



**INFORMATION REPORTING PROGRAM
ADVISORY COMMITTEE
PUBLIC MEETING**

**NOVEMBER 16, 2006
1111 CONSTITUTION AVENUE NW
WASHINGTON, DC**

INFORMATION REPORTING PROGRAM ADVISORY COMMITTEE

GENERAL REPORT

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NOVEMBER 16, 2006
INFORMATION REPORTING PROGRAM
ADVISORY COMMITTEE

General Report

Contained within the final Conference Report of the Omnibus Budget Reconciliation Act of 1989 was an administrative recommendation that the Internal Revenue Service (IRS) consider “the creation of an advisory group of representatives from the payer community and practitioners interested in the information reporting program to discuss improvements to the system.” The Information Reporting Program Advisory Committee (IRPAC) was established in 1991 in response to that recommendation.

Congress believed that an advisory group would help discuss “problems and the feasibility of complying with, or the economic impact of, rules and regulations affecting the reporting industry.” Since the very beginning, IRPAC has worked closely with the IRS to provide advice on a wide variety of issues intended to improve the Information Reporting Program and achieve fair and equitable treatment of all taxpayers.

In preparation for its public meeting on November 16, 2006, the IRPAC met four times in Washington DC. IRPAC issues addressed covered areas of interest submitted for consideration by all four primary IRS divisions—Tax Exempt/Government Entities, Wage & Investment, Large & Medium Sized Business and Small Business/Self-Employed as well as practitioners in the field and industry-based organizations. The issues covered an array of topics and improvements. Details on any specific issue may be obtained by reading the findings on the issue of interest listed later in this report.

In January, 2006 the IRPAC chairman participated in the Stakeholders’ meeting delivering a brief overview of the committee’s work and completed issues. While many of the constituencies represented were aware of the IRPAC, many did not know the scope of its work. We hope IRPAC will continue to be a part of this meeting to report past successes and receive current concerns.

The year 2006 is the sixth year IRPAC has been under the direction of the Office of the National Public Liaison within the IRS. National Public Liaison has provided administrative support and direction for the Committee. Coordination provided by NPL

is vital in arranging contacts between committee members and appropriate levels of IRS management. We IRPAC members wish to recognize the excellent service and support we've received from the NPL staff throughout the entire year. Their contributions to the committee's work agenda has been nothing short of spectacular especially in light of being displaced from their regular work space in June. Our special thanks go to Candice Cromling, Director of NPL, Cynthia Vanderpool, Branch Chief and Designated Federal Officer (DFO) and to Caryl Grant, IRPAC Program Manager and their respective staffs for the tremendous jobs they have done for us on IRPAC.

Finally, I want to thank each of my Committee members. Each has given up time from their jobs, their practices, their lives to help our tax system run more efficiently. Each has brought their expertise and a willingness to share to our Committee; it made our work easier and more complete. Thank you so much for your dedication and enthusiasm.

Respectfully submitted,

/s/ Martha Bell

Martha Bell, Chair

**INFORMATION REPORTING PROGRAM
ADVISORY COMMITTEE**

**LARGE & MIDSIZE BUSINESS
SUBGROUP REPORT**

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NOVEMBER 16, 2006

I. INTRODUCTION

The Large & Mid-Sized Business Subgroup (the LMSB Subgroup) consists of tax professionals from large banks, brokers, insurance companies and accounting firms. During 2006, the LMSB Subgroup met multiple times with members of the IRS LMSB Operating Division and Chief Counsel's office to discuss tax withholding and reporting matters of concern to large payers.

Many of the issues raised by the LMSB Subgroup can take years to resolve due to the need for IRS budget support or changes to Treasury regulations. This Report addresses those issues that have been resolved in 2006 or that the LMSB Subgroup is actively pursuing into 2007.

II. ISSUES AND RECOMMENDATIONS

A. Electronic Tax Administration

Discussion

The Information Reporting Program Advisory Committee (IRPAC) Large and Midsize Business Subgroup (LMSB) continued to focus on Electronic Tax Administration (ETA) within the IRS by carrying forward items from the 2005 IRPAC Public Report and new initiatives as defined by both the IRS and IRPAC.

On January 24, 2006, we met with Bert DuMars, Director of Electronic Tax Administration to discuss the carry-over items from the 2005 report and to be briefed on ETA projects related to information reporting.

In respect to the 2005 carry-over items, Mr. DuMars stated:

1. ETA is addressing IRPAC's request to expand access to the Transcript Delivery System with a 2007 completion date.

2. IRPAC should continue the effort for electronic delivery of B-Notices, C-Notices and 972CG Penalty Notices. The following day the IRS Enterprise Computing Center at Martinsburg (ECC) shared with the LMSB a new initiative to send B-Notices and Penalty Notices on CD-ROM.
3. The IRPAC-endorsed Information Reporting Clearing House Project has completed the concept of operations.
4. There will be changes to the Filing Information Returns Electronically (FIRE) system.

At the April meeting, IRPAC met with Mr. Tom Parisi, Senior Manager, Internet Development Services, to discuss systemic changes to the FIRE System. As a result of this meeting two LMSB members partnered with Mr. Parisi to poll their respective industries in regards to planned changes to the FIRE system scheduled for implementation January, 2007. The poll results were delivered to Mr. Parisi in early third quarter, 2006. In addition, an LMSB member delivered two presentations at industry conferences sharing the upcoming changes and obtaining feedback. IRPAC's LMSB Subgroup supports the proposed FIRE system changes scheduled for implementation in 2007. Additionally, two members of the LMSB subgroup volunteered to be testers of the changes to the FIRE system, when those changes are ready to be tested in the Fall 2006.

Also in April 2006, we met with ECC via phone and they confirmed they are on target to start issuing both Penalty and B-Notices via a secure, encrypted CD beginning August 2007.

Recommendations

IRPAC is encouraged by the programs undertaken by the IRS Electronic Tax Administration and expects delivery in 2007 of several critical projects that will assist information return preparers in more efficiently complying with their filing requirements. In Calendar Year 2007, we expect that access to the on-line transcript delivery system will be expanded to withholding agents who were previously prohibited from accessing the system. We expect to see the FIRE System changes as announced by Mr. Parisi, to be implemented in early 2007. ECC is expected to send B-Notices and 972CG Penalty Notices via CD-ROMs. While this delivery medium is an advancement from cartridges and paper, we would prefer the notices be made available for electronic retrieval from the FIRE system by authorized payers. In addition, the IRS has not yet addressed the 2005 IRPAC issue requesting electronic C-Notices. Finally, we expect further development and a continued aggressive position by the IRS ETA in the development of the Information Reporting Clearing House. As stated in the 2005 IRPAC Report, we recommend that delivery of information returns to the Clearing House will eventually comply with the electronic delivery requirements and eliminate the need for payers to mail 1099/1098s to the payee.

Benefits to Payers

Providing enhanced electronic delivery and access to related tax information will reduce payer's cost, improve taxpayer compliance and enhance client experience.

Benefits to IRS

Providing payers with enhanced electronic delivery and electronic access to tax information will reduce IRS costs in preparation of paper transcripts and recreation of "lost" paper lists such as "C-Notices" and "B-Notices".

Benefits to Taxpayers

Taxpayer compliance will be enhanced through timely and accurate payer administration processes.

B. Publication 1212, List of Original Issue Discount Instruments, Enhancements Background

Brokers and other middlemen rely on Publication 1212 to identify publicly offered original issue discount (OID) debt instruments that they hold as nominees for the beneficial owners, so that they can report interest and OID accrual amounts to the owners and IRS on Forms 1099-INT and 1009-OID. Publication 1212 does not currently include all OID debt instruments for the calendar year that were reported to the IRS on Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. In addition, Publication 1212 does not currently include certain additional data included on Form 8281.

Recommendations

1. IRPAC recommends that the IRS publish supplemental information to Publication 1212 in early January of the following year or on a continuous basis providing OID accretion information for issuances after the list was initially published. These debt instruments should be published on the IRS website. If provided on a continuous basis, the IRS must identify the new CUSIPs (Committee on Uniform Security Identification Procedure) added after the initial release of information.
2. IRPAC recommends that Publication 1212 state the yield-to-maturity for each debt instrument listed, identify if a debt instrument is a contingent payment debt instrument and any other important information that is not currently in Publication 1212.

3. The electronic version of Publication 1212 should have one standard record layout for the different sections.
4. The IRS should consider eliminating the paper publication and only provide the web file.

Discussion

The IRS issues Publication 1212 (List of Original Issue Discount Instruments) in November of each year for the current tax year. Brokers and other middlemen rely on this publication to identify publicly offered original issue discount (OID) debt instruments that they hold as nominees for the beneficial owners, so that they can report interest and OID accrual amounts to the owners and IRS on Forms 1099-INT and 1099-OID. Publication 1212 does not currently include all OID debt instruments for the calendar year that were reported to the IRS. The publication fails to include OID debt instruments that were issued after preparation of the publication. As a result there may be underreporting of income. In addition, issuers provide required information on IRS Form 8281, Information Return for Publicly Offered Original Issue Discount Instruments. Form 8281 is used by issuers to report publicly offered debt instruments having original issue discount in accordance with IRS Section 1275 (c). The data provided on Form 8281 are necessary for accurate OID computations. However, Publication 1212 does not currently include all the data reported by issuers to the IRS. In order for the IRS to provide all the necessary information they have suggested that the information be made available on the IRS web because there is insufficient room to add additional columns to Publication 1212.

The form includes the following information:

1. The name*, address, representative and telephone number of the issuing company
2. Committee on Uniform Security Identification Procedure (CUSIP) number*
3. Date of issue*
4. Maturity date*
5. Type of instrument - (check box)
 - Variable rate*
 - Contingent payment
 - Inflation index debt instrument*
6. Issue price*
7. Stated interest rate*
8. Interest payment dates
9. Amount of OID*
10. Yield to maturity
11. Description*
12. Penalty of perjury signature, title and date

Only the above data elements with an asterisk (*) are provided in Publication 1212.

In order to accurately compute OID, the following information is necessary:

1. Contingent payment – Failure to identify these instruments may result in underreporting of income if the taxpayer calculates acquisition premium due to a purchase in the secondary market above the adjusted issue price and erroneously reduces the OID accretion.

2. Yield to maturity (YTM) – The publication instructions suggest that taxpayers obtain YTM from their bonds or consult with their brokers. Most taxpayers do not have physical possession of bonds. Even brokers do not have physical possession of bonds. The bonds are either book-entry or are deposited with The Depository Trust Company.

The publication instructions suggest that taxpayers wait until the next revision of the publication for OID instruments that were issued after the list was published. Since that is a year later, the income for debt instruments issued at the end of the current year will remain unreported for that year. For tax year 2005, there were approximately 70 OID instruments that were not reported in the publication.

Benefit to Payers

The additional information will provide more accurate reporting of OID debt instruments' income to the IRS.

Benefit to IRS

The additional information will reduce underreporting of income to the IRS.

Benefit to Taxpayers

The additional information will result in a more accurate tax return.

IRS Response and/or Action

IRS will evaluate changes to Publication 1212 for tax year 2007.

C. Widely Held Fixed Investment Trusts Directory

Background

TD 9241, Reporting for Widely Held Fixed Investment Trust, requires effective for tax year 2007 the information reporting of three classes of trusts: Widely held fixed investment trusts (WHFIT), Non-mortgage fixed investments trusts (NMWHFIT) and

Widely held mortgage trusts (WHMT.) The IRS was studying whether a directory or list of WHFIT can be compiled by the IRS. The IRS was concerned that a directory may not be feasible because of the large number of WHMTs. The IRS had requested comments regarding the type of WHFITs that should be included in a directory and the format of information.

Recommendations

The IRS should attempt to identify all grantor trusts based on information received from trustees and issuers

1. IRPAC suggests that the IRS provides a list of Committee on Uniform Securities Identification Procedures (CUSIP) numbers and tax information based on information provided to the IRS from WHFIT trustees or issuers (other than WHMTs) to be on an IRS website as a repository of information similar to IRS Publication 1212 (List of Original Issue Discount Obligations.)
2. An IRS web page will be necessary to provide contact information similar to IRS Publication 938 (Real Estate Mortgage Investment Conduits Reporting Information). The web would have the name, address and telephone number and CUSIP numbers of the WHMT issuers or party who could provide the tax information for WHMT.
3. Since the majority of WHMT are Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (Freddie Mac) and Government National Mortgage Association (GNMA) trusts, only the contact information for these government agencies will be required. A listing of CUSIPs and descriptions would not be required.
4. The IRS will provide all the contact information including CUSIP numbers for all other WHMT.

5. Information for trusts that do not have assigned CUSIP numbers may not be available to the IRS but rather if identified as a grantor trust by the nominee will be the responsibility of the nominee holder of the trust to report appropriately.

Discussion

In October 2002, IRPAC in a letter to the IRS provided comments regarding the re-proposed regulations (Reg-106871-00) and suggesting that the IRS publish a central repository of information to identify trusts or a publication that provides the trust information.

The current IRPAC LMSB Subgroup endorsed the 2002 IRPAC suggestions and coordinated with the IRS to provide the framework for the identification of these trusts.

Benefit to Payers

The additional information will provide for the identification of WHFIT and thereby provide accurate reporting of WHFIT income to the IRS.

Benefit to IRS

The additional information will reduce underreporting of income to the IRS.

Benefit to Taxpayer

The additional information will result in a more accurate tax return.

IRS Response and/or Action

On August 3, 2006, IRS issued final, temporary and proposed regulations amending WHFIT reporting rules (TD 9279 & Reg 125071-06). The proposed regulations include a "Directory of widely held mortgage trusts (WHMT's) and NMWHFIT's."

D. Nonresident Alien Withholding and Reporting

Background

The current nonresident alien withholding and reporting regime under Chapter 3 of the Code has been in place since 2001. The IRS operated a voluntary compliance program for payers in 2005 and 2006 under Revenue Procedures 2004-59 and 2005-71, and the IRS has begun to examine payers under the Chapter 3 requirements.

Recommendations

IRPAC has recommended that the IRS undertake an education effort based on the knowledge it gained during the Voluntary Compliance Program. IRPAC asked that the LMSB Operating Division create Questions and Answers focused on tax documentation and that the IRS make the Q&As available on the IRS website. The Q&As would lead to better tax compliance and would level the field among payers.

Second, IRPAC has recommended that the IRS not propose examination adjustments for tax documentation issues that are not commonly known across the payer community. There is an inconsistency between appropriate tax administration and playing “gotcha” upon review of tax documentation.

Finally, IRPAC has recommended that IRS consider substantially revising the Form W-8BEN and perhaps the rest of the Form W-8 series. These forms and their recent predecessors have been in place for five years. High error rates continue to plague the payers and payees due in part to the subtle errors possible under the current forms and instructions. For example, IRPAC has requested that the IRS consider simplifying the Form W-8BEN to mirror the current Form W-9 used for U. S. persons. Implementation of these form recommendations would lead to enhanced tax compliance by payers.

Benefits

These recommendations will show commitment to taxpayer service and should lead to better tax compliance by payers and taxpayers, and to lower risk of inadvertent taxpayer noncompliance.

Discussion

It is the view of IRPAC that payers try to comply with the NRA tax regime but payers can be tripped up by uncertainties and changes in IRS documentation standards. Knowledge gaps still exist in the payer community, and between the IRS and payers, particularly on the validity standards for review of Forms W-8. Payers—both US withholding agents and qualified intermediaries—seem to have relatively high error rates during validation of payee tax documentation. Finally, recent IRS articulation of documentation standards at industry conferences leads to apparent high error rates in forms already accepted by payers.

IRS Response

LMSB is producing Q&As addressing Non Resident Aliens Withholding responsibilities for withholding agents making payments to foreign vendors and related service providers. A draft of the proposed Q&As was provided to IRPAC during its meeting with the Financial Services Industry Director on August 8, 2006. LMSB is finalizing the items and will publish them soon. LMSB also agreed to provide another set of Q&A's, which will address some of the tax documentation issues frequently encountered across the payer community. LMSB states that a combination of education and, when appropriate, enforcement, are essential elements of an effort to improve compliance. LMSB is making plans for additional outreach to U. S. withholding agents. The plan includes a combination of sponsored seminars, published interviews,

and closer coordination with stakeholder organizations outside of the financial services community.

Second, LMSB will generally take the same approach it has in the past on audits with respect to tax documentation issues. The rules and guidelines each exist for specific reasons to fulfill compliance and enforcement responsibilities.

Finally, the IRS recognizes that there may be opportunities for simplifying the Form W-8BEN and its instructions. When the IRS receives suggestions to improve forms or instructions, from internal or external sources, it considers them and makes changes as and when appropriate.

E. Tax exempt interest reporting

Background

The recent TIPRA legislation (Public Law 109-222) has instituted a requirement that payers report tax exempt interest on Form 1099 for Calendar Year 2006 and later periods. This requirement created questions about the scope of reportable payments, backup withholding and nonresident alien withholding.

Recommendations

IRPAC has met with IRS and Chief Counsel staff to discuss the open issues. IRPAC focused on the need for prompt guidance, and provided examples of implementation issues that the IRS could ameliorate through its guidance. Implementation of these recommendations would enhance tax compliance and assist in closing the tax gap.

IRS and Chief Counsel Response

The IRS Forms and Publications group and Chief Counsel understand the industry issues raised by IRPAC and are balancing many constituencies' needs for prompt guidance and transition relief.

F. Truncated TINs

Background

Current tax rules and practice require a payer to report a payee's full taxpayer identification number (TIN) on Forms 1099 and W-2. Privacy concerns argue in favor of eliminating the need to report the entire number.

Recommendation

IRPAC has recommended that the IRS allow payers the election to truncate the TINs on Form 1099 and W-2 so the last four digits are replaced with XXXX or a similar placeholder.

Discussion

Identity theft and misuse of the mails can occur when a taxpayer's information returns fall into the hands of an unauthorized person. Truncating the taxpayer's TIN will reduce those risks.

This proposal will take time to consider and implement as state filing requirements and perhaps TIN validation efforts rely on the current system. Nevertheless, the clear privacy benefits and simple solution fuel this proposal.

Note that the Treasury's Savings Bond program as well as banks, brokers and credit card companies are moving toward truncated TINs on their bonds and statements.

Benefits

The IRS can implement improved taxpayer service at no material cost to the agency. Additionally, the IRS can support taxpayer privacy and assist in thwarting identity theft.

Response

IRPAC is working on this issue currently and will carry it over into 2007.

G. Basis Reporting

Background

In August 2005, representatives of the U. S. Government Accountability Office (GAO) attended an IRPAC Washington meeting. They detailed that they were conducting an audit of capital gains noncompliance based on a request from the Senate Finance Committee. The GAO had already met with interested parties such as the Securities Industry Association and bankers. They were considering expanding information reporting to include cost basis information in order to reduce the Tax Gap. The LMSB Subgroup participated in that 2005 meeting, and participated in similar 2006 discussions with a representative from the IRS Office of Taxpayer Burden Reduction.

Recommendations

1. Reporting should only be required from a prospective basis. It may not be possible to determine the basis prior to the effective date of the new rules.
2. The IRS should permit brokers to rely on a consistent cost method (i.e., FIFO, Average Cost) and brokers should not be required to change it based on the method a taxpayer chooses.
3. Form 3115, Application for Change in Accounting Method should be a matter between the taxpayer and IRS, not the broker.

4. The broker may not be able to identify substantially identical stock for wash sales. Wash sales should be a taxpayer responsibility.
5. An account transfer mechanism exists via the Depository Trust and Clearing Corporation (DTCC) - Automated Customer Account Transfer Service (ACATS). How the basis was derived presents the problem, as firms may be handling it differently.
6. Return of capital information and original issue discount calculations are a year-end process in January of the following year. Account transferred securities may no longer be available to be adjusted.
7. The broker may have the purchase and sale of a Master Limited Partnership but the general partner controls the partner's capital account and K-1 reporting.
8. Form 1099 reporting has become very complex over recent years. As a result, many broker dealers are currently experiencing 20% amended Forms 1099. There is insufficient time to make the necessary changes in January, verify the data, print the forms and mail them by January 31. This year, Congress added the reporting of tax exempt interest. Next year, IRS regulations require the reporting of Widely Held Fixed Investment Trusts and Mortgage Trusts. Basis reporting may be required in tax year 2008. As a result of all the additional reporting compressed into a 20-day period, the Form 1099 mail date for third-party payers needs to be extended from January 31 to at a minimum of February 15.

Discussion

The GAO provided a list of challenges to the IRS and to brokers and how they could be mitigated. IRPAC members conveyed barriers in having accurate cost basis, including accounts moving from one brokerage to another, reinvested dividends, stock splits and adjustments for return of capital.

In April 2006, the GAO provided IRPAC with a draft of their report. IRPAC members listed specific concerns in tracking cost basis for stocks and mutual funds. In June 2006 the GAO issued their report to the Committee on Finance, U. S. Senate titled, "Capital Gains Tax Gap, Requiring Brokers to Report Securities Cost Basis Would Improve Compliance if Related Challenges Are Addressed." To reduce securities capital gains noncompliance, the GAO suggested that Congress consider requiring brokers to report adjusted basis to taxpayers and IRS and requiring IRS to work with the industry to develop cost-effective ways to mitigate reporting challenges.

In May 2006, the Office of Taxpayer Burden Reduction provided a listing of financial institution concerns regarding basis reporting. That office requested that IRPAC provide a liaison to them. IRPAC's LMSB subgroup appointed a member who provided comments relating to the concerns.

Benefits to Payers

If basis reporting legislation becomes law, the industry requires standardization of which transactions need to be captured for accurate basis reporting.

Benefit to IRS

Accurate reporting will reduce the Tax Gap.

Benefit to Taxpayers

Basis information will be provided to taxpayers so they may accurately calculate capital gain and losses on stock and bond sales.

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

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NOVEMBER 16, 2006

**Information Reporting Program Advisory Committee
Small Business/Self-Employed Subgroup Report**

I. INTRODUCTION

During the 2006 calendar year, the Small Business/Self Employed Subgroup (SB/SE Subgroup) worked with the IRS, particularly with representatives from its Small Business/Self-Employed (SB/SE) Division, on a number of information reporting issues.

II. ISSUES AND RECOMMENDATIONS

A. Internet Auction Sales Initiative

Background

The explosive growth of the Internet has brought about an increased number of ways to open a business. One of the more popular business opportunities is the selling of new and used items through online auction sites such as Ebay.com, uBid.com, etc. According to an ACNielsen International Research study released in 2005, “more than 724,000 Americans report their primary or secondary source of income through Ebay.com.” The number in this study is growing—and growing more quickly every year. It is likely that a significant number of those users either choose to ignore income reporting requirements or are unaware of their obligations thus contributing to the tax gap.

Recommendation

There are several methods available to persuade users of online auction sites to report income earned. They range from education to process change to legislation.

Discussion

First, we recommend a comprehensive educational program in cooperation with the online auction organizations. This will involve distribution of literature describing participants requirements at any annual conferences held by the organizations. Other

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educational recommendations include a section of the IRS website that specifically outlines these same requirements. The URL will be included in electronic and physical correspondence distributed by the Auction organization.

A second recommendation would be to work with the auction organizations on the initial registration procedure. According to recent IRS literature non-farm sole proprietors under-report 57 percent of business income on Schedule C. If the auction organizations were to require a Taxpayer Identification Number at registration, through the required submission of Form W-9, they would then be prepared to report any income earned through the use of the site on Form 1099-MISC to non-exempt users of the sites.

Third, to facilitate this change, IRPAC feels that revising IRC Section 6045 may be necessary to strengthen and further clarify the definition of a broker. This change could permit further enforcement by the IRS in requiring one or both of the aforementioned proposals.

Benefit to Payers

While initial resistance should be expected, payers should benefit from these suggestions through the increased security of transactions. Users outside the United States cannot be required to provide a W-9 during the registration process. Users who select that they are in the United States will be required to submit additional information. Customers of the auction sites would then gain greater comfort in that the item they are about to purchase actually comes from the country mentioned in the listing.

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Benefit to the IRS

The IRS will benefit directly as they will receive additional information reporting on transactions taking place on these sites. Online sellers must maintain appropriate records to prove basis in transactions handled through online auction sites. This, of course, makes the audit process easier if adequate documentation already exists. The additional information reporting makes the audit selection process easier as well. Whatever threshold the IRS chooses for auditing purposes, properly submitted broker transaction data will increase compliance from taxpayers thus reducing the tax gap.

Benefit to Taxpayers

Through increased education efforts, sellers can understand their responsibilities to the Income Tax System. It is our hope that through increased education, the IRS will achieve increased compliance in this area. Through the requirement of a W-9 before beginning the selling process, taxpayers would be given the opportunity to officially register their businesses with the IRS. This again would increase compliance through the process of legitimization.

B. Report of Foreign Bank and Financial Accounts

Background

This issue has been carried over from the 2005 SB/SE Subgroup. The compliance level of filing the Report of Foreign Bank and Financial Accounts form (commonly called the FBAR or Form TD F 90-22.1) has been lower than expected. Changes in the law now require additional filings and have added higher penalty levels.

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Recommendation

The SB/SE Subgroup recommends that a publication be developed to provide an additional and more in-depth explanation of the requirements of filing the Form TD F 90-22.1. In addition, the subgroup recommends that educational programs targeted at taxpayers and the tax practitioner community be created to increase awareness on the filing requirements of the form. The SB/SE Subgroup stands ready to assist the IRS in creating these programs.

Discussion

The SB/SE Subgroup has worked with Elizabeth B. Witzgall, IRS Senior Bank Secrecy Act Analyst, in revising the form and instructions of Form TD F 90-22.1. In addition, the Subgroup concurred with Ms. Witzgall's recommendation to develop a publication in order to further clarify the filing requirements of Form TD F 90-22.1. The SB/SE Subgroup has met with Ms. Witzgall several times to review and consult through the development of this publication.

Benefit to IRS

With the clarification to the form and instructions, and the addition of the publication, the compliance level of the FBAR report is expected to increase.

Benefit to Taxpayers

The revisions to Form TD F 90-22.1 now make the completion of the form more user-friendly, and its instructions more clearly specify the requirements of filing and reporting foreign bank and financial accounts. The publication will provide additional instructions where there may be differing interpretations of the filing requirements.

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C. Complexity of Employment Tax Reporting and Improvements

To Be Made

Background

The employment tax compliance requirements are complex and a significant portion of non-compliance results from lack of understanding of employment tax laws. According to the National Taxpayer Advocate's 2005 Report to Congress, the IRS assesses failure to deposit (FTD) penalties on one out of every 16 employment tax returns, yet eventually abates more than 60 percent of the FTD penalty amounts it originally assessed. The CP 207 Notice informs the taxpayer of a problem with the tax return, however, the notice is very vague, and does not include information on how to fix the problem. SB/SE looked at ways to improve this situation.

Recommendation

Steps have been taken by the IRS to address this issue including:

- Revision of the CP 276A and CP 276B notices
- Revisions to Publication 15
- Development of a new notice, CP-207L

IRPAC applauds the changes that have been made and would like to continue to have input on additional ways to improve the system.

Discussion

The Internal Revenue Code places significant responsibilities on employers for depositing, reporting, filing and paying employment taxes. The regulations governing federal employment tax deposits are overly complex, presenting significant compliance problems for employers and administrative challenges for the IRS.

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Many of the problems with FTD penalties processes cited in the 2005 National Taxpayer Advocate's Report have been addressed. First, the CP 276A and CP 276B notices have been designed to provide information on required deposit rules and the proper reporting method for a valid Record of Federal Tax Liability (ROFTL). The design process included input from the Penalties & Interest, National Taxpayer Advocate, Taxpayer Burden Reduction, and Counsel offices. The CP-276A and CP-276B are scheduled to be issued the beginning the first tax quarter of 2007 when an FTD penalty has been calculated but not charged as a means to educate the taxpayer on the required deposit rules. As of October 1, 2006, the IRS is still on target for an operational date of April 30, 2007.

Second, the 2005 and subsequent revisions of Publication 15, Circular E, have a section devoted to educating the taxpayer on properly completing the liability schedule to avoid averaged FTD penalties.

Third, a new notice, CP-207L (L for Large dollar), has been created. The new CP-207L is now generated in place of the CP-207 if the proposed averaged penalty is \$100,000 or more. The CP-207L notices are pulled for review by the Large Corporation Units in Ogden and Cincinnati with taxpayer contact made prior to mailing. This will decrease the number of large FTD penalties. This notice went into effect April 30, 2006.

Benefit to IRS

Simplification of employment tax will result in better compliance and increased tax collection for the IRS to help reduce the tax gap.

Benefit to Taxpayers

Simplification of employment tax will result in reduced tax burden for taxpayers.

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Small Business/Self-Employed Subgroup Report**

**D. Increase in the Form 1099-MISC Reporting Threshold for Medical and
Health Care Payments**

Background

A trade or business is required to provide an information return to each physician or other service provider or supplier of medical or health care services if the total payments for the year equal or exceed \$600. In addition, unlike the rules for other types of payments subject to Form 1099-MISC reporting, the exemption from reporting payments made to a corporation does not apply to payments made for medical or health care services provided by corporations, including professional corporations. The preparation of Forms 1099-MISC to report these payments to medical and health care providers and suppliers, and the accompanying data gathering and filing as part of the TIN matching process creates enormous burdens on payers. If the \$600 threshold were increased to a higher and more reasonable dollar amount the reporting and processing burden could be significantly reduced, which would result in substantial time and cost savings to both the IRS and taxpayers, without any material impact in the actual dollar amount of the payments that would continue to be reported.

Recommendation

We recommend that the \$600 threshold for medical payments be increased to \$5,000.

Discussion

It appears that the current statutory framework for information reporting was initially codified in Section §147 of the 1939 Internal Revenue Code (Code). Section §147 in the 1942 Code established an information reporting threshold of \$500. This

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reporting threshold was subsequently increased to \$600 in the 1954 Code when §147 was renumbered as §6041. Since the information reporting threshold has not been increased for inflation or other financial considerations in more than 50 years, we believe it is appropriate, reasonable, and prudent to increase the threshold to a higher and more meaningful amount.

In determining the \$5,000 amount, as recommended, we considered an approach based on inflation-adjusting for both the \$500 and \$600 reporting threshold amounts from when they first appeared in the Code. Using the Consumer Price Index (CPI) calculator provided on the Bureau of Labor Statistics website, we calculated the inflation-adjusted amounts for these thresholds in terms of 2006 dollars. Based on the CPI calculator, the 1942 threshold amount of \$500 would be inflation-adjusted to \$6,095; and, the 1954 threshold amount of \$600 would be inflation-adjusted to \$4,432. Therefore, we believe that the recommended \$5,000 threshold amount is more appropriate and more meaningful from an inflationary and overall financial perspective than the current \$600 amount.

Although an increase in the reporting threshold for payments to medical and health care providers would be based on an amount that is not consistent with some of the other types of payments reported on Form 1099-MISC, which would presumably continue to be reported with the current \$600 threshold, we believe that difference should not result in any reporting problems or confusion on the part of the payers. The Form 1099-MISC already accommodates a variety of payment types, all with different rules and some with different reporting threshold amounts. The increased threshold of

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\$5,000 for medical and health care payments will be consistent with the Form 1099-MISC reporting for direct sales, which is contained in §6041A(c).

In evaluating the impact of our recommendation to increase the reporting threshold, we conducted an informal survey of eighteen health insurance companies to determine the effect that a \$5,000 reporting threshold would have on their company-specific reporting, if the higher threshold had been in effect for 2005. That year these companies collectively filed 884,377 Forms 1099-MISC and reported more than \$74 billion in payments to medical and health care providers. Based upon our survey responses, the \$5,000 threshold would have resulted in a 58.11% reduction in the number of Forms 1099-MISC filed, a reduction of more than 500,000 forms; however, this significant reduction in forms filed would result in only a 1.29% reduction in the amount of income reported. In other words, for 2005, an increase in the reporting threshold to \$5,000 would have resulted in a 58% reduction in the number of Forms 1099-MISC to medical and health care providers yet 98.71% of the total payments made in 2005 would have been reported.

Benefit to Payers

The benefits of a higher reporting threshold to payers will be significant. Payers will realize a substantial decrease in costs and time required to comply with the Form 1099-MISC for medical payments and all of the related IRS information reporting requirements. These requirements include the following specific tasks:

- Filing of Forms 1099-MISC for medical payments (production and mailing cost)

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- Managing the information gathering, formatting, and TIN mismatch process
- Follow-up correspondence and telephone calls from health care providers with inquiries about their Forms 1099-MISC

As indicated by the results of our survey, the average dollar amount of the Forms 1099-MISC that would no longer be reported is \$1,860, compared to an average of \$197,572 for the forms that would be reported. The reason for this significant disparity is that health insurance companies typically conduct a majority of their business within a network of providers, however for a variety of reasons the policyholders of an insurance company often utilize physician groups, dentists and facilities outside of the insurer's normal network of providers which results in one or a few payments to a provider. These out of network, lower dollar amount payments will also result in more time and cost for the payers to obtain all of the necessary information to meet the reporting requirements since there might not have been an established business relationship. Although much of the necessary provider information would be obtained to process the payment, an increase in the reporting threshold from \$600 to \$5,000 will result in significant time and money savings to the payers.

Benefit to IRS

The IRS will also realize a significant decrease in costs and time at both the national and regional level in administering fewer than one-half the number of Forms 1099-MISC filed for medical and health care payments, the TIN mismatch process for medical providers, the proposed penalty process for TIN mismatches of medical providers, as well as backup withholding oversight. At the same time, the IRS will still

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receive Forms 1099-MISC that report almost 99% of all payments made to medical and health providers.

More specifically, as mentioned above, our survey shows that the \$5,000 threshold will result in a 58.11% decrease in the number of Forms 1099-MISC filed: a reduction of 513,958 forms, from 884,377 to 370,464 forms. The total amount of payments to providers reported would still be 98.71% of the amount reported with a \$600 threshold; and, although the dollar amount of the decreased reporting may seem significant, totaling \$955,837,480, the average dollar amount of the forms not filed is only \$1,860. This dollar amount is seemingly insignificant from an IRS compliance perspective since it represents only a fraction of the income that a medical provider would receive, and there should be an expectation that the medical provider is also receiving payments from other payers in excess of \$5,000 that will be reported on Forms 1099-MISC.

We believe this change in the reporting threshold will not adversely impact the tax gap since it is our understanding, and our expectation that most, if not all, of the medical providers are compliant taxpayers. This understanding is based upon the nature of the business that they conduct as licensed and regulated medical service providers. In addition, many of the medical providers are also Medicare or Medicaid providers which are also regulated for other purposes. Furthermore, based on the results of our detailed analysis, the amount of income that would not be reported as a result of this change is minimal, and therefore the expectation is that other payers will be filing Forms 1099-MISC that can be used to identify a medical provider that might not be properly reporting their income.

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Benefit to Taxpayers

Medical entities typically bill according to the department rendering the service or on behalf of independent contractor service providers working with the medical provider. However, the Form 1099-MISC is made out to the legal entity's name. Increasing the threshold amount will decrease the number of Forms 1099-MISC that medical entities will receive and thus decrease the time they will have to spend matching the amount shown on the Form to the department that rendered the service.

**INFORMATION REPORTING PROGRAM
ADVISORY COMMITTEE**

**TAX EXEMPT & GOVERNMENT ENTITIES
SUBGROUP REPORT**

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NOVEMBER 16, 2006

**Information Reporting Program Advisory Committee
Tax Exempt and Government Entities Subgroup Report**

I. INTRODUCTION

The Tax Exempt & Government Entities Subgroup (the TEGE Subgroup) represents a diverse coverage group and, as a result, is composed of individuals representing a variety of constituent groups including the mutual fund industry, retirement plans (both a provider and an individual practitioner), universities, and state government. During 2006 the TEGE Subgroup met several times primarily with representatives from the IRS TEGE Operating Division. We also received support from Exempt Organizations, Chief Counsel's office, and the Social Security Administration.

A number of the recommendations of the TEGE Subgroup were considered and implemented prior to the issuance of this report. In addition, members of the TEGE Subgroup were allowed to freely participate in discussions of the issues with IRS staff and were given candid and timely responses.

II. ISSUES AND RECOMMENDATIONS

A. Exempt Organizations:

1. Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts (FBAR)

Background

Treasury Department regulation 31 CFR Section 103.24 requires U. S. persons that have a financial interest in or signature authority over a foreign bank or financial account to file the form prescribed by the Secretary, the FBAR. In many cases, however, the employer maintains an interest in such an account and delegates signature authority to its employee, resulting in filing two forms for the same account.

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Treasury Department regulation 31 CFR Section 103.54 authorizes the Secretary to make exceptions to filing this form. Currently, the instructions to the form provide an exception to officers and employees of banks and large domestic corporations. Large domestic corporations are defined to include corporations listed on national securities exchanges, or with assets exceeding \$10 million and 500 or more shareholders provided these officers or employees have no personal interest in the account.

Recommendation

The TEGE Subgroup of IRPAC proposes a broader exemption that will include officers and employees of tax-exempt organizations that have assets in excess of \$10 million. Although these organizations cannot meet the 500 or more shareholders requirement, they fall within the spirit of the exemption.

Discussion

No functional distinction arises between the large tax-exempt organizations and the large domestic corporations. Both types are of similar financial size and sophistication and both have reliable internal controls that exercise appropriate fiscal responsibility over its officers and employees who are granted signature authority privileges.

Benefits to Taxpayers and IRS

This proposal will benefit the taxpayers and the Service because the same information is filed with less paperwork. Notwithstanding this exemption to its officers and employees, the employer is still required to file the information on its foreign bank and financial accounts.

As an example of this benefit, many of the more than 2,000 colleges and universities in the higher education community, a primary constituent of the nonprofit sector,

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conduct research and other educational endeavors in various foreign countries that require certain faculty members to maintain signature authority over these accounts. These accounts are properly accounted for and supervised as part of the institutions' financial reporting obligations which are similar to large domestic corporations.

Under the instructions as currently written, these faculty members are required to file this form in addition to their respective schools.

In consequence, this proposal will eliminate any unnecessary filings, thereby, lessening the administrative burdens of government and reducing the overall costs to taxpayers.

IRS Response and/or Action

No broader exemption will be granted because the current exemption is based on a narrow rationale that does not include tax-exempt organizations. Banks and such large domestic corporations are subject to centralized federal supervision. The banking industry is heavily regulated by the federal government and large domestic corporations are registered with and supervised by the Securities and Exchange Commission (SEC). Tax-exempt organizations are not subject to supervision by such or similar federal financial regulators. Therefore, the need for officers and employees to adhere to the notice requirements regarding signature authority over foreign bank and financial accounts continues to exist.

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**2. Form 990, Tax Return for Organizations Exempt from Income Tax,
and Schedule A, Organizations Exempt Under Section 501(c)(3),
Supplementary Information**

Background

The IRS recently made modifications to the 2005 Form 990, including the Schedule A, and has assigned a team of experts within the Exempt Organization (EO) division to continue to develop this form in an effort to provide appropriate transparency to the general public regarding the operations and functions of exempt organizations. Accordingly, practitioners and members of the nonprofit sector have voiced their concerns to the IRS on certain issues, such as reporting compensation of key employees. As part of its initiative to solicit comments, the IRS has given the same opportunity to this forum.

Recommendations and Discussion

In addition to discussions about particular reporting matters, such as defining related parties for compensation purposes and converting the support test on the Schedule A from a cash basis to an accrual basis, the TEGE Subgroup proposes to modify the instructions to try to help the exempt taxpayer prepare the return accurately and completely.

The instructions may include additional language when completing question 89 of Part VI (with respect to excess benefit transactions under IRC Section 4958) that specifically references the penalties for failure to report intermediate sanctions appropriately. Due to the complexity of this law and its severe tax consequences, this language may better serve to notify and edify the taxpayer with respect to its reporting responsibilities when preparing the return.

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Benefits to Taxpayers and IRS

The nonprofit sector receives practical guidance and direction on reporting information that it shares with the general public.

IRS Response/Action

Continue to hold discussions with and submit proposals to the EO assigned team members to address practical applications regarding certain aspects of these forms in an effort to promote compliance and proper reporting.

3. Form 1098-T, Tuition Statement

Background

Currently, per a final regulation, educational institutions and other filers of this form are required to provide hard copies to students unless the students agree to receive the information electronically.

The students tend to access this information electronically, however, and it has been demonstrated that most students tend not to respond to affirmative requests with respect to waiving their rights to receive this form in hard copy. Thus, the institution is forced to issue hard copies unnecessarily. Further, due to the transient nature of these students, the addresses provided can be incorrect, negating the intended point of mailing hard copies.

Recommendation and Discussion

The TEGE Subgroup proposes to provide the form electronically based on the students' negative consent rather than their affirmative consent, allowing the reporting agencies to forego the additional costs that arise from processing and mailing such forms to students in hard copy.

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Benefits to the Taxpayers and IRS

The reporting institutions derive significant cost savings with no limitations placed on the other interested parties. The students continue to have unlimited access to this information. The IRS is assured that the reporting obligations are met and the intended parties are informed appropriately.

IRS Response/Action

This issue needs to be further developed and will be carried over to next year.

B. Employee Plans

**1. Reporting of Designated Roth Contributions and Distributions
Consisting of Designated Roth 401K and 403B Contributions**

Background

On March 2, 2005, IRS issued proposed regulations providing special rules for designated Roth contributions. These regulations were made available in final form on December 30, 2005 and primarily addressed the contribution aspects of designated Roth contributions. These rules are effective January 3, 2006 and apply to taxpayer years beginning on or after January 1, 2006, which is the first year that taxpayers are permitted to make such contributions to qualified cash or deferred arrangements (i.e., §401(k) plans).

On January 26, 2006, proposed regulations under §§402(g), 402A, 403(b), and 408A were issued. This guidance tackled the distribution issues associated with Roth; however, specific instructions for reporting distributions of designated Roth contributions from a qualified retirement plan were not fully addressed. Form 1099-R required certain revisions to accommodate reporting of distributions of the new money type.

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The IRPAC submitted comments and recommendations on this subject in its October 2005 letter to the Commissioner.

Recommendations and Discussion

Discussions with the IRPAC have continued during 2006 and IRPAC believes the appropriate adjustments are being considered. As of this date, the 2006 Form 1099-R and its instructions have not been issued.

Based upon discussions, specific recommendations that will be implemented include:

- Distributions of designated Roth amounts will be reported on a separate Form 1099-R that is in addition to any Form 1099-R produced to report distribution of other money types from the qualified plan.
- A new box has been inserted under the recipient's name and address to report the first year that designated Roth contributions were made to the plan. This box is only completed for distributions of designated Roth amounts.
- Box 5 has been modified so that the amount of designated Roth contributions (i.e., basis) is reported in Box 5.
- Instructions for codes inserted at Box 7 have been adapted for this new distribution scenario.

Benefits to Payers, IRS, and Taxpayers

Designated Roth contributions present an important retirement income accumulation option for taxpayers and it is critical that accurate records be maintained so that taxpayers receive the tax benefit afforded. Payers will assist in this endeavor by the requirement to report specific information on Form 1099-R that is delivered to the

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taxpayer. The requirement to provide such data in a uniform manner enables the industry to standardize reporting and employee communications. In the end, the IRS will be in receipt of reliable data upon which to analyze a taxpayer's taxable income.

IRS Response/Action

The IRS welcomed these suggestions from the IRPAC and has included these enhancements in the form and instructions for the 2006 form year. A copy of the draft 2006 Form 1099-R is presented in Attachment A.

2. Tax Reporting of Retirement Accounts, Including IRAs that Are Closed due to Escheatment and/or a Customer Identification Program (CIP) Failure

Background

This is a carry over issue from 2005.

Escheatment: On September 30, 2004 the Department of Labor (DOL) issued Field Assistance Bulletin No. 2004-02 ("FAB 2004-02"; "the Bulletin") in which it addressed the circumstances under which a plan administrator/fiduciary of a terminating Defined Contribution plan in which certain participants were considered "missing," could escheat plan assets attributable to such missing participants to the applicable state's unclaimed property fund without being deemed to be in violation of the fiduciary responsibility provisions of ERISA. Pursuant to this Bulletin, any such escheatment would constitute a plan distribution. Similarly, various and differing state statutes require the escheatment of assets held in IRA accounts to be transferred to the state's unclaimed property fund, most usually upon the expiration of a state specified "dormancy period" (usually three to five years), and, in most cases, the classification of the account as "distributable," e. g. the account holder attains age 70 ½.

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CIP Failure: Federal regulations enacted pursuant to Section 326 of the USA Patriot Act require financial institutions to verify the identity of any person who seeks to open an account, including any type of IRA account, beginning on or after October 25, 2002. Under this Section, a financial institution must obtain certain “documentary” or “non-documentary” verification of the account holder’s identity either before an account is opened or within a reasonable time thereafter. If the account holder’s identity cannot be verified, the financial institution is obligated to close the account. Pursuant to this requirement, an IRA custodian/trustee would have to close the IRA account and distribute the balance to the account holder, with or without his or her written consent, to the extent the Section 326 identification verification requirements could not be timely met.

In its report dated October 1, 2004, the TEGE Subgroup addressed some of the distribution, reporting and withholding issues raised by the escheatment of participant assets and/or account closures mandated by a CIP failure since there appeared to be no reference in the Form 1099-R Instructions or any IRS Publication as to how to handle such distributions from a reporting and withholding perspective. The TEGE Subgroup included with its report a draft Q & A paper entitled “Special Reporting and Withholding Requirements for Distributions Initiated by a Plan Administrator or IRA Trustee or Custodians” which the IRS could use in the issuance of “soft guidance” which was recommended at that time. This issue was carried over to and addressed in 2006 by the TEGE Subgroup.

Recommendation

The Recommendations were withdrawn

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Discussion

In discussions with IRS TEGE representatives on this topic, it was indicated that they had performed some preliminary review and analysis of the subject of escheatment and CIP failures on their own and concluded that the escheatment reporting/withholding issue was complex and needed greater study, scrutiny and analysis before the IRS could issue any substantive guidance on this matter.

The TEGE Subgroup accepted this conclusion and consequently, withdrew the escheatment/CIP reporting issue from further consideration for 2006. The TEGE Subgroup welcomed and appreciated the opportunity to have discussed these issues with the IRS representatives.

Benefit to Payers

Since the reporting of escheatment and CIP distributions was withdrawn, the benefit to payers has not been addressed.

Benefit to the IRS

Since the reporting of escheatment and CIP distributions was withdrawn, the benefit to the IRS has not been addressed.

Benefit to Taxpayers

Since the reporting of escheatment and CIP distributions was withdrawn, the benefit to taxpayers has not been addressed.

3. Employee Plans Compliance Resolution System (EPCRS)

Background

Simplified Employee Pension plans (SEP plans), Salary Reduction Simplified Employee Pension plans (SARSEP plans) and Savings Incentive Match Plans for

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Employees plans (SIMPLE IRA plans) are plans that are primarily adopted by small businesses, including self-employed individuals. Increasing numbers of these small pension plans has led to the need for detailed operational and reporting compliance guidance. While some guidance regarding the correction of excess contributions and deferrals can be found for SEP and SARSEP IRA plans in IRS Publications 560 and 590, the Form 1099-R Instructions (SARSEP plans only), and most recently in Revenue Procedure (Rev. Proc.) 2006-27 (IRS's Employee Resolution Compliance Resolution System (EPCRS)), the existence of reporting guidance with respect to the correction and reporting of distributions of excess deferrals and excess contributions is lacking.

Part III. Section 6. subsection .10 of Rev. Proc. 2006-27 specifically addresses the correction and reporting methodologies for excess SEP, SARSEP and SIMPLE IRA contributions and deferrals as applicable. The guidance, however, is brief and inconsistent with regulations §1.408-7(f) and the provisions of Code §402(h)(2), Publications 560 & 590, Rev. Proc. 91-44, and IRS Form 1099-R Instructions. Improved reporting clarification would increase tax revenue collection by the IRS.

Recommendation

With regard to all three types of plans (SEP, SARSEP and SIMPLE IRA), the TEGE Subgroup recommends that the IRS:

- Provide explicit guidance in the Instructions for IRS Forms 1099-R and W-2 to properly report the distribution or return of excess contributions/deferrals made to SEP, SARSEP and SIMPLE IRA plans.
- Make consistent the operational and reporting guidance with regard to the treatment of excess SEP, SARSEP and SIMPLE contributions as found in

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subsection 6.10 of Rev. Proc. 2006-27 with Internal Revenue Code §402(h)(2),
IRS Publications 560 and 590 and Rev. Proc. 91-44.

- Insert references to Rev. Proc. 2006-27 into both the IRS Form 1099-R Instructions and IRS Publications 560 and 590. Explain how the guidance found in subsection 6.10 of Rev. Proc. relates to the guidance contained in the Form 1099-R Instructions and Publications.
- Expand the IRS website to include reporting compliance requirements, especially with regard to corrections of excess contributions and deferrals from both a plan sponsor's and a payer's perspective.

Discussion

Several forms of excess contributions and deferrals exist. The type of plan and nature of the excess defines the correction method. The tables below serve to depict the inconsistencies across the correction methods. The reader should bear in mind that the left and middle columns are one alternative correction method while the right column (EPCRS) is the second alternative correction method.

Benefit to Payers

Explicit guidance as to how to report distributions of excess contributions/deferrals made from SEP, SARSEP and SIMPLE IRA plans could greatly enhance reporting compliance. It is customary to distribute excess contribution/deferral amounts as non-taxable in accordance with Code §408(d)(4).

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Benefit to the IRS

Clarification of reporting guidance to the small employers sponsoring SEP, SARSEP and SIMPLE IRA plans would greatly enhance operational and reporting compliance resulting in substantially reduced under-reporting of taxable income.

Benefit to Taxpayers

Explicit guidance relating to distributions of excess contributions/deferrals made from SEP, SARSEP and SIMPLE IRA plans could alert a taxpayer to what forms he should receive from his employer as well as his IRA custodian resulting in a more accurate annual tax filing.

IRS Action/Response

The issues and recommendations depicted above have been relayed to representatives of the IRS who have indicated that they will take these items under consideration, especially those relating to the Form 1099-R Instructions and the possible inclusion of additional guidance to the referenced IRS Publications and Rev. Proc. 2006-27. The TEGE Subgroup looks forward to working with the IRS in this regard and welcomes any attention the IRS can give to this matter.

4. Form 5500, Schedule SSA

Background

On August 30, 2005, the Department of Labor (DOL) issued proposed regulations that mandated electronic filing of Form 5500 for plan years beginning after 2006. The proposal acknowledged that certain portions of the current filing, including Schedule SSA, Annual Registration Statement Identifying Participants with Deferred Vested Benefits, would not be part of the mandate. Instead, IRS, as the agency responsible for

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collecting data for the Social Security Administration (SSA), would determine other processes for plan administrators to submit the required information. The DOL finalized its regulations on July 21, 2006, with the mandate effective for plan years beginning on or after January 1, 2008.

Practitioners have been frustrated with the current reporting mechanism and the IRPAC identified this project as an opportunity to draw attention to factors that could improve reporting compliance and administration. Likewise, with the baby boomer generation reaching retirement age, the SSA burden of notifying participants and beneficiaries of possible benefits will increase exponentially if data collection and maintenance methods are not improved.

Recommendations and Discussion

The IRPAC offered the following recommendations:

- To facilitate data collection, the IRS should develop a method for Schedule SSA to be submitted electronically. In addition, IRS should consider incentives to encourage electronic filing, such as a delayed due date for electronic vs. paper submission.
- The Schedule SSA should be adapted to allow plan administrators to report changes on a global level, in addition to the current individual data collection method. It might be possible to accomplish this with simple check-box questions on the face of the form.

Example 1. A plan terminates and distributes all benefits to participants and beneficiaries. The plan administrator should be able to notify the SSA that all persons

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previously reported under a particular EIN (employer identification number) and PN (plan number) should no longer be considered “active” for Schedule SSA purposes.

Example 2. Plan A merges with Plan B. Under current rules Plan B must report all individuals previously reported on Schedule SSA using code D (for delete) while Plan A must also report all of those individuals on Schedule SSA using code C (for change). There should be some easy way for the plans to alert SSA of the need to change the EIN and PN reference without providing all of the individual detail.

- Plan administrators should have the ability on the face of Schedule SSA to request a list of the participants and beneficiaries currently “active” on the SSA system. Generation of this information for the plan administrator would allow for more accuracy and eliminate letters being needlessly generated by SSA in instances where the benefits have been previously distributed.

During a June 20, 2006 meeting, IRS and SSA personnel explained the economic constraints and systems limitations of the project and answered questions raised by the IRPAC. There was consensus that perfecting the SSA database is ideal; however, there is recognition that the public should expect very incremental evolution of the processes.

Benefits to Payers, IRS, and Taxpayers

Recommendations by the IRPAC focused on concepts that have the potential to generate significant cost savings for the agencies and for plan administrators that must respond to inquiries that result from SSA letters generated from a less than perfect database.

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IRS Response/Action

The IRPAC is very impressed with the inter-agency cooperation on this project and their willingness to consider input. We urge IRS and SSA to continue the positive dialogue on this subject and to pursue opportunities to develop enhancements to the system as it becomes operational.

5. Form 5500, Schedule R

Background

The IRS removed Schedule T (Form 5500)—Qualified Pension Plan Coverage Information from its Form 5500 package for plan years beginning in 2005. In its place, the 2005 Schedule R was expanded to include Part IV which instructs the preparer to “check the box for the test this plan used to satisfy the coverage requirements” at line 9. Separate boxes are provided for the ratio percentage test and the average benefit test.

This dramatic shift in reporting coverage information caused much confusion among preparers, who expected more synchronicity when comparing the prior method of disclosing satisfaction with the coverage requirements on Schedule T to the information to be reported on line 9 of Schedule R.

The IRPAC reviewed the types of comments and questions being raised by practitioners and found that enhancements to the official instructions to Schedule R could be used to clarify how and when to complete line 9.

Recommendations and Discussion

Three recommendations for modifications to the instructions were submitted to IRS:

Item #1: Many preparers are confused as to whether Schedule R should be completed if, per current instructions, lines 1 through 8 are left blank.

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Proposed solution: Under the Exceptions section of "Who Must File," insert the following text immediately after the bulleted items at (2):

"Note: Schedule R should not be filed if lines 1 through 8 are left blank."

Item # 2: The instructions for line 9 may lead some preparers to conclude that they may only check one box; however, it is clear that some plans have disaggregated parts that will satisfy the ratio percentage test for one disaggregated portion and the average benefit test for another disaggregated portion. Overall the instruction is difficult to understand because it speaks more to the rules regarding coverage testing rather than how to complete the form.

Proposed solution: reformat the instructions for line 9 to make them similar to other lines, for example, insert the following at the start of the text for line 9:

"Check the box for "ratio percentage test" or "average benefit test," whichever is applicable. Both boxes may be checked.", then continue with the balance of the text that exists, if desired.

Item #3: Many preparers are confused about completing line 9 when the Form 5500 is being filed for a multiple employer plan. In the past, such plans were required to attach multiple Schedule Ts to show coverage results for each participating employer.

Proposed solution: As part of the instructions for Line 9, include a specific reference to such plans, for example, as follows:

"Multiple employer plan filers should complete one Schedule R to report satisfaction with the coverage rules by all of the employers that participate in the plan. Check the box for "ratio percentage test," "average benefit test," or both, if any participating employer uses either test. Leave line 9 blank if all of the participating employers meet

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one of the exceptions noted below." This assumes this instruction comes before the exceptions section in the current instructions.

Benefits to Payers, IRS, and Taxpayers

Plan sponsors filing Form 5500, including Schedule R, will benefit from these inclusions in the instructions because they will ensure that preparers are uniformly interpreting the data the question is intending to elicit about the plan's compliance with statutory requirements. In turn, the IRS will receive more reliable information in its database.

IRS Response/Action

The IRS welcomed these suggestions from the IRPAC and has included these enhancements in the instructions for the 2006 form year. A copy of the 2006 instructions is presented in Attachment A.

6. SIMPLE IRA Plan Compliance Communication Effort

Background

Employee Plans (EP) opened an examination project on SIMPLE IRA Plans in January 2005. Based on the information provided in the "Employee Plans News," issued by the IRS on March 10, 2006, EP identified approximately 190,000 employers with SIMPLE IRA plans through a review of the 2004 Form W-2 information. Examiners subsequently reviewed the SIMPLE IRA plan documents being used by these employers to determine if the documents were up to date. EP found that a significant number (more than 50%) of SIMPLE IRA plans being used by these plan sponsors had not been updated for the Economic Growth Relief Reconciliation Act of 2001 (EGTRRA).

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Since SIMPLE IRA plan documents that are not in compliance with the requirements of Revenue Procedure 2002-10 could cause those participating in such plans to lose all of the retirement savings and tax benefits offered by the plans, EP decided to create a special relief program to afford SIMPLE IRA Plan sponsors the opportunity to bring their plans into compliance. To obtain the relief offered, SIMPLE IRA Plan sponsors with out-of-date plan documents would need to adopt an appropriately updated SIMPLE IRA Plan document by no later than December 31, 2006.

To inform SIMPLE IRA Plan sponsors of this limited relief period, EP planned to undertake a direct communication effort that was to be comprised of a letter to the 190,000 employers identified as SIMPLE IRA Plan sponsors through its prior review. A test mailing of 1,000 letters was to be started in March 2006; followed by additional mailings of approximately 10,000 to 15,000 letters until all 190,000 employers were notified.

Recommendation

After a pre-review of the letter EP planned to send to SIMPLE IRA Plan sponsors regarding the special relief period and the need to bring their plan documents into compliance with EGTRRA, the TEGE Subgroup recommended that:

- The EP letter be revised
- The distribution of the letter be preceded by a public announcement of the compliance effort and/or a separate letter to SIMPLE IRA Plan document providers and financial institutions serving as trustees/custodians of participants' SIMPLE IRAs.

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The TEGE Subgroup felt this latter notification was very important and necessary in order to allow providers, trustees and custodians to adequately and timely mobilize their resources to support the communication effort being undertaken by EP. TEGE also believed that the direct involvement of the document provider/financial institution community was crucial to the success of the IRS initiative.

Discussion

After learning of the intended EP SIMPLE IRA Plan compliance communication effort in one of the TEGE Subgroup meetings with TEGE IRS representatives and reviewing the content of the proposed letter, TEGE expressed concern not only about some of the content of the letter but also the fact that the letter would not reach any of the many unincorporated SIMPLE IRA Plan sponsors who have no common law employees. (Since no Forms W-2 are issued to unincorporated employer individuals, they would not be included in the planned communication to the 190,000 employers as described above.) Consequently, the TEGE Subgroup revised the EP letter and composed a draft of a “public announcement” as well as a “sample letter” to be addressed to SIMPLE IRA plan document providers and financial institutions. These were timely presented to IRS TEGE representatives. Based on review of the subsequent compliance communication effort on the IRS website which among other things included samples of the letters being sent to both SIMPLE IRA Plan sponsors and plan document providers/financial institutions respectively, a public announcement and a FAQ on the topic, the TEGE Subgroup was pleased that substantially all of its recommended content for the letter to SIMPLE IRA Plan Sponsors was utilized by EP and that EP had included as part of its communication effort, a separate letter

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addressed to SIMPLE IRA Plan document providers/financial institutions. In addition, a detailed announcement of the compliance effort and the reasons for its inception was also provided by EP on both the IRS website as well as in a Special Edition of the "Employee Plans News." The TEGE Subgroup was appreciative of the opportunity to be able to substantively contribute to the SIMPLE IRA Plan compliance effort launched by EP and the IRS and commends both for a job well done.

Benefit to Payers

There are two major benefits to payers (SIMPLE IRA Plan document providers and financial institutions serving as SIMPLE IRA trustees and custodians):

- Through either direct communication (receipt of the IRS letter) and/or indirect communication (review of the public announcement on the IRS website, document providers and financial institutions became adequately and timely informed of the EP compliance initiative
- Through this direct and/or indirect communication, document providers and financial institutions were able to timely determine the actions deemed necessary (independent communication to employer clients, training of personnel to enable them to answer questions about the initiative and direct employers to updated SIMPLE IRA plan documents; etc.) to support the EP initiative and attend to the document needs of their SIMPLE IRA plan sponsor clients.

Benefit to the IRS

There are three major benefits to the IRS from this action:

- By sharing the information about the Simple IRA Plan document compliance initiative in advance with the TEGE Subgroup and offering the TEGE Subgroup

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the opportunity to comment on the proposed letter content and SIMPLE IRA plan compliance initiative in general, the IRS enabled the TEGE Subgroup to provide material comment and input

- By the IRS's acceptance and utilization of TEGE input and recommendations, it is believed that a much broader SIMPLE IRA plan sponsor audience would be reached, including the self-employed and other unincorporated SIMPLE IRA plan sponsors who would otherwise not have heard of the compliance relief program
- By means of the direct and indirect communication to the document providers and financial institution trustee and custodian community regarding the document compliance initiative, the IRS could anticipate that follow-up communication efforts with SIMPLE IRA plan sponsors would take place by these stakeholder groups to help promote document compliance. Such efforts by document providers and SIMPLE IRA trustees/custodians could take the form of individual notifications to plan sponsors and/or reminders inserted into the 2006 annual mailing of the Summary Description notices that is required to be mailed by SIMPLE IRA trustees and custodians to the SIMPLE IRA plan sponsors whose participants maintain their SIMPLE IRAs with those SIMPLE IRA trustees/custodians.

Benefit to Taxpayers (SIMPLE IRA Plan Sponsors)

Due to the probability of a wider range communication and promotion of the IRS SIMPLE IRA Plan compliance initiative as described above, more taxpayers, as herein defined (and including the self-employed and other unincorporated businesses with no common law employees who otherwise would not have received any communication

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from the IRS about this initiative), are able to take advantage of the special relief opportunity and take the steps necessary to timely update their SIMPLE IRA plan documents; with the ultimate result being that a greater number of SIMPLE IRA Plan sponsors will have SIMPLE IRA documents in compliance with EGTRRA as of the end of the relief period.

IRS Action/Response

See above as applicable.

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III. ATTACHMENTS

- A.** Draft for 2006 Form 1099-R
- B.** 2006 Instructions for Schedule R (Form 5500)

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9898 VOID CORRECTED

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution		OMB No. 1545-0119		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. 2006 Form 1099-R	
		\$					
		2a Taxable amount		\$			
		2b Taxable amount not determined <input type="checkbox"/>		Total distribution <input type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096.	
PAYER'S federal identification number		RECIPIENT'S identification number		3 Capital gain (included in box 2a)			4 Federal income tax withheld
				\$		\$	
RECIPIENT'S name		5 Employee contributions or insurance premiums designated Roth basis		6 Net unrealized appreciation in employer's securities		For Privacy Act and Paperwork Reduction Act Notice, see the 2006 General Instructions for Forms 1099, 1098, 5498, and W-2G.	
		\$		\$			
Street address (including apt. no.)		7 Distribution code(s)		8 Other			
				<input type="checkbox"/> IRA/SEP/SIMPLE \$ _____ %			
City, state, and ZIP code		9a Your percentage of total distribution %		9b Total employee contributions \$			
		1st year of desig. Roth contrib.		10 State tax withheld		11 State/Payer's state no.	
				\$		\$	
				\$		\$	
Account number (see instructions)		13 Local tax withheld		14 Name of locality		15 Local distribution	
		\$				\$	
		\$				\$	

Form 1099-R Cat. No. 14436Q Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

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2006 Instructions for Schedule R (Form 5500) Retirement Plan Information

General Instructions

Purpose of Schedule

Schedule R reports certain information on plan distributions, and funding, and the adoption of amendments increasing the value of benefits in a defined benefit pension plan.

Who Must File

Schedule R (Form 5500) must be attached to a Form 5500 filed for both tax qualified and nonqualified pension benefit plans. The parts of the Schedule R that must be completed depend on whether the plan is subject to the minimum funding standards of Code section 412 or ERISA section 302 and minimum coverage requirement of Code section 410(b).

Exceptions: (1) Schedule R should not be completed when the Form 5500 is filed for a pension plan that uses, as the sole funding vehicle for providing benefits, a tax deferred annuity arrangement under Code section 403(b)(1), a custodial account for regulated investment company stock under Code section 403(b)(7), and/or individual retirement accounts or annuities (as described in Code section 408). See the Form 5500 instructions for Limited Pension Plan Reporting on page 9 for more information.

(2) Schedule R also should not be completed if each of the following conditions is met:

- The plan is not a defined benefit plan or otherwise subject to the minimum funding standards of Code section 412 or ERISA section 302.
- No plan benefits that would be reportable on line 1 of Part I of this Schedule R were distributed during the plan year. See the instructions for Part I, line 1, below.
- No benefits, as described in the instructions for Part I, line 2, below, were paid during the plan year other than by the plan sponsor or plan administrator. (This condition is not met if benefits were paid by the trust or any other payor(s) which are reportable on Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc., using an EIN other than that of the plan sponsor or plan administrator reported on line 2b or 3b of Form 5500.)
- Unless the plan is a profit-sharing, ESOP or stock bonus plan, no plan benefits of living or deceased participants were distributed during the plan year in the form of a single sum distribution. See the instructions for Part I, line 3, below.

Note. Schedule R should not be filed if lines 1 through 8 are left blank or checked "N/A".

Check the Schedule R box on the Form 5500 (Part II, line 10a(1)) if a Schedule R is attached to the Form 5500.

Specific Instructions

Lines A, B, C, and D. This information should be the same as reported in Part II of the Form 5500 to which this Schedule R is attached. You may abbreviate the plan name (if necessary) to fit in the space provided.

Do not use a social security number in line D in lieu of an EIN. The Schedule R and its attachments are open to public inspection, and the contents are public information and are subject to publication on the Internet. Because of privacy concerns, the inclusion of a social security number on this Schedule R or any of its attachments may result in the rejection of the filing.

EINs may be obtained by applying for one on Form SS-4, Application for Employer Identification Number, as soon as possible. You can obtain Form SS-4 by calling

1-800-TAX-FORM (1-800-829-3676) or at the IRS Web Site at www.irs.gov. The EBSA does not issue EINs.

Part I – Distributions

"Distribution" includes only payments of benefits during the plan year, in cash, in kind, by purchase for the distributee of an annuity contract from an insurance company, or by distribution of life insurance contracts. It does not include corrective distributions of excess deferrals, excess contributions, or excess aggregate contributions, or the income allocable to any of these amounts. It also does not include the distribution of elective deferrals or the return of employee contributions to correct excess annual additions under Code section 415, or the gains attributable to these amounts. Finally, it does not include a loan treated as a distribution under Code section 72(p); however, it does include a distribution of a plan loan offset amount as defined in section 1.402(c)-2, Q&A 9(b).

"Participant" means any present or former employee who at any time during the plan year had an accrued benefit (account balance in a defined contribution plan) in the plan.

Line 1. Enter the total value of all distributions made during the year (regardless of when the distribution began) in any form other than cash, annuity contracts issued by an insurance company, distribution of life insurance contracts, marketable securities, within the meaning of Code section 731(c)(2), or plan loan offset amounts. Do not include eligible rollover distributions paid directly to eligible retirement plans in a direct rollover under Code section 401(a)(31) unless such direct rollovers include property other than that enumerated in the preceding sentence.

Line 2. Enter the EIN(s) of any payor(s) (other than the plan sponsor or plan administrator on line 2b or 3b of the Form 5500) who paid benefits reportable on Form 1099-R on behalf of the plan to participants or beneficiaries during the plan year. This is the EIN that appears on the Forms 1099-R that are issued to report the payments. Include the EIN of the trust if different than that of the sponsor or plan administrator. If more than two payors made such payments during the year, enter the EINs of the two payors who paid the greatest dollar amounts during the year. For purposes of this line 2, take into account all payments made during the plan year, in cash or in kind, that are reportable on Form 1099-R, regardless of when the payments began, but take into account payments from an insurance company under an annuity only in the year the contract was purchased.

Line 3. Enter the number of living or deceased participants whose benefits under the plan were distributed during the plan year in the form of a single sum distribution. For this purpose, a distribution of a participant's benefits will not fail to be a single sum distribution merely because, after the date of the distribution, the plan makes a supplemental distribution as a result of earnings or other adjustments made after the date of the single sum distribution. Also include any participants whose benefits were distributed in the form of a direct rollover to the trustee or custodian of a qualified plan or individual retirement account.

Part II – Funding Information

Complete Part II only if the plan is subject to the minimum funding requirements of Code section 412 or ERISA section 302.

All qualified defined benefit and defined contribution plans are subject to the minimum funding requirements of Code section 412 unless they are described in the exceptions listed under section 412(h). These exceptions include profit-sharing or stock bonus plans, insurance contract plans described in section 412(i), and certain plans to which no employer contributions are made.

Nonqualified employee pension benefit plans are subject to the minimum funding requirements of ERISA section 302 unless specifically exempted under ERISA sections 4(a) or 301(a).

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The employer or plan administrator of a defined benefit plan that is subject to the minimum funding requirements must file Schedule B as an attachment to Form 5500. Schedule B is not required to be filed for a money purchase defined contribution plan that is subject to the minimum funding requirements unless the plan is currently amortizing a waiver of the minimum funding requirements.

Line 4. Check "yes" if for purposes of computing the minimum funding requirements for the plan year, the plan administrator is making an election intended to satisfy the requirements of Code section 412(c)(8) or ERISA section 302(c)(8). Under Code section 412(c)(8) and ERISA section 302(c)(8), a plan administrator may elect to have any amendment adopted after the close of the plan year for which it applies treated as having been made on the first day of the plan year if all of the following requirements are met:

1. The amendment is adopted no later than two and one-half months after the close of such plan year (two years for a multiemployer plan);
2. The amendment does not reduce the accrued benefit of any participant determined as of the beginning of such plan year; and
3. The amendment does not reduce the accrued benefit of any participant determined as of the adoption of the amendment unless the plan administrator notified the Secretary of the Treasury of the amendment and the Secretary either approved the amendment or failed to disapprove the amendment within 90 days after the date the notice was filed.

See Temporary Regulations section 11.412(c)-7(b) for details on when and how to make the election and the information to include on the statement of election, which must be filed with the Form 5500.

Line 5. If a money purchase defined contribution plan (including a target benefit plan) has received a waiver of the minimum funding standard, and the waiver is currently being amortized, lines 3, 9, and 10 of Schedule B must be completed. The Schedule B must be attached to Form 5500 but it need not be signed by an enrolled actuary.

Line 6a. The minimum required contribution for a money purchase defined contribution plan (including a target benefit plan) for a plan year is the amount required to be contributed for the year under the formula set forth in the plan document. If there is an accumulated funding deficiency for a prior year that has not been waived, that amount should also be included as part of the contribution required for the current year.

Line 6b. Include all contributions for the plan year made not later than 8½ months after the end of the plan year. Show only contributions actually made to the plan by the date the form is filed, i.e., do not include receivable contributions for this purpose.

Line 6c. If the minimum required contribution exceeds the contributions for the plan year made not later than 8½ months after the end of the plan year, the excess is an accumulated funding deficiency for the plan year and Form 5330, Return of Excise Taxes Related to Employee Benefit Plans, should be filed with the IRS to pay the excise tax on the deficiency. There is a penalty for not filing Form 5330 on time.

Line 7. A revenue procedure providing for automatic approval for a change in funding method for a plan year generally does not apply unless the plan administrator or an authorized representative of the plan sponsor explicitly agrees to the change. If a change in funding method made pursuant to such a revenue procedure (or a class ruling letter) is to be applicable for the current plan year, this line generally must be checked "Yes." In certain situations, however, the requirement that the plan administrator or an authorized representative of the plan sponsor agree to the change in funding method will be satisfied if the plan administrator or an authorized representative of the plan sponsor is made aware of the change. In these situations,

this line must be checked "N/A." See section 6.01(2) of Rev. Proc. 2000-40, 2000-2 C.B. 357.

Part III – Amendments

Line 8.

- Check "No" if no amendments were adopted during this plan year that increased or decreased the value of benefits.
- Check "Increase" if an amendment was adopted during the plan year that increased the value of benefits in any way. This includes an amendment providing for an increase in the amount of benefits or rate of accrual, more generous lump sum factors, COLAs, more rapid vesting, additional payment forms, and/or earlier eligibility for some benefits.
- Check "Decrease" if an amendment was adopted during the plan year that decreased the value of benefits in any way. This includes a decrease in future accruals, closure of the plan to new employees, and accruals being frozen for some or all participants.
- If applicable, check both "Increase" and "Decrease."

Part IV – Coverage

Line 9.

 *Questions regarding coverage were previously raised in the Schedule T but the Schedule T has been discontinued. The instructions to the Schedule T provided that the Schedule T need not be filed every year if the employer was using the three-year testing cycle of Rev. Proc. 93-42, 1993-2 C.B. 540. That exception does not apply to Part IV of the Schedule R.*

If the ratio percentage for the plan, or any disaggregated part of the plan, is less than 70%, the plan does not satisfy the ratio percentage test. An employer that is using single day "snapshot" testing may, in certain circumstances, need to adjust the 70% figure to compensate for the fact that the substantiation quality data or snapshot population does not reflect employee turnover and may overstate the plan's coverage. See section 3 of Rev. Proc. 93-42. If the plan, or any disaggregated part of the plan, does not satisfy the ratio percentage test, the plan will satisfy the minimum coverage requirements of the Code only if it satisfies the average benefit test.

A plan satisfies the average benefit test if it satisfies both the nondiscriminatory classification test and the average benefit percentage test. A plan satisfies the nondiscriminatory classification test if the plan benefits such employees as qualify under a classification set up by the employer and found by the Secretary not to be discriminatory in favor of highly compensated employees. Under Treasury Regulation section 1.410(b)-4, a classification will be deemed nondiscriminatory if the ratio percentage for the plan is equal to or greater than the safe harbor percentage. The safe harbor percentage is 50%, reduced by ¼ of a percentage point for each percentage point by which the nonhighly compensated employee concentration percentage exceeds 60%. The nonhighly compensated employee concentration percentage is the percentage of all the employees of the employer who are not highly compensated employees.

In general, a plan satisfies the average benefit percentage test if the actual benefit percentage for nonhighly compensated employees is at least 70% of the actual benefit percentage for highly compensated employees. See Treasury Regulation section 1.410(b)-5. All qualified plans of the employer, including ESOPs, Code section 401(k) plans, and plans with employee or matching contributions (Code section 401(m) plans) are aggregated in determining the actual benefit percentages. Do not aggregate plans that may not be aggregated for purposes of satisfying the ratio percentage test, other than ESOPs and Code sections 401(k) and 401(m) plans. In addition, all nonexcludable employees, including those with no benefit under any qualified plan of the employer, are included in determining the actual benefit percentages.

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Notes. (1) Certain plans are required to be disaggregated, or may be permissively disaggregated, into two or more separate parts for purpose of applying the minimum coverage requirements of Code section 410(b). Check the box for "ratio percentage test" or "average benefit test," whichever is applicable to the disaggregated plans. Both boxes may be checked if each test is satisfied by one or more of the disaggregated plans. (2) Multiple-employer plan filers should complete one Schedule R to report satisfaction with the coverage rules by all of the employers that participate in the plan. Check the box for "ratio percentage test," "average benefit test," or both, if any participating employer uses either test. Leave line 9 blank if all of the participating employers meet one of the exceptions noted below.

Plans may also satisfy the coverage rules of section 410(b) under one of the exceptions listed below. If one of the following exceptions applies, leave line 9 blank.

1. If, during the plan year, the employer employed only highly compensated employees (within the meaning of Code section 414(q)), excluding employees who were collectively bargained employees (within the meaning of Treasury Regulation section 1.410(b)-6(d)(2)).

2. If, during the plan year, the plan benefitted no highly compensated employees (within the meaning of Code section 414(q)), excluding employees who were collectively bargained employees (within the meaning of Treasury Regulation section 1.410(b)-6(d)(2)). This exception also applies if no employee received an allocation or accrued a benefit under the plan for the plan year.

3. If, during the plan year, the plan benefitted only collectively bargained employees (within the meaning of Treasury Regulation section 1.410(b)-6(d)(2)). However, this exception does not apply if more than 2% of the employees covered by the plan were professional employees (within the meaning of Treasury Regulation section 1.410(b)-9).

4. If, during the plan year, the plan benefitted 100% of the nonexcludable nonhighly compensated employees of the

employer. (This exception also applies if, during the plan year, all of the nonhighly compensated employees of the employer were excludable.) The nonhighly compensated employees of the employer include all the self-employed individuals, common-law employees, and leased employees (within the meaning of Code section 414(n)) employed by the employer or any entity aggregated with the employer under Code section 414(b), (c), or (m) at any time during the plan year, excluding highly compensated employees (within the meaning of Code section 414(q)). Any such employee is a nonexcludable employee unless the employee is in one of the following categories:

a. Employees who have not attained the minimum age and service requirements of the plan.

Note. If a plan has multiple age and service conditions or if the employer is treating a plan benefiting otherwise excludable employees as two separate plans pursuant to Treasury Regulation section 1.410(b)-6(b)(3), refer to section 1.410(b)-6(b) and section 1.410(b)-7(c)(3) of the regulations regarding the determination of excludable employees.

b. Collectively bargained employees within the meaning of Treasury Regulation section 1.410(b)-6(d)(2).

c. Nonresident aliens who receive no U.S. source income.

d. Employees who fail to accrue a benefit solely because they: (a) fail to satisfy a minimum hour of service or a last day requirement under the plan; (b) do not have more than 500 hours of service for the plan year; and (c) are not employed on the last day of the plan year.

e. Employees of QSLOBs other than the one with respect to which this Schedule R is being filed.

5. If, for the plan year, the plan is treated as satisfying the minimum coverage requirements of Code section 410(b) under the "acquisition or disposition" rule in Code section 410(b)(6)(C).

**INFORMATION REPORTING PROGRAM
ADVISORY COMMITTEE**

**WAGE & INVESTMENT
SUBGROUP REPORT**

**HOLLY CARLIN
CHARLES F. EGENDER
REGINA TARPLEY
PATRICIA A. RHODES, SUBGROUP CHAIR**

NOVEMBER 16, 2006

I. INTRODUCTION

During the 2006 calendar year, the Wage & Investment Subgroup (W&I Subgroup) worked with Internal Revenue Service and representatives from its Wage & Investment (W&I) Division, as follows: Denise Fayne, Director, Media & Publications; Sue Sottile, Director, Tax Forms and Publications; Frances Royal and Randall Swenson, Tax Forms & Publications; and Robert A. Erickson, Senior Technical Advisor, on a number of information reporting issues.

II. ISSUES AND RECOMMENDATIONS

A. Practitioner Reference Guide

Background

At the IRPAC W&I Subgroup meetings held in January and May 2005, Denise Fayne, then W&I Director, Tax Forms and Publications, informed the W&I Subgroup that the IRS was eliminating Package X, citing rising expense of printing and postage costs. This led to a discussion and suggestion by the W&I Subgroup that a Practitioner Reference Guide replace Package X. The Practitioner Reference Guide would contain tax information, covering the present and previous four years, that often changes yearly. It would also contain IRS telephone and fax numbers, and addresses for mailing various tax forms to IRS. This would prove to be a valuable resource for tax professionals preparing current year tax returns as well as tax returns for non-filers or late filers. Taxpayers filing prior year tax returns would also benefit from this information.

Recommendation

IRPAC recommends that a Practitioner Reference Guide be developed. Existing Publication 4437, *Tax Hints—Practitioners Guide to the Filing Season* should be modified and enhanced to serve as the Practitioners Reference Guide. Modifications

should also be made to incorporate some material from the already posted website Tool Kit for Tax Pros.

Discussion

A two page survey was distributed to attendees who came to the W&I booth at five of the six 2005 Tax Forums. The survey sought to determine if such a guide was desired, whether the guide should be made available via paper, on-line or on a CD-ROM, and what topics covering the present and previous four tax years were desired. Approximately 400 surveys were completed and returned. The survey indicated a strong desire from practitioners for such a Guide. Answers to the survey as to format desired (paper, CD-ROM, or on-line guide), were fairly evenly distributed. The most useful and desired content included: IRS service center mailing addresses, IRS telephone and fax numbers, depreciation tables and classes, tax tables, EIC tables, mileage rates, standard meal allowances, DOT meal allowance percentage rates, lodging and per diem rates, lump sum Social Security worksheets, sales tax tables, definitions of qualifying child/foster child and tax year application. IRPAC also discussed the most economical way to produce and deliver a Practitioner Reference Guide. NPL suggested that Publication 4437, *Tax Hints—Practitioners Guide to the Filing Season* could be modified and enhanced to serve as the Practitioners Reference Guide as envisioned by the group. The major modification needed would be to incorporate some material from the already posted website Tool Kit for Tax Pros. This would cut through much red tape in establishing a new publication. Tax Hints already has a publication and catalog number in the Media and Publishing electronic catalog and NPL controls the content therefore it would be relatively easy to modify.

Benefit to the IRS

Increased accuracy in completion of prior year tax returns as well as current year tax returns.

Benefit to Taxpayers

An easily accessible on-line publication that would simplify the research needed to find prior year(s) tax information needed to complete an accurate prior year tax return.

IRS Response and/or Action

IRS will modify the existing Publication 4437, integrating to the degree possible the material and information sought in a Practitioners Reference Guide.

B. Self-employed Worksheet for Health Insurance Adjustment to Income

Background

It is the general consensus of IRS as well as IRPAC that the reporting of health insurance premiums paid for the more-than-2% shareholder of a subchapter S corporation, or a member of a partnership, is often reported incorrectly. When the health insurance is paid for by the S corporation and the health insurance policy is in the name of the S corporation, a more-than-2% shareholder of a subchapter S corporation is subject to fringe benefit reporting of the cost of the health insurance as described in Publication 15-B Fringe Benefits. This affects the W-2 of the shareholder as well as the compensation paid to an officer reported on Line 7 of the 1120S tax return. An entry for the cost of the health insurance in this case is allowed on Line 29 Form 1040, as an adjustment to income. However, if the health insurance policy is not in the name of the S corporation and the S corporation paid the premiums, this must be taken as a shareholder distribution. In this case a deduction is only allowed on Schedule A of

Form 1040 under deductible medical benefits subject to an adjustment of 7.5% of adjusted gross income. Partners must also have health insurance policies in the name of the partnership to be able to take an adjustment to income on Form 1040.

Publication 535 clearly states that when the individual is a Schedule C, Schedule C–EZ, or Schedule F filer, and the health insurance is in the name of the individual, the adjustment to income for Health Insurance for Self-employed Taxpayers is allowed on Line 29 of Form 1040.

Recommendation

Examples covering the treatment of health insurance in the company name vs. health insurance in the taxpayer's name should be included in Publication 535, Business Expenses for more-than-2% shareholder of a 1120 S corporation, partner of a partnership, and sole proprietors filing Schedules C, C-EZ, or F. IRS is also encouraged to cover this topic at both local and national tax forums and in some of the on-line bulletins.

Discussion

IRPAC looked at all of the coverage of this topic in Publication 15A, Fringe Benefits; Publication 535, Business Expenses; the form instructions for Form 1120S, Form 1065, Form 1040, Schedule C, and Schedule A (medical) and found them to be clear and concise. However, there appears to be confusion among both taxpayers and tax practitioners as judged by mistakes on tax returns and in questions posed at local and national tax forums.

Benefit to the IRS

Increased accuracy in return filing.

Benefit to Taxpayers

A clearer understanding of the rules regarding health insurance deductions and increased accuracy in return filing.

IRS Response and/or Action

IRS will revise the 2006 Publication 535, Business Expenses, to explain that partners and more-than-2% S corporation shareholders can claim the self-employed health insurance deduction only if the policy is in the name of the partnership or S corporation. We will also revise this publication to state that for sole proprietors, the policy does not have to be in the name of the business if it is in the name of the sole proprietor. IRS covered this topic at the 2006 Nationwide Tax Forums and it is also covered on the IRS website.

C. Reporting of Social Security Benefits on Form 1040/1040A

Background

Line 20a and Line 20b of Form 1040 (Line 14a and Line 14b of Form 1040A) both require an entry if there is taxable Social Security benefits on the tax return. However, IRS receives many returns with an entry on Line 20b of Form 1040 (Line 14b of Form 1040A) but no entry on Line 20a of Form 1040 (Line 14a of Form 1040A). The IRS computers have been changing these returns to zero for Line 20b of Form 1040 (Line 14b of Form 1040A) and an error notice is then sent to the taxpayer. This has led to an erroneous decrease in taxable Social Security being reported, and a reduction of tax until the return is recomputed using information reporting matching with a CP2000 notice then being issued at a later date if the taxpayer did not respond appropriately to the error notice.

Recommendation

IRPAC recommended that the taxpayer be instructed to enter the total of all SSA-1099s on Line 20a of Form 1040 (Line 14a of Form 1040A) and then enter the taxable Social Security benefits on Line 20b of Form 1040 (Line 14b of Form 1040A).

Discussion

IRPAC weighed the burden on taxpayers of having to make an entry on Line 20a of Form 1040 (Line 14a of Form 1040A) against the benefit to taxpayer of being assured that their Social Security has been entered on returns prepared by someone other than the taxpayer as well as an improvement in total return accuracy.

Benefit to the IRS

Elimination of erroneous computer computations and error notices to taxpayers that are then followed by CP2000 notices.

Benefit to Taxpayers

Increased accuracy of tax returns and assurance that all taxable and/or nontaxable income has been duly reported as well as a reduction of correspondence between the IRS and the taxpayer after return filing.

IRS Response and/or Action

IRS has accepted the recommendation of IRPAC and has changed the form instructions for both the Form 1040 and 1040A to request an entry of the total of Social Security benefits as reported on all SSA 1099s for the taxpayer(s) on Line 20a of Form 1040 (Line 14a of Form 1040A). Both the form instructions and the Social Security Benefits Worksheet have been changed for 2006.

D. W-9 Definition of U. S. Person

Background

Part II of Form W-9—Request for Taxpayer Identification Number and Certification, in the Jurat of this form, requires the person signing the form to certify a number of things including that they are a U. S. person. There is a definition of a person but no definition of U. S. person in the instructions or purpose of the form. This has caused some people to hesitate signing the form because they are not sure they are a U. S. person.

Recommendation

IRPAC recommends that IRS make the following change to the instructions for Form W-9. In the section ‘Purpose of Form’ following the ‘Note,’ change the sentence which now reads ‘For federal tax purposes, you are considered to be a person if you are: ...’ to read ‘For federal tax purposes, you are considered a U. S. person if you are: ...’

Discussion

IRPAC believes there should be a definition of U. S. person on Form W-9.

Benefit to Payors

Increase compliance of persons asked to complete and sign Form W-9.

Benefit to the IRS

Less confusion of those using Form W-9.

Benefit to Taxpayers

Better understanding of definition of U. S. person.

IRS Response and/or Action

IRS will make changes at the next release of Form W-9.

E. Publication 2184—Alternative Ways to Get Tax Forms and Instructions

Background

Publication 2184, mailed out yearly to taxpayers, is a small, ten-page publication that contains an order blank for employment filing forms and products (W-2, 1099 forms, additional employment publications, employee forms, and a red copy of a much-needed W-3).

Recommendation

IRS should consider changing the name of Publication 2184 to Form W-3 Package (Including Alternative Ways To Get Employment Tax Forms and Instructions).

Discussion

Many employers buy W-2 forms or software that produces W-2s but find they need a Form W-3. When they receive Publication 2184 they often discard it before realizing that it contains a W-3. Changing the title of the publication would more accurately depict the contents of the publication.

Benefit to Payors

Increased use of IRS products would facilitate mailing employment forms to the Social Security Administration.

Benefit to the IRS

Increased use of W-3 and label provided in Publication 2184.

IRS Response and/or Action IRS is changing the name of Publication 2184 to Form W-3 Package (Including Alternative Ways To Get Employment Tax Forms and Instructions) effective 2006.

F. Form 1099C—Cancellation of Debt/1099A-Acquisition and Abandonment of Secured Property

Background

Form 1099A is often issued by the lender when a home foreclosure takes place and Form 1099C is issued by the lender when the debt is canceled.

Discussion

Real estate sales and home ownership have increased in the U. S. during the past few years due to low interest rates. With rising interest rates and the fact that some buyers chose mortgages that are now affected by rising interest rates, it is expected that there will be an increase in home foreclosures. At the August meeting IRPAC noted that there was no mention of a possible Section 121 exclusion of gain from a home sale either on the back of the copy of the 1099A/1099C received by the taxpayer or consistently in Publication 544 Sales and Other Dispositions of Assets.

Response

IRPAC will carry this issue over to 2007.

Information Reporting Program Advisory Committee 2006 Member Biographies

Martha Bell

Ms. Bell has been preparing taxes for over twenty-four years and is the owner and operator of TaxAdvantage of Lakeland, LLC in Lakeland, FL. Prior to owning her own business she worked for an accountant/computer company. She was the controller for a managing general insurance agency where she earned her enrolled agent's credentials. She was the former President of the Florida Association of Accounting and Tax Professionals and continues to serve in a variety of capacities. She formally served as the Florida State Director for the National Society of Accountants and continues to serve on a committee. Ms. Bell holds a BS in Education from the University of Akron, a Masters in Education from Kent State University and a BA in Business Administration (Accounting) from the University of Florida. In addition, she is an Accredited Business Accountant, Accredited Business Advisor, Florida mortgage broker, Series 6, and a US Tax Court Practitioner. **(IRPAC Chair)**

Chandra Bhansali

Mr. Bhansali has been President and co-founder of AccountantsWorld since 2000, located in Hauppauge, NY. AccountantsWorld offers an array of products and services to accountants including: AccountantsWorld.com—a portal for accountants and with over 100,000 members that is one of the most widely used resources for tax and accounting information, Payroll Relief—an online payroll processing center designed exclusively for accountants to help them offer payroll services to their clients, and Accounting Relief Pro—a web-based accounting system that lets accountants and their clients work collaboratively. . From 1984 to 2002, Mr. Bhansali was President of Micro Vision Software, the developer of the professional tax program, Tax Relief. Mr. Bhansali holds a PhD in Engineering from the State University of New York in Buffalo. Mr. Bhansali has been named one of the 100 Most Influential People in Accounting by Accounting Today for the past 5 years. **(SBSE Subgroup)**

Karen Botvin

Ms. Botvin is a Senior Manager with Vanguard Group, Inc., Investor Tax Services in Malvern, PA. She provides technical consulting and support services related to tax reporting and withholding for Vanguard's retail, institutional and brokerage clients. Ms. Botvin is also responsible for monitoring legislative, regulatory and judicial developments related to federal tax reporting and withholding matters. She is a member of the AICPA, the Pennsylvania Institute of Certified Public Accountants and the American Society of Pension Actuaries. She is a Qualified Pension Administrator and has an MS in Taxation from Widener University in Chester, PA. **(TEGE Subgroup)**

Holly A. Carlin

Ms. Carlin has been the owner of Holly A. Carlin, CPA, Inc. in Park City, UT since 1998. Her business includes tax, accounting, financial planning, business consulting, IRS representation and mediation. Ms. Carlin is a member of AICPA, UACPA, NAEA, NSA, NATP and NSTP. She is past president of the downtown chapter of the UACPA and an officer in the Mountain Chapter of the UACPA. She has a CPA License from the state of Utah and is also an enrolled agent. She received a BS in Education from Indiana University, a BS in Accounting from Weber State College, a post graduate certificate in Conflict Resolution from the University of Utah and an MS in Taxation from Washington School of Law. **(W&I Subgroup)**

Dave Corthell

Mr. Corthell is Vice President and Corporate IRS Compliance Manager of SunTrust Banks, Inc. in Orlando, Florida. Mr. Corthell has over 20 years experience with IRS Information Reporting programs. He manages all programs associated with IRS Information Reporting and IRAs for affiliates and subsidiaries of SunTrust Banks Inc. Mr. Corthell is a member of the American Bankers Association (ABA) and the IRS Information Reporting Roundtable. He attended Ohio State University and Terra Community College and holds a degree in Accounting and Computer Science Technology. **(LMSB Subgroup)**

Marianne Couch

Ms. Couch is the Executive Director for the National Association of Form 1099 Filers Inc. and the Director of Research for Balance Consulting, Inc. in Ann Arbor, MI. She has worked for several years translating complex sections of the US. tax code and specializes in addressing tax regulations of international and Form 1099 reportable payments. Ms. Couch conducts annual corporate tax-training seminars instructing tax professionals in complying with IRS regulations. She received her Juris Doctor, cum laude from Michigan State University in 1995. **(SBSE Subgroup)**

Erica L. Dinner

Ms. Dinner has been with Hartford Life Insurance Company in Simsbury, CT since 1998. She is currently the Assistant Director, Tax Information Reporting which does centralized tax reporting for the entire company as well as preparing tax forms of their customers. She is a CPA and has a BS in Accounting from Simmons College, Boston, MA, and has a Masters in Professional Accountancy from Barry University, Miami Shores, FL. **(LMSB Subgroup)**

Charles F. Egender

Mr. Egender was the owner of Charles F. Egender, CPA, P.A. from January 1993 until May 2005. His firm specialized in tax preparation, tax advising and business consulting. In May 2005, Mr. Egender merged his firm with Getz Tax Services, LLC in Bel Air, MD, which specializes in the same areas. In 1991 he retired from the Army as a Sergeant Major

after 23 years of service. He started preparing tax returns in 1980 and has been electronically filing since 1991. Mr. Egender is a very active member of the Maryland Society of Accountants (MSA), serving on the Education, Legislative, Tax Affairs, Awards, and Nominating Committees. He has chaired the Policy and Procedures Committee and the Tax Affairs Committee. He is currently the Chair of the Seminar Planning Committee. From July 2003 to June 2004 he was president of MSA. He is also a member of the National Society of Accountants. In 2002 and 2004 he was selected as an Exemplary ERO. **(W&I Subgroup)**

Barry C. Faison

Mr. Faison is the Chief Financial Officer for the Virginia Retirement System in Richmond, VA. He has had more than 25 years experience in directing a large fiscal staff which includes public pension, investments and benefits accounting. He is responsible for the System's GAAP reporting and the related disclosure requirements of the GASB Standards. Mr. Faison is a CPA and holds a CGFM certification from the Association of Government Accountants. He was the 2004-2005 president of the National Conference of State Social Security Administrators and is currently Chairman of the Audit Committee for the City of Richmond, Virginia. **(TEGE Subgroup Chair)**

Robert J. Foley

Mr. Foley is Director of Product Tax at the State Street Bank and Trust Company in Boston, MA. He is a lawyer and has spent ten years supporting tax operations, new business installations and RFPs at State Street. He previously worked at the IRS Office of Chief Counsel and a law firm. He is a member of the Boston Bar Association and its Tax Section and is active on its International Tax Committee. He is also a member of the Securities Industry and Financial Markets Association (SIFMA) Committee on Tax Compliance and Administration. Mr. Foley holds degrees from Boston University, Suffolk University Law School and Boston University School of Law (LLM in Taxation). **(LMSB Subgroup Chair)**

Debra Heikkinen

Ms. Heikkinen is a Director in the Employee Benefits Tax practice at Deloitte Tax, LLP in Hartford, CT. She has sixteen years of international, domestic, and state tax reporting experience, focusing on executive compensation, employment taxes, tax information reporting and tax controversy. She is a part of Deloitte's core Northeast Sarbanes Oxley 404 Tax team. She has worked with large and medium-sized clients in a variety of industries, including travel, real estate, financial services, staff leasing, media, retail and manufacturing. Ms. Heikkinen serves as the President of the National Association of Tax Reporting and Payroll Management Inc. (NATRPM). Ms. Heikkinen holds an A.B. in Government and Economics from Smith College, a J.D. from Duquesne University School of Law, and an LLM in Tax from Boston University School of Law. **(LMSB Subgroup)**

Paul Heller

Mr. Heller is Director of Taxes for the Treasury & Securities Services line of business at JP Morgan Chase in New York, NY. He is a Financial Director and has almost 30 years of corporate tax experience as a Financial Director, Vice President, Tax Manager and Tax Analyst. He

received his Juris Doctor from Case Western Reserve University School of Law in 1976. He is a member of the NY Chapter of Tax Executives Institute (Board Member, Chairman of LMSB Financial Services Subcommittee, Past President of Chapter); International Fiscal Association; American Bar Association; Ohio Bar Association and Committee of Banking Institutions on Taxation. **(LMSB Subgroup, IRPAC Vice-Chair)**

Edward J. Jennings

Mr. Jennings is the Corporate Tax Manager at the University of Michigan in Ann Arbor, MI. He serves as a tax consultant on various tax issues, including unrelated business income, employment taxes, excise taxes, retirement plans and fringe benefits, bonds, charitable giving, intermediate sanctions and state and local tax matters. He is a member of the National Association of College and University Business Officers (NACUBO) Tax Council since 2001. He graduated with a B.S. in accounting from St. Joseph's University (Philadelphia, PA) and has a CPA license. He received his JD from Wake Forest School of Law in Winston-Salem, NC. **(TEGE Subgroup)**

Virgil A. Julian

Mr. Julian is the owner of the Julian and Company CPA PC in Independence, MO. He is a CPA and has been preparing federal income tax returns for over 62 years since 1942, the first year Americans had to file voluntary income tax returns. In addition to being in practice he has been in the following businesses: Air Charter Service; Motion Picture Exhibitor, (15 theatres); started, built and sold a cable television company, a redevelopment company, many specialty stores, specialty goods, glassware, coffee, restaurants, ice cream parlors, and others. He presently has a flower and gift shop. Mr. Julian is a life Member of the American Institute of Certified Public Accountants (AICPA) and a member of the Missouri Society of Certified Public Accountants (MS/CPA) and the Missouri Association of Tax Practitioners (MATP). He is a Rotarian and a Mason. **(SBSE Subgroup)**

Samuel W. Kerch

Mr. Kerch is a Controller/Senior Tax Research Analyst with Symmetry Software in Scottsdale, AZ. He directs all corporate accounting and payroll, financial reporting and preparation of withholding and income tax returns. In addition he does payroll tax law research for software program development and customer support. Mr. Kerch is a member of the American Payroll Association and the Association of Certified Fraud Examiners. He is pursuing a Master of Accounting and Financial Management from Keller Graduate School of Management... **(SBSE Subgroup)**

Katherine S. Kinnicutt

Ms. Kinnicutt is the Manager of the IRA and Qualified Plan Technical Operations and Compliance area of the Retirement Plan Services Department of Raymond James & Associates in St. Petersburg, FL. She provides research and analysis for retirement savings products (defined contributions plans, Traditional, Roth, SEP and SIMPLE IRAs, and

403(b) plans and accounts) that Raymond James offers to employers and individuals; monitors, develops and revises operational procedures, including tax reporting procedures, and IRA documents as needed for compliance purposes; counsels Financial Advisors with regard to retirement issues and oversees the prototype plan operation at Raymond James. She has more than 25 years experience in the retirement field in various capacities including her current manager position, as a retirement technical assistant to Senior Vice President of Retirement Plan Services, an actuarial assistant and as an assistant to a plan administrator. Ms. Kinnicutt earned a Certified Employee Benefits Specialist (CEBS) designation from the International Foundation of Certified Employees Benefits and the Warton School in 1993 and a BA degree, cum laude, from Vassar College. **(TEGE Subgroup)**

Steve Neiss

Mr. Neiss has been active in the securities industry for more than thirty-two years and is currently employed by ADP Investor Communication Services, a division of Automatic Data Processing's Brokerage Services Group, as a Vice President of Tax Information Reporting. In 1983, he was President of the Securities Industry Association (SIA) Dividend Division and chaired the SIA Tax Compliance and Administration Committee in 1985-1986 and 1997-1999. He is licensed with the National Association of Securities Dealers as a securities salesman and principal. Mr. Neiss holds a BA from The City University of New York. **(LMSB Subgroup)**

Rachel Paliotti

Ms. Paliotti is Corporate Tax Manager for Blue Cross & Blue Shield of Rhode Island. Ms. Paliotti is responsible for all federal, state and local tax planning and compliance matters as well as all Form 1099 information reporting matters. Ms. Paliotti is Co-Chairperson of the Blue Cross & Blue Shield Association Information Reporting Task Force. The mission of this task force is to recommend appropriate policy actions and strategies in the reporting, processing, and filing of information returns. Ms. Paliotti is a Certified Public Accountant and is a member of the Rhode Island Society of Certified Public Accountants and the American Institute of Certified Public Accountants. Ms. Paliotti holds both an MBA and BS from Bryant College. **(SBSE Subgroup Chair)**

Patricia A. Rhodes

Ms. Rhodes is an enrolled agent and has been a tax practitioner since 1979. Currently she is the President and CEO of Pat Rhodes Accounting, Inc., a firm that provides tax preparation services for individuals (poverty level to six figure incomes) and businesses (sole proprietors and small corporations, both C & S). Her business provides other services such as write-up, payroll, tax representation, small business start-up and tax planning. Annually, she personally prepares over a thousand tax returns. She is a member of the National Association of Tax Professionals, National Association of Enrolled Agents, and other professional organizations. She is past President and CEO of Taxtime Software. She previously served on the Advisory Board for Orrtax Software. Ms.

Rhodes holds a BS from Jacksonville University (1973) and is a retired teacher. **(W&I Subgroup Chair)**

Regina D. Tarpley

Ms. Tarpley has been an Enrolled Agent for the past three years. She and her partner have owned and operated T&M Tax Service, Inc. dba Jackson Hewitt Tax Service for the past ten years. For tax year 2005, their four offices did over 5,000 returns including individual, business and corporate tax returns. Prior to 1997, she was an administrative manager for eighteen years doing payroll, human resources and customer service. Ms. Tarpley earned a Master of Business Administration in 1994. She is a member of the National Association of Enrolled Agents, the National Association of Tax Practitioners, the National Society of Tax Professionals and other professional organizations. **(W&I Subgroup)**

Faye Touchet

Ms. Touchet is and Enrolled Agent and the Principal of Faye Touchet, EA in Lafayette, LA. Her professional tax practice offers services which include tax preparation, maintaining and/or consulting on accounting systems and representation before the Internal Revenue Service. She is a member and past president of the National Association of Enrolled Agents and a member and past president of the Louisiana Society of Enrolled Agents. Ms. Touchet is part of a speaker cadre for the IRS Small Business Workshops. **(SBSE Subgroup)**

Janice M. Wegesin

Ms. Wegesin is president of JMW Consulting, Inc. in Petoskey, MI. She has over 25 years experience in retirement plan design and administration and her firm now specializes in compliance and reporting and disclosure for retirement and welfare plans. Ms. Wegesin is a Certified Pension Consultant, a Qualified Pension Administrator and an Enrolled Agent. She is a member of the American Society of Pension and Actuaries (ASPA), the National Institute of Pension Administrators (NIPA) and Member (Emeritus) Great Lakes TE/GE Council. Ms. Wegesin received the ASPA Educator's Award in 1998. **(TEGE Subgroup)**