January 19, 2012

Internal Revenue Service
1111 Constitution Avenue NW
Washington DC   20044
c/o Candice Cromling

Dear Commissioner Shulman,

The vision of this Real-Time Tax Initiative poses many positive benefits; however, making major changes to the tax system and its processes also poses many questions and concerns. We appreciate this opportunity to present some of our comments regarding this initiative, as these open discussions are not only crucial to the success of your development plan, but are educational to all whom these changes will greatly affect.

We would like to address the following areas:

- Timeliness - *What are the key timing issues to be considered, and what steps can the IRS take to ensure that timing doesn't become an issue for the filer?*
- Fraud Risks – *What are some of the factors that should be considered when assessing the fraud related to a real-time tax system?*
- Resources – *Can the IRS provide the resources to assist and support the taxpayer and preparer in a real-time tax environment?*

Thank you for the opportunity.

Sincerely,

John Sapp
Vice President of Strategic Development
Drake Software

Real Time Tax System Initiative
Public Meeting – January 25, 2012
Testimonial - John Sapp, Drake Software

Thank you and good morning. My name is John Sapp, VP of Strategic Development at Drake Software. I'm privileged to be here today amongst leaders in our industry to discuss the Real Time Tax Initiative and its implications on the taxpayer and tax preparer community.

Timeliness

What are the key timing issues to be considered, and what steps can the IRS take to ensure that timing doesn't become an issue for the filer?

Currently the IRS DOES provide real time feedback on tax returns. In general the return is sent through a series of checks, and feedback is given to taxpayers (or to their tax preparer) and many issues are resolved before the return is filed.

The IRS currently performs compliance under three regulatory areas; matching programs, math error authority and audit. It appears the IRS will be moving its matching programs, generating 4.3 million CP2000 notices AFTER the return is filed, to the Math Error Authority, giving the IRS authority to reject or adjust returns "real time".

As other commentators have pointed out, the rejected return is not considered filed, requiring the taxpayer to resolve identified issues prior to filing. If the issue cannot be resolved for whatever reason, in some instances a taxpayer can elect to file a return with known issues through the imperfect return process. The imperfect return is currently ONLY allowed for rejects 501 and 504 (Child SSN and Name mismatch).

We would recommend the IRS expand the ability to file an imperfect return to any tax return impacted by the expansion of the RTTS initiative, especially as it irons out the kinks in the new RTTS system. This allows the taxpayer to file a timely return, and begin to resolve more complex issues which were raised during the RTTS process.

In addition, we would recommend the imperfect return include the ability to identify and explain the discrepancies with the re-transmission, hopefully resolving issues prior to additional notices being sent.

Some have suggested beginning with low income individuals, specifically refundable credit returns. However, these returns are not "simple" returns. With EITC due diligence requirements, definition of a child or dependent, definition of earned income, or modified AGI, the list of items which may impact "simple" returns may become very complex. While this area may appeal to the IRS from a regulatory perspective, from a practical standpoint focusing on source documents makes much more sense.

As the IRS has pointed out, 97% of taxpayers receive an information return document of some kind. We would suggest beginning with source document matching, specifically W-2s. By in large, W-2s present the most predictable data set of information, and normally are not the method utilized to report more complex transactions. W-2s are also already filed with the SSA, which also provides updates for common EF rejects today. We would recommend leveraging the current data pipeline with the SSA, and match W-2 information. According to the tax gap estimates from 2001, 99% of W-2 returns are estimated to already be in compliance with IRS records. This would initially reduce the risk of failures to a small sub-set of taxpayers.

We would expect the most common occurrence of discrepancies in this area to be a situation where the employer has released the W-2s to employees, but has not filed them with SSA. As previously mentioned, timing becomes the primary issue, even for this simple step. W-2s given to taxpayers may precede the actual filing of W-2s with the SSA, which may then have a lag time before the IRS' data is updated. Closing the SSA/IRS gap in sharing data should be priority number one.

Allowing taxpayers to file imperfect returns even with this mismatch will solve the filing deadline issue, but will present refund delays and this could offset any value received by some taxpayers receiving "timely feedback".

Fraud Risks

What are some of the factors that should be considered when assessing the fraud related to a real-time tax system?

While some fraud may be reduced by front loading the matching of data, this may not actually be the case.

To state the obvious, in a real-time system, real time feedback must be given. In a scenario where the RTTS is matching information return data, the same discrepancy information provided on the CP2000 will need to be provided in real-time in order for the taxpayer or tax professional to determine if an imperfect return election should be made, or if the return should be corrected and re-filed.

In our experience, fraud associated with tax return filing, especially as it pertains to Identity Theft, EIC or Child Tax Credit fraud, relies on three main components; speed, anonymity and access to data. In our opinion, allowing real-time information available electronically on the same scale as the current CP2000s, has the potential to actually increase fraud.

The current process of waiting until May to produce CP2000, and mail them to a physical address, slows down the process and requires a physical address to receive the notice. While the current system may be inconvenient for many taxpayers, it also presents a deterrent to many unscrupulous filers and preparers who are long gone after April 15th. Utilizing the imperfect return process will allow this to occur on a limited basis prior to refund be processed, also providing an additional check in the system.

Resources

Can the IRS provide the resources to assist and support the taxpayer and the preparer in a real-time tax environment?

In our opinion, the IRS has to commit LIVE resources for preparers to solve issues quickly. If resolving matching problems takes an inordinate amount of time, taxpayers and preparers will become frustrated with the system and potentially extend or become non-filers.

Just weeks ago, the National Taxpayer Advocate delivered its annual report where it stated that the IRS is not adequately funded to serve taxpayers, and is experiencing a sharp increase in workload due to increased tax code changes and the need to serve an increasingly diverse taxpayer population. While the initiative states that the RTTS will reduce the required contact between the IRS and the taxpayer representative, the IRS must be prepared to provide *more* support and resources than it has in the past - not less. At minimum, live support must be available during the initial rollout phases and the IRS must have a solid plan in place to ensure that taxpayers and preparers have the resources required to successfully submit returns independently thereafter. Funding for this requirement is an area that cannot be overlooked.

Our recommendation is whatever information is provided "real time" should be provided to the tax preparer (if the return is not self-prepared). Taxpayers choose a tax preparer to assist them in handling their tax issues. Most tax preparers will perform pro-active checks on information, and manage expectations on refunds or delays with their clients. Taxpayers rely on the advice and the fact the tax preparer will provide guidance throughout the process, including problem resolution. The tax preparer provides "front line support" for the entire tax filing and revenue collection system.

Many tax preparers already deal with taxpayers' neglecting to inform them of notices received directly from the IRS, many times until after due dates for responses have passed. This causes even more delays as penalties for late responses are assessed, and issues begin to snowball. If the IRS decides arbitrarily it cannot provide information directly to the preparer of the return, (such as in the case of the debt indicator) the entire process will break down.

Finally, timing is also an issue for preparers. Currently, a preparer is able to file a return, and move on to the next client. Any issues from notices are dealt with after the majority of returns are filed. To compress "issue resolution" into the tax preparation window will create pressure on preparers, and potentially lead to inaccuracies in the returns filed or create bottle necks on the front end during tax preparation, leading to additional returns having issues, or being extended, in effect "stretching" the filing season into the "resolution" season. This will potentially increase the cost of filing taxes for many taxpayers, in both time and money.

The vision of a Real Time Tax System has created an opportunity for us to think outside of our current tax system's processes. Thank you again for inviting me to participate in this public discussion.