tax data. However, many partners adjust K-1, line 1 for non-reimbursed expenses when such expenses are incurred by a partner in his or her capacity as a partner. Thus, there may be no match frequently between K-1, line 1 (trade or business income) and the self-employment tax. Likewise, limited partners incur no self-employment tax liability, giving rise to the need for cross-reference to the type of partner identified on page 1. This may provide information with respect to the existence of an employment tax problem and/or issue.

(4) We recommend that the IRS analyze the income amount reported as “other income or deductions” on lines 7 and 11, and determine the components comprising such amount. Based on the experience of the Task Force, we believe a substantial number of K-1s report basis adjustments pursuant to election under section 754 of the Internal Revenue Code on these lines, which can operate to

complicate income reconciliation.

(5) We recommend the IRS consider whether information provided by Schedule J serves any material purpose given the significant reporting differences resulting therefrom. However, the IRS should seek stakeholder input prior to concluding, since many practitioners and third parties use this information for a variety of non-tax purposes.

(6) We recommend the IRS determine whether losses are deducted where no basis exists (information provided by the K-1 itself, i.e., negative capital account with liabilities less than the negative capital account). Again, whether the entity is reporting capital accounts on a tax basis makes a significant difference. Additional information is needed with respect to how capital accounts are maintained for tax return purposes. It is our belief that consistency does not exist, often making it impossible for a partner to determine his or her basis from the return.

(7) We recommend the IRS determine whether limitations contemplated in section 179 of the Internal Revenue Code are properly applied at the entity level.

(8) We recommend the IRS determine the extent to which each existing line of the tax return is utilized.

(9) We recommend the IRS calculate the number of returns that meet the small partnership exception (Form 1065, Schedule B (Question 5)) and the K-1 issues presented by such returns. This information may be used to devise a simplified small entity K-1.

(10) We recommend the IRS determine the number of returns that report rental income or loss amounts only and the potential revenue issues arising from such reported amounts.

(11) We recommend the IRS analyze the significance of Alternative Minimum Tax adjustments and/or preferences reported, and whether a line should be added to Form 6251 specifically to facilitate pass-through entity adjustments.

We believe the IRS should consider modifications to K-1s for purposes of ease in matching data. This will require careful analysis, since any K-1 change will require extensive communication including improved instructions regarding Form 1065 preparation (practitioner training will also be very important). We also recommend that the IRS consider redesign of Form 1065 to simplify information reporting, and a simplified K-1 design - a "K-1 - EZ" as it were - for small partnerships with limited transactions.

CONCLUSION

The Task Force will continue to monitor this matter and seek ongoing status reports regarding the matching program and data correlation.