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(NCCPAP)**

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MATCHING OF FORMS K-1

PROBLEM:

When a pass through entity issues a form K-1 detailing the amount that the shareholder must report on a personal tax return several potential areas for mismatching may occur. Many pass through entities have fiscal years ending within the individual taxpayer's calendar tax year. Additionally, because of the passive activity loss calculations, basis calculations and at risk rules, losses from one fiscal year may not become deductible on the shareholder's personal tax return until several years later reducing the income reported on a 1040 in the current tax year.

RECOMMENDATION:

The Internal Revenue Service should design a reconciliation form that must be attached to Schedule E detailing in full how the taxpayer arrived at the income or loss as shown on the current return if that amount differs in any way from what is reported on the current year's form K-1.

ALL NECESSARY INFORMATION ON ALL NOTICES

PROBLEM:

Collection notices issued by the IRS are not complete on their face. The notice begins with the balance due from the previous notice. Sometimes the initial notice from the IRS on a matter is lost or not otherwise available. Additionally, telephone contact with the Service does not always provide adequate solutions.

RECOMMENDATION:

IRS collection notices should always begin with the original liability including the amount on the tax return, the adjusted amount, the history of payments and adjustments and an explanation of the cause of the problem. Many outstanding issues could be cleared up more quickly and efficiently. A contact name and telephone number should be printed on each notice allowing for taxpayer contact to satisfactorily resolve outstanding issues.

ANNUAL TRANSCRIPT OF INSTALLMENT PAYMENTS

PROBLEM:

Taxpayers making payments on an installment agreement with the IRS have difficulty keeping track of their current liability in connection with the agreement.

RECOMMENDATION:

All taxpayers making payments on any installment agreements should receive annual transcripts of all the activity in connection with the agreement including all payments and charges for fees and interest. If this information is sent annually, it might help expedite the collection of the balance due. Another possibility is to have the history of an installment agreement available on the Internet or by telephone similar to EFTPS.

EFTPS REJECTED PAYMENTS

PROBLEM:

Taxpayers who make payments through the EFTPS system online can review their payment history online. However, if a payment is rejected by the bank due to insufficient funds, closed account or any other reason, this information is not reflected in the payment history. The EFTPS online information is frequently monitored offsite by the accountant and is thus not reliable. Several practitioners have reported significant problems with the payment history.

RECOMMENDATION:

The EFTPS system online information about payment history should be complete and include information about payments rejected by the banks.

IRS REGULATION OF "UNENROLLED" PREPARERS

PROBLEM:

An "unenrolled" tax return preparer is not subject to the jurisdiction of the IRS Office of Professional Responsibility. We feel that it is not appropriate to allow a tax return preparer who is not a CPA, attorney, enrolled agent, enrolled actuary or an otherwise regulated person by the IRS to be allowed to represent a taxpayer merely because they have signed the return and they are not held accountable to the same standards of the other professionals under the rules and regulations of Circular 230.

RECOMMENDATION:

The IRS Office of Professional Responsibility should have jurisdiction over "unenrolled" return preparers. The definition of practice before the IRS should be expanded to include preparation of tax returns by "unenrolled" return preparers.

APPLICABILITY OF FORM 990T

PROBLEM:

Exempt organizations sometimes engage in activities that require the filing of form 990T, an exempt organization business income tax return. This form may not be required each taxable year. The form is only filed if there is an activity that requires its filing. Should the form not be required in a particular year, after having been filed in previous years, the IRS automatically generates a notice looking for that form.

RECOMMENDATION:

A "check the box" area on the form 990 should be created whereby an indication can be made each and every tax year as to whether or not form 990T is required in that particular year.

PRACTITIONERS' HOTLINE

PROBLEM:

The Practitioners Hotline was designed to allow practitioners the ability to speak with IRS personnel to resolve problems that were not already resolved through regular IRS channels. However, on many occasions, when calls are placed to the representatives answering the telephones, they simply take the information and inform the practitioner that they will refer the issue to an appropriate source. The problem is not immediately solved.

RECCOMENDATION:

The individuals who answer the telephone must be able to have contact with the agents initiating the case and have the ability to immediately and efficiently resolve the problem presented to them and to not extend the delay in resolving the issue. The hotline personnel should have the requisite knowledge and authority to evaluate issues presented to them and implement solutions to those problems.

FORM 1041 - NOT CREDITING BENEFICIARIES WITH TAXES PAID

PROBLEM:

When an Estate or Trust files a form 1041 and income taxes are paid that should be credited to the beneficiary of that entity, the IRS is not always applying those tax payments correctly.

RECOMMENDATION:

There should be a form issued by the Fiduciary, similar to a form 1099, indicating the name of the entity and the name and tax identification number of the beneficiary who is the recipient of those tax payments and ,of course, the amount of tax to be treated as deemed paid by the beneficiary.

DIRECT DEPOSITS

PROBLEM:

The Internal Revenue Service allows taxpayers to elect to have their refunds directly deposited into their bank accounts by placing their bank account information on the form 1040. However, the refund will be deposited into any valid bank account - not necessarily the taxpayer's account possibly due to an error in transcribing the proper information on the tax return or due to an unscrupulous tax preparer who provides his own bank account information.

RECOMMENDATION:

The IRS literature states that choosing this option is the best way to guard against having a tax refund misplaced or stolen. However, if the refund is sent to an incorrect account the IRS is not responsible. There must be a way for the IRS or the bank to verify that the name(s) on the account that is receiving the funds matches the name(s) that appears on the tax return.

UPDATE ON LAST YEAR'S NCCPAP ISSUES

- a. Sequence Numbers for Tax Forms
- b. Electronic Filing – Taxpayer Incentive
- c. Move Jurat to Page One for All Tax Returns