



**H&R BLOCK®**

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Internal Revenue Service  
1111 Constitution Avenue NW  
Washington DC 20044

Submitted to: CL.NPL.Communications@irs.gov

Dear Commissioner Shulman:

H&R Block appreciates the invitation to participate in a discussion regarding the Real-Time Tax System Initiative. H&R Block shares the concerns that the IRS has about the burden of after-the-fact tax compliance.

Of the many different issues the real-time system raises, H&R Block would like to address three key questions:

- Will the IRS be able to run matches of information return data without delaying the traditional start of tax season?
- How does the IRS plan to handle information mismatches and corrections to information returns?
- If the objectives are to decrease back-end auditing and increase compliance, are there other existing avenues that can be explored to help achieve this?

Thank you for inviting us to be a part of today's meeting. We appreciate you challenging us with this vision and opening it up for public discussion.

Sincerely,

Kathy Pickering  
H&R Block Vice President of Government Relations  
Executive Director of the Tax Institute at H&R Block



Thank you and good morning. I am Kathy Pickering, H&R Block's Vice President of Government Relations and Executive Director of the Tax Institute at H&R Block. H&R Block has prepared more than 575 million tax returns since 1955, ultimately one in every seven U.S. tax returns. Of the more than 21 million returns filed in 2011 by our tax preparers and through our digital solutions, more than 19 million were electronically filed.

We appreciate the invitation to participate in a discussion regarding Commissioner Shulman's Real-Time Tax System Initiative. H&R Block shares the concerns that the IRS has about the burden of after-the-fact tax compliance.

The Commissioner's vision of a real-time system would allow the IRS to immediately match data on the tax return with the data on information returns, such as W-2s or 1099s. Information returns are currently sent to the taxpayer and the IRS by a third-party information return originator ("originator"). If the data on the tax return does not match the information provided to the IRS, the IRS would immediately reject the tax return. Of the many different issues the real-time system raises, H&R Block would like to address three key questions:

**First, will the IRS be able to run matches of information return data without delaying the traditional start of tax season?**

For the IRS to receive information returns sooner, it would require a tremendous effort on the part of businesses and originators. Employers and originators would have to significantly expedite their year-end processing to be able to submit this data to the IRS up to two months sooner than is currently required.

As it may not be feasible for many businesses to accommodate an expedited timeline, the IRS may have to delay the traditional start of tax season. This would result in millions of taxpayers receiving their refunds later than expected. Are taxpayers willing to delay the traditional receipt of their refunds?

Many taxpayers rush to file their tax returns to quickly receive their refunds. With an average refund of \$3,000, this is the largest lump sum of money many taxpayers receive all year. We have heard from clients that they rely on their refunds to catch up on delinquent bills, make repairs, and pay for holiday expenses. Delaying tax season would have significant impacts on taxpayers, and ultimately, the U.S. economy.

H&R Block recommends the IRS conduct studies on the ripple effect these changes could have on taxpayers, originators, the business community, and the U.S. economy.

**Second, how does the IRS plan to handle information mismatches and corrections to information returns?**



Information mismatches under the real-time system could result from incorrect data provided by either the taxpayer or the originator. If a taxpayer's return is not accepted due to a mismatch, what is the impact to the taxpayer?

When mismatches occur, the taxpayer may have to contact multiple parties to resolve the issue. Additionally, originators may be required to send corrected information to update the IRS' system, resulting in further delays. The IRS must allow enough time for each of these steps to occur without assessing a failure-to-file penalty. Additionally, it is probable that corrections to information returns will occur after a taxpayer's return has been accepted by the real-time system.

Commissioner Shulman stated at the CERCA fall meeting that initial information return submission is of sufficient quality to be used for real-time tax compliance matching, assuming that corrections to information returns remain at less than one percent.

Originators currently have up to two months to correct errors before they are submitted to the IRS or the Social Security Administration. This two-month grace period may explain why less than one percent of information returns are later corrected. If this period is changed, the volume of corrections may increase resulting in extra work for stakeholders, including taxpayers.

**Finally, if the objectives are to decrease back-end auditing and increase compliance, are there other existing avenues that can be explored to help achieve this?**

Currently the Automated Under Reporter program that catches matching errors is run three times a year. The IRS has previously demonstrated through the implementation of CADE 2 that they are able to take their legacy systems and expedite their processes. Would such an approach be possible with the Automated Under Reporter program?

According to information from the IRS, discrepancy cases represent less than three percent of the 140 million returns filed annually. Is less than three percent enough to warrant a change of this magnitude?

A real-time tax system would require a significant investment in infrastructure and the ripple effect of implementing it would be far reaching. The key to implementing enhancements to the tax system and ensuring its success is to foster dialogue between taxpayers, the tax preparation industry, the IRS, and other stakeholders. H&R Block looks forward to future collaboration on this topic.

Thank you for inviting us to be a part of today's meeting. We appreciate Commissioner Shulman for challenging us with this vision and opening it up for public discussion.