WAGE & INVESTMENT
SUBGROUP REPORT

MARY HARRIS
WILLIAM REILLY
JUDITH A. AKIN, EA, SUBGROUP CHAIR

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I. INTRODUCTION:

The members of the Wage and Investment Subgroup (W&I Subgroup) of the

Internal Revenue Service Advisory Council appreciate the opportunity to interact with the

Internal Revenue Service to improve communications with the taxpaying public. In

addition, the members applaud the Service for the time and cooperation of the W&I

Subgroup representatives and management with whom we have met to resolve issues. We

look forward to our continued involvement with the W&I division of the Service so that we

create a win-win situation for the Internal Revenue Service, practitioner community and the

taxpayers.

II. EARNED INCOME TAX CREDIT (EITC)

The Wage and Investment (W&I) Subgroup of the Internal Revenue Service

Advisory Committee (IRSAC) has been requested to assist the IRS in its efforts to:

1. Reduce the Backlog of EITC Examinations.

2. Review the existing audit process and improve the quality of communication.

3. Increase outreach efforts.

4. Streamline the proof of concept tests which include:

   a. Qualifying child test

   b. Filing Status Test

   c. Under-reporter Test

At this time, our subgroup is pleased to report that there has been significant

progress in reducing the excessive inventory of EITC audits. As of June 2004, only

1.3% of EITC Audits were in process more than 365 days.

Compliance has reduced audit cycle time by 7.51% from prior year.

We applaud the service on the implementation of new outreach tools. These tools include, but are not limited to, such items as an EITC Eligibility Checklist for tax year 2004, a flier "Will you qualify for the EITC this year?" and postcards designed in both Spanish and English offering to assist low-income taxpayers in determining if they are eligible for EITC.

By June 2004, of the 25,000 taxpayers selected for review under the "qualifying child test", the IRS had received responses from 16,400. This number filed their returns, claimed EITC and a child's exemption. The IRS has completed reviewing and processing approximately 50% of these cases.

For the "filing status test", 26,800 of the 36,000 taxpayers selected have responded to the IRS communication. These taxpayers filed single or head of household status and claimed EITC. The IRS has completed reviewing approximately 65% of these cases.

Regarding the "under-reporter test", the IRS has successfully completed reviewing all 300,000 EITC returns with unreported income resulting in assessments of $121.5 million.

Recommendations:

The Wage and Investment subgroup of IRSAC recommends that the IRS continue to increase outreach to EITC eligible individuals who do not file a return or file and fail to claim the allowable EITC.

We suggest that the IRS develop more multi-language self-help tools.

We request that all IRS employees communicating with taxpayers be educated as to the document requirements for claiming EITC. Some areas currently have different criteria as to the documentation necessary to qualify for EITC.

As for the qualifying child, one of the current proofs of residency test is that if the taxpayer has a post office box, they must submit the Postal Form 1093 for proof of residency. The US Post Office will not release the taxpayers completed Form 1093 except in response to a subpoena or court order. We recommend that the IRS permit use of an alternative to the Post Office form, such as, but not limited to, a utility bill that shows both the mailing address to a post office box as well as the actual residential service address.

III. ITIN PROGRAM

The Wage & Investment Subgroup has been working on enhancements and the streamlining of the acceptance agent procedures and requirements.

1. All new ITIN applicants must show a federal tax purpose for seeking an ITIN.

2. The number of documents that will be accepted as proof of identity to obtain an ITIN has been reduced from 40 to 13.

3. The ITIN acceptance notification has changed from a card to a letter of authorization.

The key initiatives that will be developed and worked on with internal and external stakeholders are:

A. **Reduce ITIN processing cycle time and improve accuracy.**

Currently, it takes approximately 9 days to process an ITIN

application when it is attached to a tax return and approximately 20 days to process when not attached to a tax return. Approximately 70% of all applications had an income tax return attached this year.

B. **Expand and improve the Acceptance Agent program**. At this time an Electronic Return Originator (ERO) that applies to be an Acceptance Agent does not have to go through suitability checks. However, Andover Submissions Processing Campus will still conduct a credit check and check for timely filing of required tax returns and payments. This includes individual, business and payroll tax reports. If the applicant has an installment agreement, payments must be current.

C. Improve accuracy and timeliness of processing applications by developing and implementing a real time system to eliminate dependency on legacy systems.

D. Determine the merits and feasibility of an employer TIN validation system.

E. Determine whether an ITIN/SSN cross-indexing system is cost effective to identify and tax unreported income and identify victims of identity theft.

Recommendations:

W&I Subgroup recommend that the IRS develop an outreach program that will encourage more providers to serve as acceptance agents.

The IRS educate state agencies that an ITIN should not be used for anything other than tax reporting.

IV.   NOTICE REDESIGN

The W&I Subgroup continue to work with Ann Gelineau, Jay Duffy, and their Dynamic Processing Team on notice redesign and simplification. During the current phase of the program, balance due notices (CP 501, 503 and 504) are being addressed along with delinquency notices (CP 515 and 518). During subsequent phases, the teams will be looking at notices used by the Automated Collection System, Automated Substitute for Return, Backup Withholding, Refund Hold and Installment Agreement programs.

Issues that are being addressed:

1.   User Issues – identify needs that can be handled with modifications to the form, ignoring the technical limitations.

2.   Functionality – rules and features that should be redesigned in the notices to support the business requirements.

3.   Messaging – tone, word sophistication, readability, text font, formatting, notice length and, other customer satisfaction requirements.

4.   General comments and needs – comments that have been expressed by taxpayers and practitioners who have received notices.

Recommendations:

The W&I Subgroup recommend that:

A.   Statements such as, but not limited to, "Final Notice before Levy",

should be in a different font and bold to make it more noticeable to

the taxpayer.

B.   The readability of the notice should not exceed 6th

grade level.

C.   The notices should be as short as possible with the primary issue

being stated in the beginning.

V.   E-SERVICES

The Wage & Investment Subgroup of IRSAC supports the Internal Revenue

Service's E-Services program. At this time, we would like to suggest enhancements to the

program that are in the best interest of the service, taxpayers, and the practitioner

community.

1.   Open online e-services to all Federally Authorized Tax Professionals.

2.   We applaud the IRS for putting notices on-line for our viewing; however, it

would be even more helpful if we could access the actual notices sent to

taxpayers.