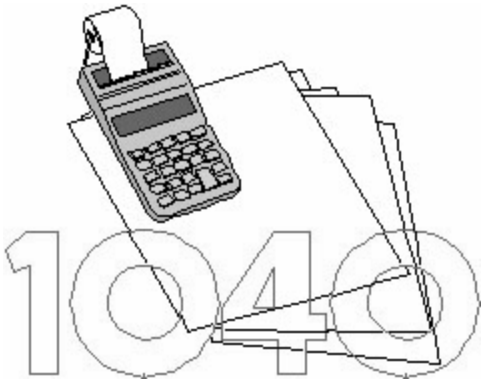
Tax Help 2000



Philadelphia IRS Center

TAX HELP 2000

Intro **Directors' Message**, IRS Center Transition, 1999 filing highlights, IRS tax forms, publications and electronic services, key personnel phone numbers, and Philadelphia IRS Center's fax numbers

Section 1 **What's New For 2000?.....1-12**
Highlights – Continuing IRS Restructuring and Reform Act of 1998 Provisions, and Self-employed Workers Business Provision

Section 2 **Tax Returns Filing.....13-34**
IRS e-file, TeleFile, On-Line Filing, 1040PC, Magnetic Media, Form 940/941, Form 1040 NR, Form 1041, Form 5471, Paper Processing Pipeline, Extensions for Forms 1040, 1065, 1041, and Reduce Unnecessary Filing (RUF)

Section 3 **Taxpayer Identification Numbers.....35-42**
Fed/State EIN Agreement, TELE-TIN/FAX-TIN, AUTO-EIN, Individual Taxpayer Identification Numbers (ITINs), Adoption Taxpayer Identification Numbers (ATINs), and Preparer Tax Identification Numbers (PTINs)

Section 4 **Payments.....43-50**
Payment Vouchers, Lockbox, EFTPS, Electronic Payment Options, Check Data/Identification

Section 5 **Refunds and Credits.....51-56**
EITC, AEITC, Lost or Stolen Checks, Automated Refund Inquiry, Refund Anticipation Loans, and Erroneous Refund Information

Section 6 **At Your Service.....57-62**
Customer Service, ASPECT, Automated Collection System, CASOL, Taxpayer Walk-In, and the Communications Office

Section 7 **Customer Assistance.....63-70**
Installment Agreements, Offer-in-Compromise, Practitioner Hot-line, Priority Cases, Taxpayer Advocate, Form 911, Photocopy Requests, and Power of Attorney

Section 8 **Helping Us Help You.....71-76**
New Line on Form 1040, Pre-printed Label Information, Pre-printed envelopes, and Common Taxpayer Errors

Section 9 **Taxpayer Protection.....77-82**
Revenue Protection Strategy, Statute of Limitations, Disclosure Program, and Taxpayer Bill of Rights

MESSAGE FROM THE DIRECTORS

The Internal Revenue Service begins the new century with a new organizational structure and a new commitment to its mission to provide world-class customer service to America's taxpayers.

On October 1, 1999, a major step in this modernization effort came to fruition with the dedication of the Submission Processing Center and the Customer Service Center functions under the organizational umbrella of the Philadelphia IRS Center. Internally, this significant change has meant new roles, new tasks, and new challenges for our employees.

For taxpayers and the tax practitioner community, however, the appearance may be that little or nothing has changed as they continue to deal directly with many of the same contacts at the same phone numbers as before. This continuity in service is essential for a successful modernization effort as our goal is to make the transition as seamless as possible for taxpayers and tax practitioners.

It is also our expectation, as partners in this new enterprise known as the Philadelphia IRS Center, that our customers will continue to see improvements in the way we do business. We want to ensure that all taxpayer contacts and activities are enhanced, from accurate and timely processing of tax returns and refunds to efficient handling and response for taxpayer and tax practitioner inquiries, through both telephonic contacts and correspondence.

As the Directors of these newly established organizations, we want to emphasize the collaborative aspects of our partnership, both within our respective organizations and the IRS Center as a whole, but most importantly with our customers. We remain **one** IRS Center with dedicated, streamlined internal organizations that work in tandem to provide consistent, equitable, and efficient service.

This edition of Tax Help 2000 provides an overview of our new organizational structure and a comprehensive list of contacts and phone numbers that can assist you in making the direct connection to that area that can best serve your needs. It also provides important information on IRS programs and initiatives for the Year 2000 filing season.

We look forward to working with the tax practitioner community in serving our mutual customers, America's taxpayers.

Christopher J. Egger Deborah S. Reilly

IRS CENTER TRANSITION

A new kind of Internal Revenue Service Center went into operation on October 1, 1999 with the creation of the Submission Processing Centers and Customer Service Centers at all ten former IRS Centers nationwide.

This change is an interim step in the Service's larger Modernization effort that will, in 2002, culminate in the dedication of IRS Centers aligned to either Wage and Investment or Small Business/Self-Employed taxpayers.

Under this new operational configuration, the former Philadelphia Service Center is now identified as the Philadelphia IRS Center, which, in turn, is the omnibus location and organization for the Philadelphia Submission Processing Center and the Philadelphia Customer Service Center.

While this organizational restructuring has had a profound impact internally, for taxpayers and tax preparers, the transition is essentially seamless, and the benefits are substantial.

These benefits include:

- Modernized business structure with clear lines of authority
- Enhanced ability to react to changing customer workload demands
- More efficient use of resources
- Standardized work processes and policies

The Philadelphia Submission Processing Center will, as its name implies, be responsible for all tax forms and remittance processing activities. These include oversight for Lockbox Processing and other tax deposit activities; tax payment reconciliation and tax payment tracer functions, tax document and processing-related Taxpayer Information Number (TIN) perfection, and internal Accounting functions.

The Philadelphia Customer Service Center has responsibility for all tax-related correspondence and adjustment activities and oversight for all telephonic activities, including both toll calls and toll-free lines. The Pittsburgh, PA and the Richmond, VA Customer Service Call Centers are also under the Philadelphia Customer Service Center operational umbrella. Additionally, the Customer Service Center is responsible for Examination and Compliance functions and all refund activities.

PHILADELPHIA SUBMISSION PROCESSING CENTER

PROCESSING DIVISION: The primary function of this division is to process returns and payments through the pipeline to good tape. It is comprised of the following branch operations:

- **Receipt & Control Branch:** The primary function of this branch is to receive, sort, and distribute all incoming mail, and process all payments. Receipt & Control is also responsible for sorting, stuffing, and mailing all outgoing mail as well as batching and numbering returns and documents for tracking through the processing pipeline. Receipt & Control Branch has the Residual Remittance Processing System (RRPS) within its span of operations.

- **Document Perfection Branch:** The chief function of this branch is to prepare all returns and documents for input to the computer system, as well as to perfect documents that fail to go through good tape. Its major functional areas are the Code & Edit and the Error Resolution Sections.

- **Data Conversion Branch:** This branch has responsibility for the input of tax return and payment information to the computer system. The Integrated Submission and Remittance Processing System (ISRP) replaced the former Legacy DIS system for data transcription to input taxpayer tax form data.

POST PROCESSING DIVISION: This division provides support to Submission Processing operations for functions that occur after processing has been completed. Its oversight includes the following branches:

- **Accounting Branch:** This branch's primary function is to ensure all IRS Center transactions, including document control and monetary calculations, are in balance. Accounting has responsibility for payment tracer functions, the Automated Non-Master File, unidentified remittances, and manual refund issuance.

- **Research and Perfection Branch:** This branch has oversight for tax return files and retention, photocopy operations, Entity Control and Unpostable functions, and ITIN/ATIN/PTIN processing, as well as support for various operations in Submission Processing and Customer Service.

- **Review and Assistance Branch:** Process Analysis and Notice Review are two primary functions of this branch, including sampling reviews of all notices mailed from the Center. The branch also provides Electronic Filing processing support through the ELF Processing Support Staff (formerly Magnetic Media Project Office).

- **Submission Processing Support Staff:** Under the direction of the Chief, Planning and Analysis, this staff provides program analyst, management analyst, and functional coordinator support for Submission Processing Programs, as well as individual quality review of work.

- **Equal Employment Opportunity and Diversity Office:** This office is responsible for ensuring IRS policies are followed to ensure fair and non-discriminatory treatment for all employees. The office oversees Special Emphasis Programs for employee groups and conducts seminars, training, and educational programs to foster employee and management awareness.

SITE COORDINATION STAFF: Under the direction of the Site Coordinator, this office provides support for shared services for both the Submission Processing and the Customer Service Directors. Its functions include the Controller's Staff and Budget Office, the Communications Office, Tax Systems Modernization Office, Quality Improvement Office and Omnibus Council and committee groups representing the entire IRS Center.

PHILADELPHIA CUSTOMER SERVICE CENTER

CUSTOMER SERVICE DIVISION I: This division has oversight to respond to taxpayers' correspondence and telephonic inquiries to the Customer Service Center. The following branches provide support for this division:

- **Customer Service Branches I and II:** These branches are responsible for Telephone Operations and provide assistors who answer taxpayer questions regarding return filing and resolution of other tax issues.

  Branch I responsibilities include Congressional inquiries, the Customer Account Services On-Line (CASOL) Unit and customer service telephone units handling Individual Master File (IMF) adjustments and correspondence.

  Branch II has oversight for Returned Refund Checks and Refund Tracers, Underreporter Penalties and the Penalty Appeals Coordinator, and Customer Service Contact Unit operations which handle inquiry referrals forwarded by Customer Service Representatives from district offices and IRS Centers who cannot fully resolve the original inquiry. This branch also controls the Form 1042S verification program for foreign withholding agents.

- **Customer Service Branch III:** This branch, formerly known as the Adjustment Correspondence Branch, performs post processing adjustments to taxpayer accounts and resolves paper referrals resulting from telephonic contact. A major functional area is the Statute Unit which ensures tax assessments and liabilities are made timely and accurately.

- **Expansion Branch:** This branch, formerly named Customer Service Branch IV, is a night shift seasonal branch that performs the same work as the other Customer Service Branches.

CUSTOMER SERVICE DIVISION II: This division's primary function is the realm of Compliance activities and it is charged with assisting taxpayers in meeting their tax law responsibilities. It has the following branches within its span of operations:

- **Accounts Service Branch:** This branch is responsible for reviewing tax accounts and contacting taxpayers to settle account balances.

- **Examination Branch:** The review of tax return filing and accounts to ensure proper reporting of wages and other information is the bailiwick of this branch. Taxpayer contact is primarily conducted through correspondence. The Disclosure staff is also housed within this branch.

- **Criminal Investigation Branch:** This branch reviews tax returns and accounts for evidence of fraudulent or criminal activities,

- **Research, Analysis, and Disclosure:** This office, under the oversight of the Disclosure Officer, provides guidance to both Submission Processing and Customer Service on these issues. The office also performs local and national studies on various tax-related issues.

- **Document Matching Branch:** Formerly Underreporter Branch, this function verifies payer information with information reported by taxpayers on their returns. Resolution of differing information is conducted through telephonic and correspondence contacts.

- **BMF Accounts Compliance Branch:** This branch has oversight for Employer Identification Number issuance, both through Tele-TIN/FAX-TIN operations and paper SS-4 processing, and provides technical support for Business Master File operations.

CUSTOMER SERVICE DIVISIONS III AND IV: These are the Customer Service Call-Site Divisions in Pittsburgh, PA and Richmond, VA that report to the Customer Service Director.

CUSTOMER SERVICE SUPPORT STAFF: This staff, under the Chief, Planning & Analysis, Customer Service, includes the International and Domestic Program Support Staff and Quality and Process Review staffs. It also provides cross-functional support by a team of program and management analysts.

PLANNING & ANALYSIS STAFF: Both the Submission Processing and the Customer Service Directors have Planning & Analysis staffs under their oversight. These staffs include the Management Support Analysts and for the Customer Service Center, they also encompass the Process Analysis, the Quality Review, and the User Support staffs.

Additionally, these functions are also located at the Philadelphia IRS Center:

TAXPAYER ADVOCATE SERVICE – The Taxpayer Advocate Service is the successor to the former Problem Resolution Office, under the direction of the National Taxpayer Advocate. It provides an independent, effective complaint-handling system that will ensure that taxpayer problems, which have not been resolved through normal channels, are properly and promptly handled.

INFORMATION SYSTEMS DIVISION – Under the operational oversight of the Assistant Commissioner, Service Center Operations, this division has responsibility for all computer and operations and network communications at the Center.

SHARED SERVICES DIVISION – Formerly known as the Support Service Division, Shared Services provides cross-center support for facilities management, personnel, education, and training programs and services.

PHILADELPHIA IRS CENTER HIGHLIGHTS

The following are some processing statistics for the Philadelphia IRS Center for the 1999 filing season:

Tax Returns Filed - January 1 - September 30, 1999

Total *(Individual and Business)**:***	**20,633,564**
Individual (*Forms 1040/1040A/1040EZ/ 1040PC and 1040ES):*	**10,293,333**
Business *(Forms 1041/1041ES;Employment 94X series; 1120/1065 and 706/709):*	**10,340,231**

Individual Tax Refunds Processed - January 1 - July 31, 1999

	Paper Check	ELF
Number of Refunds	**5,354,015**	**2,111,362**
Total Dollar Amt.	**$7,531,109,150**	**$5,138,205,625**
Average Refund Amt.	**$1,400**	**$1,942**

Total Refunds: **7,465,377** Total Refund Amt.: **$12,699,314,775**

Philadelphia IRS Center Tax Deposits – January 1 - July 31, 1999

IRS Center Deposits:	**$10,394,955,786**
Lockbox Deposits:	**$17,854,462,338**
Total Deposits:	**$28,249,418,124**

Taxpayer Identification Numbers (TINs) – January 1 - July 31, 1999

Employer Identification Numbers (EINs) issued:

TELE-TIN:	**74,499**
FAX-TIN:	**27,272**
SS-4s (via mail):	**63,248**

Total EINs: **155,019**

Individual Taxpayer Identification Numbers (ITINs) issued – January 1 - July 31, 1999: 411,660

IRS TAX FORMS AND PUBLICATIONS

All practitioners who participate in the IRS Tax Practitioner Program will be mailed a copy of Package X according to the following schedule (subject to changes based on late tax law changes):

Package X, Volume 1 – Mid to late November

Package X, Volume 2 – Mid-December

These are the only automatic free mailouts to practitioners. Participants in the Tax Practitioner Program must submit Form 3975 (from Publication 1045, Information Guide and Order Blanks) each year to remain on the Tax Practitioner mailing list. Publication 1045 can be obtained by calling **1-800-TAX-FORM** (request "practitioner gate").

Practitioners can purchase copies of the following products through the Government Printing Office (GPO), Superintendent of Documents, by submitting Form 6401 from Publication 1045.

Publication 17 – Your Federal Income Tax: available by single copy

Publication 334 – Tax Guide for Small Business: available this year by single copy

Publication 1132 – Reproducible Federal Tax Forms and Instructions: (Note: **Publication 1579** – Tax Practitioner Reproducible Kit is obsolete).

Publication 1194 – Tax Information Publication

Publication 1194B – Business Tax Information Publications; includes IRS publications most frequently requested by businesses which are not included in Publication 1194.

Alternative methods for ordering forms through the Superintendent of Documents are:

By telephone **(202) 512-1800**

By FAX **(202) 512-2250**

Through the GPO Federal Bulletin Board (CD-ROM orders and form downloads only) at **(202) 512-1387**. After sign-on, type: **/go IRS**; through the GPO World Wide Web Home Page: **http://www.access.gpo.gov.su_docs**.

In addition to ordering through the Superintendent of Documents (SOD), general forms and publications are available through:

> Downloading electronic files from the Internal Revenue Information Service (IRIS) on the FedWorld Bulletin Board and printing or reproducing the forms needed.

> **Note: This does not include practitioner publications such as 1132 and 1194, which must be ordered through SOD.**

To access IRIS directly via modem, dial **(703) 321-8020.**

On the Internet, telnet to **iris.irs.ustreas.gov**, or, for file transfer protocol services, connect to **ftp.irs.ustreas.gov.**

Using the World Wide Web, connect to the IRS Home Page: **http://www.irs.gov.**

Technical questions can be directed to the FedWorld Help Desk at **(703) 487-5608.**

CD-ROM: You can now order the 1998 Tax Products CD-ROM, IRS Publication 1796, which is sold as a two-CD set, from NTIS at the discounted on-line price of $13, plus a $5 handling fee. The price to place an order via phone, fax or mail is $20, plus a $5 handling fee. To place a toll-free phone order, please call **1-877-CDFORMS** (**1-877-233-6767**). To place an order by fax, please call **(703) 605-6900**.

Fax Forms: Limited copies of general fax forms are available through the IRS Fax Forms service. Callers must dial directly from the handset of a fax machine; for a menu of items call **(703) 368-9694** directly from a fax machine.

Limited copies (usually one per practitioner) of general tax forms/publications are also available by calling the IRS at **1-800-TAX-FORM** or by visiting a local IRS office during its taxpayer service hours.

Key Philadelphia IRS Center Personnel

Christopher J. Egger	Director, Submission Processing Center		**215-516-2221**
		FAX:	**215-516-2001**
Deborah S. Reilly	Director, Customer Service Center		**215-516-2222**
		FAX:	**215-516-2001**
Sharon Blount	SP Chief, Planning & Analysis Staff		**215-516-2349**
		FAX:	**215-516-1325**
Pat Betlejewski	C.S. Chief, Planning & Analysis Staff		**215-516-2536**
		FAX:	**215-516-2680**
Harry L. Thurston	Chief, Processing Division		**215-516-2533**
		FAX:	**215-516-1433**
Deborah A. Gascard	Chief, Post-Processing Division		**215-516-2224**
		FAX:	**215-516-1199**
William Mesure	Chief, Customer Service Division I		**215-516-2531**
		FAX:	**215-516-2680**
Gerry Redlinger	Chief, Customer Service Division II		**215-516-2567**
		FAX:	**215-516-1433**
Larry Leard	Chief, Customer Service Division III		**412-395-4390**
	Pittsburgh, PA		**Ext. 108**
		FAX:	**412-395-4724**
Lee Giurlanda	Chief, Customer Service Division IV		**804-771-2181**
	Richmond, VA	**FAX:**	**804-916-8909**
Ed McPhillips	Site Coordinator		**215-516-2690**
		FAX:	**215-516-2680**
Wendy Rader	Taxpayer Advocate		**215-516-2525**
		FAX:	**215-516-2677**
Eileen Mesure	Communications Manager		**215-516-2483**
		FAX:	**215-516-3589**

For private carrier delivery, the Philadelphia IRS Center is located at:

11601 Roosevelt Boulevard
Philadelphia, PA 19154

However, the specific P.O. Boxes supplied in our correspondence to you may be more efficient than delivery to the general address.

IRS Districts

Northeast Region

Pennsylvania District (located in Philadelphia and includes former Pittsburgh District)

Director – Benjamin F. Rogers (Acting) – 215-861-1371
Taxpayer Advocate – Terry Mapp – 215-861-1304
Communications Manager - William Cressman – 215-861-1698

New Jersey District (located in Newark and served by Brookhaven Service Center)

Director – Frank P. Nixon – 973-921-4117
Taxpayer Advocate – Lyle Lauterback – 973-921-4043
Communications Manager – Greg Semanick – 973-921-4138

Southeast Region

Delaware-Maryland District (located in Baltimore and includes former Wilmington District and Washington, D.C.)

Director – Marie Medeck – 410-962-3084
Taxpayer Advocate – Pamela Votta (Acting) – 410-962-3324
Communications Manager – Dominic LaPonzina – 410-962-3330

Virgina-West Virginia District (located in Richmond and includes former Parkersburg District)

Director – Roger K. Burgess – 804-916-8700
Taxpayer Advocate – Mark Campbell - 804-916-3501
Communications Manager – Vacant – 804-916-8760

Philadelphia IRS Center Telephone Assistance

Customer Service Toll-Free Phones:

- **1-800-829-8815**: Individual and Business tax filer Collection CP Notices—Requests for forms, publications, public use documents, transcripts of accounts and account information, inquiries regarding collection notices on balance due accounts and delinquent returns, and requests for installment agreements, payroll deductions, and direct debit agreements--refunds, payments, and notices (math errors on tax returns, balances due, Earned Income Tax Credit, estimated tax penalties, overpayments, credit reversals, credit elects, adjustments to tax returns, and collection notices)

  Individual CP notices which can be addressed on this toll-free number are: **CP 09, 10, 11, 12, 13, 14, 16, 21A, 21B, 21C, 22A, 23,24, 25, 27, 30, 30A,34, 39, 42, 45, 45S, 48, 49, 51A, 51B, 51C, 54B**, and **62**.

  Business CP notices for this number are: **CP 101, 102, 112, 128, 138, 145, 160, 161, 210,** and **267.**

  Collection CP notices for this number are: **CP 501/601, 503/603, 504/604, 521/621,** and **523/623.**

- **1-800-829-1040:** Technical and tax law inquiries, as well as notice issues other than those listed for the **1-800-829-8815** toll-free number

- **1-800-808-4262**: Inquiries specific to refunds, including math error Earned Income Tax Credit notices (**CP 11A, 12A, 13A)—**Taxpayers who are not satisfied through the TeleTax automated refund inquiry line are also referred via TeleTax to this customer service number for assistance.

- **1-800-829-0433**: Reports of tax fraud to the Criminal Investigation Branch—the Informants' Hotline

- Document Matching (Automated Underreporter) – CP 2000s
  1-800-829-7157: (7 A.M.-11 P.M.)
  FAXES: 215-516-2335, 215-516-1205 (formerly Underreporter Program)

- Telecommunications for the Deaf
  1-800-829-4059

Philadelphia IRS Center Numbers

- Taxpayer Identification Number (TIN) – Form SS-4
  TELE-TIN: **215-516-6999**
  TELE-TIN FAX: **215-516-3990**

- Individual Taxpayer Identification Number (ITIN) – Form W-7
  Adoption Taxpayer Identification Number (ATIN) – Form W-7A
  215-516-4846
  FAX: 215-516-3271 or 3272

- Preparer Taxpayer Identification Number (PTIN) –Form W-7P
  215-516-4846
  FAX: 215-516-1127

- Entity Classification Information – (Form 2553, 8832)
  215-516-7286
  FAX: 215-516-3414

- Power of Attorney
  215-516-4779
  FAX: 215-516-5994

- Foreign Certification
  215-516-7229
  Fax: 215-516-1035

- Communications Office
  215-516-2482

- Philadelphia IRS Center
  (General information)
  215-516-2000

- Accounts Service Branch (for levy, lien, installment agreements, offers-in-compromise)
  FAX: 215-516-2306

- Taxpayer Advocate Service
  215-516-2499
  FAX: 215-516-2677

- Disclosure Office
  215-516-6935
  FAX: 215-516-1438

Practitioner Priority Cases – For priority cases that do not meet Problem Resolution Program criteria, but require special handling, write to:

Internal Revenue Service
P.O. Box 6073,
Philadelphia IRS Center Priority Case
Philadelphia, PA 19114

****

National Taxpayer Advocate Hotline
877-777-4778

Practitioner Hotline for District Offices

Pittsburgh Office: **412-281-0281**

Delaware-Maryland District: Baltimore Office: **410-727-7965**
Wilmington Office: **302-573-6421**

Virginia-West Virginia District: Richmond Office: **804-916-5010**
FAX: 804-916-8977

General IRS Information

- Forms/Publications
  1-800-829-3676 (1-800-Tax-Form)

- Tax Information/Notice Inquiries
  1-800-829-1040 (1-800-TAX-1040)

- TeleTax (Automated Refund Information)
  1-800-829-4477

SECTION 1:

WHAT'S

NEW

FOR

2000?

KEEPING UP WITH WHAT'S NEW

IRS RESTRUCTURING AND REFORM ACT OF 1998

This publication contains the latest updated information available at its compilation; therefore, in areas pertaining to tax forms and instruction changes, as well as Congressional revisions to the tax laws and code that result from legislative action since its original passage, tax practitioners should regularly review the Internal Revenue Information Service (IRIS) on the FedWorld Bulletin Board.

You may access this information resource:

- Via modem by dialing **(703) 321-8020**
- Via the Internet through telnet to **iris.irs.ustreas.gov**, or, for file transfer protocol services, by connecting to **ftp.irs.ustreas.gov**
- Via the World Wide Web by connecting to the IRS Home Page through **http://www.irs.gov**

IRS's Web Page provides instantaneous uploading of breaking tax news releases and announcements, as well as a specific Web Page "corner" geared to tax professionals which contains specific technical information for their use.

HIGHLIGHTS

The following are brief summaries and highlights of the continuing major tax law changes and provisions contained in the IRS Restructuring and Reform Act of 1998. These changes include provisions with special significance for families, students, homeowners, and investors.

CHILD TAX CREDIT

Under this provision, a credit can be claimed for each qualifying child under 17 years of age. Taxpayers may claim a maximum credit of $500 per qualifying child for 1999, and subsequent years.

This credit is phased out by $50 for each $1,000 of the taxpayer's modified adjusted gross income (AGI) in excess of $110,000 for taxpayers filing jointly, $75,000 for single taxpayers, and $55,000 for married taxpayers filing separately. Generally, the credit is limited to tax liability net of credits (other than EITC). However, families with three or more children may be entitled to a credit in excess of tax liability.

To claim Child Tax Credit, taxpayers are required to provide the name and identification number of the qualifying child on the return.

EDUCATION INCENTIVES

HOPE Scholarship Credit

The HOPE Scholarship Credit allows taxpayers to claim a maximum credit of $1,500 (100 percent of the first $1,000 of tuition and fees and 50 percent of the next $1,000 of tuition and fees) for expenses paid on behalf of the taxpayer, the taxpayer's spouse, or a dependent for the first two years of post-secondary education at an eligible institution. The student must be enrolled on at least a half-time basis for at least one academic period during the year for the expenses to be qualified. The HOPE Scholarship Credit applies to expenses paid after December 31, 1997, for education furnished in academic periods beginning after that date.

Lifetime Learning Credit

The Lifetime Learning Credit allows taxpayers to claim a maximum credit equal to 20 percent of up to $5,000 of expenses ($10,000 beginning in 2003) incurred during the taxable year for qualified tuition and fees for eligible students for post-secondary education, including any course of instruction to acquire or improve job skills. The Lifetime Learning Credit applies to expenses paid after June 30, 1998, for education furnished in academic periods beginning after that date.

Both credits limit qualified expenses to the expenses of the taxpayer, the taxpayer's spouse, or a dependent of the taxpayer. Additionally, both credits are phased out for taxpayers with modified AGI between $40,000 and $50,000 (between $80,000 and $100,000 for joint filers).

For each qualifying student, taxpayers must choose to claim either the HOPE Scholarship Credit, the Lifetime Learning Credit, or the exclusion for certain distributions from an education IRA (described below) for the taxable year. They cannot claim more than one of these benefits for a student for any year.

Education IRA

A new educational funding vehicle called an Education Individual Retirement Account (Education IRA), has been created for the purpose of paying the qualified higher education expenses of a designated beneficiary. Qualified higher education expenses include tuition, fees, books, supplies and equipment, and room and board. Contributions are non-deductible, and earnings on the amount held in the IRA will be non-taxable until distributed.
Annual contributions are limited to $500 per beneficiary under the age of 18. The contribution limit is phased out as a taxpayer's modified AGI increases from $95,000 to $110,000 ($150,000 to $160,000 for joint returns). This provision is effective for taxable years beginning after December 31, 1997. The IRS is modifying Forms 5498 and 1099R to reflect Education IRA contributions in a separate box.

Deduction for Interest on Education Loans

This provision allows an above-the-line maximum deduction for up to $2,500 of interest paid by taxpayers on qualified education loans. The $2,500 limit is phased in over four years: The maximum deduction is $1,500 in 1999, $2,000 in 2000, and $2,500 in 2001. Taxpayers may take a deduction on qualified education loans for the benefit of the taxpayer, the taxpayer's spouse, or any dependent of the taxpayer, as of the time the indebtedness was incurred. Deductions are allowed only for the first 60 months that interest payments are required. The deduction is phased out for taxpayers with modified AGI between $40,000 and $55,000 ($60,000 and $75,000 for joint filers). Married taxpayers must file jointly to take the deduction, and the credit may not be claimed on the return of anyone who is claimed as a dependent on another person's return. This provision is effective for interest due and paid after December 31, 1997.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)

Increased Phase-out Ranges for Deductible IRAs

The Adjusted Gross Income (AGI) phase-out ranges for deductible IRAs of active participants in employer-sponsored retirement plans have been increasing annually beginning in 1998 until they reach double the current phase-out ranges in 2007. The following chart provides a yearly schedule through 2007.

Year	Married filing jointly	Single filers
1999	$51,000 - $61,000	$31,000 - $41,000
2000	$52,000 - $62,000	$32,000 - $42,000
2001	$53,000 - $63,000	$33,000 - $43,000
2002	$54,000 - $64,000	$34,000 - $44,000
2003	$60,000 - $70,000	$40,000 - $50,000
2004	$65,000 - $75,000	$45,000 - $55,000
2005	$70,000 - $80,000	$50,000 - $60,000
2006	$75,000 - $85,000	$50,000 - $60,000
2007	$80,000 - $100,000	$50,000 - $60,000

ROTH IRAs

An individual retirement account called a "Roth IRA" began in 1998. Key features are:

- Contributions to the account are not deductible
- Qualified distributions from the account are not taxable
- And earnings on the account are taxable only if, and when, there is a distribution which is not a qualified distribution

A "qualified distribution" is defined as a distribution when it is:

- Made after the taxpayer attains age 59
- Made to a beneficiary after the taxpayer's death
- Made because the taxpayer is disabled
- Or used by a first-time home buyer to acquire a principal residence

No payment can be a qualified distribution unless it is made after the five-taxable-year period beginning with the taxable year in which the taxpayer first contributed to a Roth IRA.

Annual contributions to the Roth IRAs are limited to $2,000 less the taxpayer's deductible IRA contributions. Unlike deductible IRAs, there is no prohibition on making contributions after attaining age 70.

The $2,000 limit is phased out as AGI increases from $150,000 to $160,000 in the case of a married couple filing jointly or $95,000 to $110,000 for a single filer.

Amounts in deductible IRAs may be transferred to Roth IRAs provided the taxpayer's AGI for the transfer year is $100,000 or less. Transferred amounts are included in income, but exempt from the early withdrawal tax. If the transfer occurred in 1998, income from the transfer is spread out over four years (i.e., 1/4th of the transferred amount is valid for inclusion in 1998, 1999, 2000, and 2001). No payments allocable to the transferred amounts can be qualified distributions unless they are made more than five years after the transfer.

Penalty-Free IRA Withdrawals

The 10 percent early withdrawal penalty (generally, for withdrawals before age 59 1/2) is not applicable to IRA distributions after 1997 used to pay qualified higher education expenses of the taxpayer, the taxpayer's spouse, or their children or grandchildren, or used to purchase a first home. The exception for a first-time home purchase is subject to a $10,000 lifetime limit.

CAPITAL GAINS

The 18-month holding period for long term capital assets eligible for the lower capital gain rates set by the Taxpayer Relief Act of 1997 has been eliminated. Now, an asset need only be held more than 12 months. This change is retroactive to January 1, 1998.

Gain from Sales of a Principal Residence

Taxpayers are allowed to exclude up to $250,000 of gain ($500,000 if married filing jointly) realized on the sale or exchange of a principal residence after May 6, 1997. The exclusion is allowable for each such sale or exchange, but generally no more frequently that once every two years. Eligibility requirements are that the property must be owned and used as the taxpayer's principal residence for a combined period of at least two years out of the five years

prior to the sale or exchange. Taxpayers who fail to satisfy the full two-year ownership and use requirement due to certain circumstances may be entitled to a portion of the tax benefits. These homeowners can now exclude an amount equal to the fraction of the two years that the house ownership and use requirement is satisfied.

ESTATE TAXES

Beginning in 1998, the unified estate and gift tax credit increased annually from the $600,000 limit until the maximum value of estates exempt from tax reaches $1 million in 2006, as shown in the following chart:

Year	Effective Estate Exemption Value
1999	**$650,000**
2000 and 2001	**$675,000**
2002 and 2003	**$700,000**
2004	**$850,000**
2005	**$950,000**
2006 and thereafter	**$1,000,000**

Beginning in 1999, the $10,000 annual exclusion for gifts, the $750,000 ceiling on special use valuation, the $1 million generation-skipping transfer tax exemption, and the $1 million ceiling on the value of a closely-held business eligible for the special low interest rate will all be indexed annually to reflect inflation. The provisions apply to estates of taxpayers dying, and to gifts made after December 31, 1997.

SELF-EMPLOYED WORKERS BUSINESS PROVISIONS

Alternative Minimum Tax (AMT)

Small business corporations are exempt from the AMT for taxable years beginning after 1997. A corporation that has average gross receipts of less than $5 million for the three-year period beginning after December 31, 1994 will be a small business corporation for any taxable year beginning after 1997. A corporation that meets the $5 million gross receipts threshold will continue to be treated as a small business corporation exempt from the AMT as long as its average gross receipts for all post-1997 taxable years does not exceed $7.5 million.

Business Meal Expenses

A graduated increase in the deductible percentage of business meal expenses for individuals subject to the Department of Transportation's hours of service limitations provides for a 55 percent deduction in 1998 and 1999 for those individuals meeting those criteria. The percentage increases by five percent every two years until it reaches an 80 percent ceiling in 2008.

Net Operating Loss (NOL) Carryback and Carryforward Rules

The NOL carryback period is limited to two years, and the NOL carryforward period is extended to 20 years for NOLs arising in taxable years after the August 5, 1997 enactment of the Taxpayer Relief Act of 1997.

Foreign Earned Income Exclusion

This exclusion increases by $2,000 yearly, from the current $70,000 to $80,000, beginning in 1998.

Home Office Use

The Internal Revenue Code Section 280A has been amended to allow a deduction for a home office if:

- The office is used by the taxpayer to conduct administrative or management activities of a trade or business

- And there is no other fixed location of the trade or business where the taxpayer conducts substantial administrative or management activities of the trade or business

This provision is effective in taxable years beginning after December 31, 1998.

Self-Employed Health Insurance Deduction

Starting in 2000, millions of consultants, free-lance writers, and other self-employed workers will be able to deduct more of the health-insurance premiums they apply for themselves, their spouses, and their dependents. Part of the recently enacted budget bill states that self-employed workers may deduct 60% of their premiums in 1999. The new law won't affect the 1998 limit of 45%.

Under the new law, the percentage will remain 60% in 2000 and 2001. Then it will rise to 70% in 2002 and 100% in 2003 and thereafter.

Farm Income Averaging

Individuals are allowed to compute their regular tax liability by averaging, over the prior three-year period, all or a portion of their taxable income from the trade or business of farming. This provision applies to taxable years beginning after December 1997 and before January 1, 2001.

TAX ADMINISTRATION

Earned Income Tax Credit Enforcement

Provisions regulating the Earned Income Tax Credit (EITC) now provide that a taxpayer who fraudulently claims EITC is ineligible to claim the credit for a subsequent ten-year period. A taxpayer who erroneously claims EITC due to reckless or intentional disregard of rules or regulations is ineligible to claim the EITC for a subsequent two-year period. A taxpayer who has been denied the EITC as a result of deficiency procedures is ineligible to claim the EITC in subsequent years unless the taxpayer provides such information as may be required to demonstrate eligibility for the credit.

Failure to provide this information when claiming the EITC is treated as a mathematical, or clerical error. A due diligence requirement is effective for preparers that would result in a $100 penalty if negligent. This provision is applicable to taxable years beginning after December 31, 1996.

Changes to the definition of modified Adjusted Gross Income (AGI) became effective in 1998.

The modified AGI is used to phase out EITC for individuals who have income above certain thresholds. Taxpayers will be required to add to their modified AGI:

- Tax-exempt interest
- Nontaxable distributions from pensions, annuities, and IRAs
- 75 percent of net losses from businesses (currently 50 percent)

Under the provision, workfare payments are excluded from earned income.

Payment of Tax

***Note*: Taxes paid by check or money order should now be made payable to the "United States Treasury," and no longer to the "Internal Revenue Service."**

The IRS is permitted to accept payment of taxes by commercially acceptable means as determined appropriate under Treasury regulations. Included in this category are electronic funds transfers, including credit card, debit card, and charge card payments. Under the provision, Treasury may not pay any fees or other considerations under a contract for credit card services.

Reasonable Cause Exceptions for Certain Penalties

Under the new tax law provisions, the following penalties may be waived for taxable years beginning after the August 5, 1997 enactment date, if the failure is shown to be due to reasonable cause, and not willful neglect:

- The penalty for failure to make a report in connection with deductible employee contributions to a retirement savings plan (IRC Section 6652(g))

- The penalty for failure to make a report as to certain small business stock (IRC Section 6652 (k))

- The penalty for failure of a foreign corporation to file a return of personal holding company tax (IRC Section 6683)

- The penalty for failure to make required payments for entities electing not to have the required taxable year (IRC Section 7519)

Reporting of Certain Payments Made to Attorneys

A reporting requirement was enacted for gross proceeds reporting on all payments to attorneys made by a person or an entity in the course of that trade or business.

An exception to the requirement is any payment reported on either Form 1099-MISC under IRC Section 6041 (reports of payments of income) or Form W-2 under IRC Section 6051 (payments of wages). Attorneys are required to promptly provide their Taxpayer Identification Numbers (TINs) to persons required to file these information reports. This provision is effective for payments made after December 31, 1997.

EXTENDED PROVISIONS

Airline Ticket Taxes

The Airport and Airway Trust Fund taxes have been extended and modified for a ten-year period, from October 1, 1997 through September 30, 2007. Under the provisions, a gradual decrease in the rate in the domestic air passenger excise tax, with an additional fixed amount paid per flight segment, is as follows:

Oct. 1, 1998 - Sept. 30, 1999: 8 percent of the fare, plus $2
Oct. 1, 1999 - Dec. 31, 1999: 7.5 percent of the fare, plus $2.25

During 2000: 7.5 percent of the fare, plus $2.50
During 2001: 7.5 percent of the fare, plus $2.75
2002 and thereafter: 7.5 percent of the fare, plus $3 (indexed annually for inflation after 2002).

A domestic segment is defined as consisting of one takeoff and one landing on air transportation which begins and ends in the U.S., or within a 225-mile zone of Canada or Mexico.

The current $6 international air departure tax is increased to $12, with an identical tax imposed on international arrivals in the U.S. The current $6 departure tax applicable on flights between the 48 contiguous states, Hawaii, and Alaska is retained. These amounts are indexed to inflation after 1998.

Rural airports are exempt from the segment tax and the phase-in of the 7.5 percent rate; that rate is effective for tickets purchased at rural airports after September 30, 1997.

The 7.5 percent rate also applies to payments made for the right to provide mileage (frequent flyer) awards for air transportation, effective after September 30, 1997.

Orphan Drug Credit

The Orphan Drug Tax Credit, which had expired May 31, 1997, is retroactively and permanently extended.

Research Tax Credit

The research tax credit, which expired after May 31, 1997, has been retroactively extended for the period June 1, 1997 through June 30, 1999.

SECTION 2:

TAX

RETURNS

FILING

IRS e-file
(Electronic Filing)

Significant strides have been made to make paperless filing the most preferred and convenient means of filing tax returns.

Practitioners who wish to participate in the IRS e-file program will find guidelines, requirements and specific information in Publication 1345 (Rev. 1-98), Handbook for Electronic Return Originators of Individual Income Tax Returns, and Revenue Procedure 98-50.

Copies of these publications and assistance with the program are available through the offices at these IRS Districts ETA (Electronic Tax Administration) or through the IRS web site www.irs.gov

Pennsylvania District:

Pennsylvania: **(215) 861-1664**

Delaware-Maryland District:

Baltimore: **(410) 962-1801**

Virginia-West Virginia District:

Richmond: **(804) 771-8048**

Practitioners who wish to participate in the program must file Form 8633, Application to Participate in IRS e-file program, and pass a Suitability Review Process. Past participation in the IRS e-file program does not automatically ensure admission for subsequent years. Advantages of e-file include:

- Faster refunds and direct deposit refunds in as little as 10 days
- Balance due can be paid electronically
- Proof of filing
- Error free, less chance of correspondence from IRS
- Federal/state e-filing, “one stop” service--file both federal and state return in one transmission

Most forms and schedules can be filed electronically, including Form 4868, Request for Extension, and Form 9465, Installment Agreement.

TeleFile

Those taxpayers who are eligible for TeleFile--generally single filers with no dependents who have lived at the same address for more than a year--will automatically receive a special TeleFile package in the mail. Taxpayers can fill out the worksheet which requests basic information such as wages, salaries, and tips from Forms W-2, federal income tax withheld, total taxable interest and whether the taxpayer can be claimed as a dependent on someone else's return. The taxpayer then calls the toll-free number in the TeleFile package and, through the interactive computer program, is prompted to input the necessary information by keying the touch-tone phone buttons.

The TeleFile phone number is available 24-hours-a-day, 7-days-a-week, and the program automatically calculates the caller's refund or balance due, as well as eligibility and amount for earned income credit. Each TeleFiler receives a customer service number in his/her TeleFile package that, when entered into the phone, takes the place of a signature; therefore, the TeleFiler does not have to mail anything to the IRS. Those TeleFilers who owe a balance due must, however, mail their payment using the envelope provided in the package, and payments are due April 15.

On-Line Filing

Taxpayers and preparers who have a personal computer and use an on-line service company, such as America On-Line or CompuServe, can transmit their tax information via modem over the telephone lines to IRS computers.

Through this option, a completed return is transmitted to the user's on-line service which then converts the file from the tax preparation software's format to the format meeting IRS' specifications and then transmits it to IRS. Users need to check with their particular on-line service for availability of this option and should also check on required software and transmission fees.

IRS then notifies the filer through the on-line service whether the return has been accepted or requires additional information. Once IRS accepts the return, the filer signs and mails Form 8453-OL to IRS along with Copy B of any Forms W-2. Form 8453-OL is an electronic filing signature form that can be downloaded from the taxpayer's software package or on-line service.

Many on-line services and bulletin boards also have hundreds of tax forms, instructions and publications available on-line for subscribers to download and print.

1040 PC Programs

Using a personal computer, taxpayers and tax preparers can generate a tax return which resembles an "answer sheet," sign the document, and mail it to the Philadelphia IRS Center, where it is processed the same as a conventional return. The document format contains only those lines filled in by the taxpayer, cutting down on the amount of paper generated.

The 1040PC returns can be stored by taxpayers and preparers on storage disks, also reducing paper files. All that is required to use the 1040PC program is a personal computer, a printer, and accepted software, available commercially.

FILING FORMS VIA MAGNETIC MEDIA

ELF Processing Support

The ELF Processing Support Section processes returns received on magnetic tape, diskette, or electronically via modem. This process bypasses the traditional process utilizing an automated method. A magnetically filed return consists of data submitted to the Philadelphia IRS Center via the methods identified above and paper documents which contain information that cannot be submitted via magnetic media, such as signatures, etc. In total, a magnetic media return must contain the same information as a comparable return filed entirely on paper documents.

Data transmitted via Magnetic Media is limited to the following returns:

Form 940 - Employer's Federal Unemployment Tax Return

Form 941 - Quarterly Federal Tax Return

Form 1040NR - U.S. Non-Resident Alien Income Tax Return

Form 1065 - U.S. Partnership Return of Income

Form 4868 - Extension to File Individual Income Tax Return

Form 5471 - Information Return on U.S. Persons with Respect to Certain Foreign Corporations

Form 1041 - U.S. Fiduciary Income Tax Return

Some of the other programs offered by the ELF Processing Support Staff are:

Remittances

Previously, payment due on Form 1041 and 1040NR returns came in on paper registers. We now offer an option that provides a much quicker and more accurate posting of payments. Remittance registers can be transmitted via modem, creating a more accurate record. When the paper check is received in Magnetic Media, the amount is verified against the register and the check is forwarded for deposit and processing. The remittance register is then processed.

AUTO-ITIN - Automated Individual Taxpayer Identification Number

The AUTO-ITIN program automates the processing of Forms W-7 (Applications for IRS Individual Taxpayer Identification Numbers) that are transmitted electronically to the Philadelphia IRS Center. All AUTO-ITIN processes are provided via the Electronic Communication System (ECS) for Certifying Acceptance Agents that wish to participate in this electronic inquiry/response program.

AUTO-EIN - Automated Employer Identification Number

The AUTO-EIN program automates the allocation and establishment of Employer Identification Numbers (EINs) for Fiduciary Filers that file with the IDPS Office. Prior to AUTO-EIN, filers were required to submit a paper bank-list of all the entities and then each EIN was manually entered to establish the accounts on the Masterfile. AUTO-EIN was designed as a fully automated program, and all services are available on the ECS. Customers request an on-line block of EINs, transmit a data file (replacing the paper bank-list), and the entities are established on the Masterfile. Customers receive electronic acknowledgments on all files via the ECS.

Form 6166 - Foreign Certification Program

This program is used to furnish evidence that a domestic entity (citizen, corporation, partnership, exempt organization, etc.) is a United States resident. Residency is determined by evidence of having filed a tax return, not being liable to file a tax return or being tax exempt. The purpose of such evidence is to aid a foreign country which has an income tax treaty with the United States in determining an applicant's entitlement to benefits under such treaty.

Low Income Housing Credit (LIHC) Forms

The IDPS Office developed a system for nationwide processing, storing and

retrieving information filed on various LIHC forms. The address and phone number for the IDPS Office is as follows:

Philadelphia IRS Center
11601 Roosevelt Blvd., DP: 5830
Philadelphia, PA 19154
(215) 516-7533 (Not a toll-free number) or 1-800-829-6945 (Toll free)

Note: These numbers are only to be used for information pertaining to Magnetic Media filing of the above returns or questions regarding the above programs.

Forms 940 and 941

Through the Forms 940/941 Magnetic Media electronic filing programs, payroll, accounting and business firms, as well as other tax preparers, can submit returns as Reporting Agents on behalf of their clients. After the application process (explained below), the ELF Processing Support Section can assist agents in creating successful transmissions through the Electronic Communication System (ECS).

Employers seeking Reporting Agents to file their returns should check their telephone directory under listings for "Payroll," "Data," and/or "Computer Services." Agents who wish to develop software based on IRS computer specifications and record layouts should check "Data," "Computer," and "Business Service" listings or businesses. The IRS can also supply the necessary information to any interested party that has applied for electronic access.

In order to file electronically for multiple businesses, one of the firms must be designated the "Reporting Agent." For example, a corporation filing for its subsidiaries would be considered a "Reporting Agent."

940/941 Modem Filing Program Requirements and Procedures

Application Process:

Before the IRS 940/941 software will be made available, Reporting Agents must submit the following:

- An application to file electronically with the Philadelphia IRS Center.

- A client list with each employer's name and associated EIN. The IRS must research both company name and corresponding tax identification number for each client to ensure that the information submitted is accurate. Once

verified, the client list will be returned to each Reporting Agent with appropriate "name controls." (The name control, consisting of the first four significant characters in the company name, is used to validate names and EINs during processing.)

You will receive an Electronic Transmitter Identification Number (ETIN) for ECS access. In addition, instructions will be included for downloading the programs from the Philadelphia IRS Center's ECS.

Operating System Requirements:

Reporting Agents must have a computer system that meets the following requirements: IBM-compatible 486 PC (Pentium preferred) and have at least Windows 3.1 or higher (Windows NT not supported)

- 100 MHZ or higher CPU speed
- Hard drive and recommended memory of at least 8 MB to run the programs; 16 MB is preferred
- A color monitor is preferred
- An asynchronous modem set at a Baud rate between 2,400 bps and 28,800 bps

In preparation for "live" filing, signed and dated Form 8655, Reporting Agent Authorization for Magnetic Tape/Electronic Filers, must be submitted to the Philadelphia IRS Center's ELF Processing Support Office. The Form 8655 will establish filing requirements with the IRS and authorize electronic submission for each client. The forms must be submitted to the Center at least one month before the end of the tax period for which filing will begin.

Each quarter, one copy of Form 4996, Electronic/Magnetic Media Filing Transmittal for Wage and Withholding Tax Returns, is required to support electronic filing of returns. The form will be used to verify total tax returns transmitted. It will also serve as an acknowledged receipt. The form is part of the Philadelphia IRS Center's software package and is generated by the programs upon completion of data entry. It should be sent via facsimile to **(215) 516-2052** on the same day of modem filing.

Any questions can be directed to **(215) 516-7533** or to our toll-free number **1-800-829-6945**.

Consider the many benefits of electronic tax return filing:

- Direct filing to the IRS with a receipt
- Access to the Electronic Communication System 24-hours-a-day, 7-days-a-week
- Quality control
- Ability to receive notices electronically a week prior to receiving paper copies
- Reduction in the number of erroneous notices
- ·Economies of cost and time to the filer and the IRS

Magnetic Media Filing of Form 1040NR (Non-Resident Alien Return)

Any accounting firm or tax preparer filing Form 1040NR may file via magnetic media. Filers interested in joining this program may contact the Philadelphia IRS Center at the address and phone numbers listed previously. Upon contact, the Philadelphia IRS Center will send the interested filer an application and a Revenue Procedure package which will help the potential magnetic filer's programmers in creating a test tape. When the test tape is received, it will be processed, and the filer will be notified of any needed corrections.

The Philadelphia IRS Center will work with the filer to create a good test tape, thus allowing the filer to be certified.

A magnetic media return consists of data transmitted to the Philadelphia IRS Center via Magnetic Media, as well as information that cannot be submitted magnetically. A magnetic media return must contain the same information as a return filed entirely on paper. Form 8453NR, Signature Form, may be produced in a consolidated format and must accompany the returns submitted via magnetic media.

The data submitted via magnetic media is limited to Form 1040NR and related forms and schedules. Data that cannot be submitted via magnetic media includes, but is not limited to, Form 8453NR, other documents containing required signatures, and documents not required by IRS or not required on IRS forms or schedules.

After testing and certification, live magnetic media returns will be processed and the filer will receive an Acknowledgment Listing. The Acknowledgment Listing will indicate all accepted and/or rejected returns. Rejected return information will

include a listing of critical errors for each rejected return. In the case of rejected returns, the filer will be required to transmit a corrected return via magnetic media. Data transmitted via magnetic media is limited to the following forms and schedules:

Form 1040NR (Required) Non-Resident Alien Tax Return

Schedule D (Optional) Capital Gains and Losses

Schedule E (Optional) Supplemental Income and Loss

Form 1099R (Optional) Distributions from Pensions, etc.

Form 2106 Employee Business Expense

Form 3800 (Optional) General Business Credit

Form 3903 (Optional) Moving Expense

Form 4255 (Optional) Recapture of Investment Credit

Form 4562 (Optional) Depreciation & Amortization

Form 4797 (Optional) Sale of Business Property

Form 4952 (Optional) Investment Interest Expense Deduction

Form 6251 (Optional) Alternative Minimum Tax

Form 8082 Notice of Inconsistent Treatment or Amended Return

Form 8271 (Optional) Investor Reporting of Tax Shelter Registration Number

Form 8582 (Optional) Passive Activity Loss Limitation

Form 8805 (Optional) Foreign Partner's Information Statement (Section 1446 Withholding Tax)

Form 8840 Closer Connection Exception Statement

Form 8833 Treaty-Based Return Position Disclosure under Section 6114 or 7701(b)

Form 8843 Statement for Exempt Individuals and Individuals with a Medical Condition

Form W-2 (Optional) Wage and Tax Statement

Form W-2G (Optional) Statement for Recipients of Certain Gambling Winnings

Magnetic Media Filing of Form 1041

Any accounting firm, tax preparer, bank, mortgage company, or transmitter filing Form 1041, Fiduciary Return, may file via magnetic media. Interested filers may contact the Philadelphia IRS Center at the address and phone number listed previously. The Philadelphia IRS Center will send the filer an application (Form 9041), along with a Revenue Procedure package that will help the potential electronic filer's programmers in creating the tape. Once an application is approved, the Philadelphia IRS Center will request a test file. Upon receipt of the file, it will be run and the filer will be told of any necessary corrections. The Philadelphia IRS Center will work directly with the filer until a good file is created, and the filer can be certified. An entity file will also be requested. This file will be used to verify the names and Taxpayer Identification Numbers for all returns the filer plans to submit.

A magnetic media return consists of data submitted to the Philadelphia IRS Center via magnetic media and also of paper documents containing information that cannot be submitted magnetically. A magnetic media return must contain the same information as a return filed entirely on paper documents.

Data transmitted on magnetic media is limited to the following forms and schedules:

Form 1041 (Required) U.S. Fiduciary Income Tax Return

Schedule C (Form 1040) (Optional) Profit or Loss from Business

Schedule C-EZ (Form 1040) (Optional) Net Profit from Business

Schedule D (Form 1041) (Optional) Capital Gains and Losses

Schedule E (Form 1040) (Optional) Supplemental Income & Loss

Schedule F (Form 1040) (Optional) Profit & Loss from Farming

Schedule J (Form 1041) (Optional) Trust Allocation of an Accumulation Distribution (IRC Section 665)

Schedule K-1 (Form 1041) (Optional) Beneficiaries Share of Income, Deductions, Credits, etc.

Schedule 1116 (Optional) Computation of Foreign Tax Credit

Form 2210 (Optional) Underpayment of Estimated Tax by Individuals and Fiduciaries and the Annualized Income Installment Worksheet

Form 3468 (Optional) Computation of Investment Credit

Form 4562 (Optional) Depreciation and Amortization

Form 4684 (Optional) Casualties and Thefts

Form 4797 (Optional) Sale of Business Property

Form 4835 (Optional) Farm Rental Income & Expenses

Form 4952 (Optional) Investment Interest Expense Deduction

Form 6198 (Optional) Computation of Deductible Loss from an Activity Described in Section 465(C)

Form 6252 (Optional) Installment Sale Income

Form 8271 (Optional) Investor Reporting of Tax Shelter Registration Number

Form 8582 (Optional) Passive Activity Loss Limitation

Form 8801 (Optional) Credit for Previous Year Minimum Tax

Form 8824 (Optional) Like Kind Exchanges

The non-magnetic media portion of the return consists of Form 8453-F, U.S. Fiduciary Income Tax Declaration for Magnetic Media Filing, which is required for all returns submitted, and of any other documents that cannot be included via the magnetic media. The Form 8453-F may be produced in a consolidated format when the filer is empowered to sign multiple tax returns. Form 8453-F must accompany the returns and be signed no later than the date of transmission.

Previously, payments due on Form 1041 returns came in on paper registers. We now offer a "same medium" submission with the returns.

This option provides a much quicker and more accurate posting of payments, as it bypasses keypunch and several other possibilities of error. Such errors can generate unnecessary notices. The option, which is tested for accuracy along with the return data, requires little additional programming.

New York state, five New York banks, and the IRS participated in 1041 Federal/State filing for tax year 1997. The goal of the Fed/State project is to provide one-stop service to the taxpayer by allowing their fiduciary income tax returns (both federal and state) to be submitted electronically to the IRS in a single transmission.

After certification and testing, the magnetic media submission will be processed and the filer will receive an acknowledgment listing. The acknowledgment listing will indicate all accepted and/or rejected returns. Rejected return information will include a listing of critical errors for each rejected return. The filer will verify the acknowledgment listing against his transmission. In case of rejected returns, the filer will be required to submit corrected returns via magnetic media.

The benefits of magnetic media filing include:

- A substantial reduction in the processing error rate
- Elimination of the need to prepare paper tax returns and to keep paper records
- A significant reduction in cost to the IRS and to the filers
- Balance Due - One check may be submitted per tape (max of 5,000 returns per tape)
- One signature (Form 8453-F) may be submitted for multiple returns (max of 5,000)
- Personalized customer service
- Joint Fed/State filing (participating states only)

Form 5471

Through the Form 5471 magnetic media program, a system was developed for processing both automated and paper Forms 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. The program was developed based on the revised Form 5471 released in June 1995. The automated system will allow taxpayers to file their returns via modem. In addition to the normal up-front validation done by other automated programs, the Form 5471 computer runs will also include validation of all math computations.

This processing system is a user-friendly interactive PC program that also incorporates all validation "up-front." This system is multi-purpose. In addition to using the PC program for data input, it functions as an error-resolution system,

automatically generates a list of correspondence issues, controls returns in suspense, and serves as a retrieval system for viewing and printing the return. No special processing is needed since the program will run on most IBM-compatible PCs.

Previously, a manual system was used to assign a control number and to update the Foreign Corporation Control Number (FCCN) for every foreign corporation identified during Form 5471 processing. Under this system, the numbers are automatically assigned and controlled in a new database. In addition, once the automated process of assigning the DLN is completed, the FCCN database is automatically updated with the DLN. Also, both the paper system and the automated system have been expanded to capture twice as much data.

Application Procedures for Automated Filing:

- Submit an application (Form 9041)
- Receive Form 5471, Procedures and File Specifications
- Submit a test file modem transmission

Certification

The filer will receive a letter of certification when the test file runs error-free. After certification, the filer may submit live data for processing. Testing is done each year.

Acknowledgment List

All Forms 5471 submitted via modem are acknowledged. The acknowledgment list indicates each accepted and/or rejected return. Rejected returns will be resubmitted after correction via modem and will also be accepted on paper.

> **Note: The International and Domestic Support Staff at the Philadelphia IRS Center is the sole processor of electronic Forms 5471.**

PAPER PROCESSING PIPELINE

While the growth of electronic filing alternatives is expected to steadily increase and supplant paper tax return filing, the processing pipeline at the Philadelphia IRS Center remains a primary conduit for millions of individual and business tax returns year round, as well as tax-related documents and correspondence.

The following describes the various stations a return visits during its journey through the pipeline.

SCAMPS

The Service Center Automated Mail Processing System (SCAMPS) utilizes two automated multi-functional machines that process both incoming and outgoing mail.

Incoming mail is processed at night, and the machines pre-sort the IRS bar-coded envelopes while cutting open the bottom without disturbing the contents inside.
A remittance detector also identifies those envelopes containing checks by "reading" the magnetic micro-encoding on the bottom of the checks.

The SCAMPS machine also sorts outgoing mail by zip codes, allowing the IRS to save on postal costs through bulk mail rates. This procedure is also performed by the JetStar in the South Building.

Over-sized, bulky, plain, or colored envelopes are not processed through the machines, but are sorted separately during handling at the next pipeline station, the Extraction area of the Receipt & Control Branch.

The Philadelphia IRS Center utilizes JetStar, a processing equipment that vastly improves check detection capability while also greatly upgrading the mail sort operation. This technology can also handle various sizes of mail, reducing manual operations and enhancing speed and accuracy of mail operations, while generating considerable cost savings.

Extraction

A "finer" type of sort is done in this area, and it is from Extraction that remittance and non-remittance returns will follow separate paths before being prepared for data entry.

During the extraction process, the contents of the envelopes are removed, date stamped, and then sorted into bins for routing to their proper destinations.

Sorting of the returns, correspondence, and documents, is done at Tingle Tables, named for an IRS employee who designed the multi-tiered desks.

Items containing remittances are sent to the Residual Remittance Processing System area, while non-remittance returns are sorted, date-stamped, and routed to the Batching & Numbering area.

Correspondence is handled through the Mail Analysis Unit. Correspondence is read, sorted, and coded for delivery to the appropriate area for action.

Integrated Submission and Remittance Processing System (ISRP)

Returns with remittances arrive at the RRPS Unit in batches of 100. Operators enter the Taxpayer Identification Number (TIN), the four-digit name control, tax period of the return, check money amounts, and the received date on a computer.

This original entry of data is then verified by a second operator who re-enters the data from the same batch of work and corrects any errors.

After each entry, the accompanying check is separated from the document.

The checks will go through the transporter system and the documents will go to Batching and Numbering to have their Document Locator Numbers (DLN) stamped on them.

Batches of checks, controlled by a Remittance Processing System Identification Number (RPSID), are run through a transporter for an initial pass. At this time, the front of the check is imaged, and the back of the check is printed with the RPSID number and deposit date. The system verifies the information captured from the check during the initial pass against the original entry and key verification input on ISRP and the Magnetic Ink Character Recognition (MICR) Reader. Anything that is not read or verified falls out to a correction process where an operator fixes the information.

Checks are then run through the transporter for a second pass. During this pass, checks are encoded, endorsed, and an audit trail is printed on the back of the check. Both the front and the back of the check are imaged at this time for archive retrieval and future research, when necessary. Pocket cuts are done on the checks with the totals for each pocket printing out.

Throughout this process, the work is being monitored on a terminal and four stagers by a User Support Specialist, who handles any problems that might occur.

At the end of the day, a Batch Summary Report, Deposit Summary, and the Deposit Ticket are printed and compared for accuracy. Remittance registers are printed, and checks are sent to the bank.

Batching and Numbering

All returns are assigned a unique 13-digit DLN which identifies the filing location of the return, the type of return (i.e., Form 1040, 941, 1041), Julian date of receipt, block number, and the year processed. In Batching and Numbering,

employees use a special numbering machine to hand-stamp the returns at the rate of 1,000 per hour. ***(*Specific DLN composition information is provided at the end of this section.)**

After numbering, each batch of 100 returns is input into the Batch Block Tracking System (BBTS), a computer program which can identify the location of all returns as they move through processing until they are stored in the files area.

Code and Edit

Remittance and non-remittance returns are rejoined in the Code and Edit function where tax examiners check returns for completion and accuracy and are the first line for identifying problem areas. They look for missing signatures and line entries, the proper placement of entries, and the inclusion of the necessary forms and schedules.

Over the last several years, the Philadelphia IRS Center has tried to improve the timely processing of tax returns by telephoning taxpayers or preparers when returns are missing forms, schedules, line entries, and/or signatures. This program has proven successful, and taxpayers are appreciative for the chance to fax whatever is missing, instead of hearing from us by mail and having to mail the information back.

The only hindrance to the program is the inability to obtain taxpayers' telephone numbers. Last year, the IRS provided a space on the bottom right hand side of the Form 1040 and Form 1040A to add your telephone number. If you'd like to keep delays of your refund minimal, help us help you and add your phone number to the return.

Code and Edit tax examiners also "code" the returns, specifying those entries needed to be input by the data transcribers. They are alert for any returns which look questionable or fall into suspicious patterns, which they then pull and put into special "funny boxes" for inspection by the Criminal Investigation Branch.

Code and Edit employees receive refresher training each year to become updated on tax form changes and procedures.

Data Conversion

Returns are now input into the computer by data transcribers utilizing 410 Integrated Submission and Remittance Processing (ISRP) terminals (242 at the Philadelphia IRS Center and 168 terminals at an off-site data input facility near Allentown, PA and center city Philadelphia).

Each group of 22 ISRP terminals feeds into a mini-computer that functions as a Center Processing Unit (CPU).

The CPUs send and receive data from The Philadelphia IRS Center's mainframe computer which, in turn, transmits those returns which pass the validity checks to the IRS Master File at the Martinsburg Computing Center in Martinsburg, WV. These returns are referred to as "good tape."

As in the RRPS area, data is entered (OE) and then re-input (KV) as a validity check, with the second data transcriber correcting erroneous entries. Data transcribers, who can earn incentive pay for meeting and exceeding standards in quantity and quality, average an input rate of 30 Forms 1040 per hour.

Error Resolution

Returns which are rejected by the Philadelphia IRS Center mainframe computer for validity checks or math errors are resolved by tax examiners in the Document Perfection area.

These employees conduct research and contact taxpayers, as needed, to clarify and correct the information in question.

The tax examiners use a combination of on-line computer and paper correction functions to "perfect" the returns which are then re-entered by the data transcribers and transmitted to Martinsburg for posting to the Master File.

Document Locator Number

A Document Locator Number (DLN) is a controlled, 13-digit number assigned to every return or document that is input through the Center's automated data processing system.

DLNs are used to control, identify, and locate documents and appear on all notices sent to taxpayers, usually situated in the upper right-hand corner.

The following is an example of a DLN, and gives an explanation of how information is tracked by the specific digits contained in a DLN.

28210-105-60025

28 These first two digits identify the IRS Center; IRS Center codes are:

07 - Atlanta	08 - Andover	09 - Kansas City	
17 - Cincinnati	18 - Austin	19 - Brookhaven	
28 - Philadelphia	29 - Ogden	49 – Memphis	89 - Fresno

2 The third digit identifies the tax class code for the documents. Some sample codes are:

1 - Withholding and FICA
2 - Individual
3 - Corporate and Partnership
6 - Fiduciary and Non-Master File (NMF)
8 - FUTA

10 The fourth and fifth digits are document codes. Sample document codes are:

10 - Form 1040
36 - Form 1041
41 - Form 941

105 The sixth through eighth digits indicate the Julian date the return was numbered.

600 The ninth through eleventh digits indicate the block of 100 that contains the document.

25 The twelfth and thirteenth digits are the serial numbers -- from 00 through 99 – of the document within the block of 100.

INDIVIDUAL TAX FILING EXTENSIONS

Form 4868 is used to request an automatic four-month extension for filing tax forms. The first extension is due by August 15 and does not extend the due date for tax payments. This form can be filed electronically through the IRS' e-file program, also through the Philadelphia IRS Center's ELF Processing Support Section. Form 2688 is used by filers requesting an additional two-month extension; it must be filed by August 15.

Automatic Extension for Forms 1065 and 1041

Filers of Form 1065 and Form 1041 returns may request an automatic three-month extension of time to file without stating reasonable cause of the delay. Form 8736 is used to request this extension. If these filers require still more time to file (up to three additional months), they are required to file a second request on Form 8800 with a statement of reasonable cause for the delay on Line 5.

A request for the automatic three-month extension will be approved if **all the following** conditions are met:

- Form 8736 was filed on or before the due date of the return
- The total tentative tax liability was paid with the application
- And Form 8736 was complete, including signature

A request for the additional extension of up to three months will be approved if **all the following** conditions are met:

- Form 8800 was filed on or before the previously granted extended due date;
- the reason stated on Line 5 reflected circumstances beyond the control of the taxpayer or tax practitioner; and
- Form 8800 was complete, including signature

Reduce Unnecessary Filing (RUF)

The Reduce Unnecessary Filing (RUF) initiative benefits both individual citizens and the IRS.

More than 1.8 million taxpayers were sent publications last year advising them that based on information on their 1997 U.S. Individual Income Tax Return, they did not meet the filing requirements; consequently, did not have to file a federal tax return for 1997.

The IRS is sending publications to selected taxpayers as part of our customer service and outreach efforts to reduce taxpayer burden.

The IRS has received numerous complimentary letters from taxpayers thanking us for the information.

Taxpayer burden is reduced by eliminating the concern that many taxpayers have regarding their requirements to file tax returns. The RUF initiative also saves taxpayers the expense of professional tax preparation and the time required for them to prepare returns. The IRS benefits from reduced operational costs, as the volume of returns received and processed “unnecessarily” decreases.

Publication 3136 (People 15 to 23 Years Old Filers) contains six questions taxpayers may use to determine if they are required to file a Federal Income Tax Return in the year 2000. The publication also contains Form W-4 Employee’s Withholding Allowance Certificate if the taxpayer’s withholding needs to be

adjusted. Publication 3137 (People on a Pension) contains a worksheet to compute total gross income and a chart to determine filing requirements. It also contains Form W-4P Withholding Certificate for Pension or Annuity payments if needed. Publication 3195 (Elderly Filers) contains a worksheet to compute total gross income and chart to determine filing requirements, along with a business reply postcard located on the back cover for taxpayers to request a tax package, if needed.

SECTION: 3

TAXPAYER

INFORMATION

NUMBERS

TAXPAYER IDENTIFICATION NUMBERS

The IRS recognizes four forms of Taxpayer Identification Numbers (TINs) for the filing of tax returns, payments, and documents: Social Security Numbers (SSNs), Employer Identification Numbers (EINs), Individual Taxpayer Identification Numbers (ITINs), and Adoption Taxpayer Identification Numbers (ATINs).

Additionally, in October 1999, the Philadelphia IRS Center inaugurated the issuance of Preparer Tax Identification Numbers (PTINs), which are issued specifically to tax preparers who must provide an ID number on tax returns they have prepared.

Social Security Numbers are obtained only from the Social Security Administration. The IRS assigns EINs for business entities required to file federal tax returns and ITINs for those individuals who do not qualify for a Social Security Number.

Form SS-4 is used to apply for an Employer Identification Number and may be mailed directly to the Philadelphia IRS Center which services the geographical area in which the applicant is located. Applicants in the states of Pennsylvania, Virginia, Delaware, Maryland, the District of Columbia, and Puerto Rico can mail their Forms SS-4 to the Philadelphia IRS Center at:

Philadelphia IRS Center
DP 8125
Philadelphia, PA 19255

Other IRS centers and their geographical service areas are listed on the Form SS-4.

Practitioners should request EINs at least six weeks prior to the time that they are needed for tax identification or filing purposes.

New Fed/State EIN Initiative

As of November 16, 1998, under a joint initiative between the Philadelphia IRS Center and the Commonwealth of Pennsylvania, new business owners can now register to get their federal Employer Identification Number (EIN) at the same time they register with the state for tax account and licensing purposes.

This one-stop service provides taxpayers, registering their new business with the PA Departments of Revenue and Labor & Industry, with a Form SS-4 (Application for Employer Identification Number) to complete and sign at that time. The State will then electronically transmit all of the information on the Form SS-4 to the IRS via secured lines. Upon receipt of the transmission, the Philadelphia IRS Center will assign the EIN and notify the business owner within ten business days. Since the Philadelphia IRS Center will also notify the state of the business' EIN, no longer will the business have to inform the Department of Revenue of its permanent EIN. The Philadelphia IRS Center will also pass the SS-4 data on to the Social Security Administration.

This cooperative effort delivers improved customer service to the new business owner since it eliminates the need to phone, fax, or walk-in to the local IRS office for a federal tax ID number.

TELE-TIN/FAX-TIN

In addition to processing mailed SS-4s, the IRS offers two convenient methods for securing an Employee Identification Number (EIN):

By Telephone: Taxpayers can receive an immediate EIN over the phone by calling **(215) 516-6999**. Callers should have a completed SS-4 form in front of them. Only authorized individuals are eligible to receive the EIN over the phone. Authorized persons include:

- Individuals who are sole proprietors
- For partnerships, one of the partners
- For trusts or estates, the executor or a trustee
- For a Limited Liability Company (LLC), an LLC member
- For a corporation or non-profit organization, an officer

Third party callers must have a valid Power of Attorney (POA) form on file with the IRS before a newly assigned EIN can be released to them. The POA form can be faxed to **(215) 516-3990**.

Via Fax: Taxpayers can fax their completed SS-4 Forms to the IRS. An assigned EIN will be faxed back to them, usually within two working days. To ensure this service, the fax cover sheet must contain:

- A statement requesting fax-back service
- A ten-digit return fax number
- Signature of authorized requestor (see above)
- If required, a POA Form

The fax number for SS-4 and accompanying documents is **(215) 516-3990**.

If a faxed SS-4 Form does not have a complete cover sheet, it will be processed as a mailed submission. The assigned EIN will be mailed back to the requestor.

Note: Even after receiving an EIN by telephone or fax, taxpayers must still mail their completed SS-4 Form to the IRS within 48 hours.

AUTO-EIN

The Philadelphia IRS Center's ELF Processing Support (EPS) offers an option for its electronic fiduciary filers to receive Employer Identification Numbers through the EPS Electronic Communication System (ECS).

The AUTO-EIN Program automates the allocation, assignment, and processing of EINs for these filers. After submission of an application, the participant is assigned an Electronic Transmission Identification Number (ETIN) for system use. A test datafile is required to ensure proper formatting of submissions and, upon successful testing, the user is certified for the AUTO-EIN program.

Through AUTO-EIN, the user can request a block allocation of EINs on-line. An electronic acknowledgement is returned to the user within three days, advising the appropriate block of numbers allocated.

When the user submits the datafile containing the block EINs previously allocated and assigned by the user, the records are automated into the IDRS system.

A Philadelphia IRS Center application is also available for those customers who do not have datafile creation capability.

Additional information and application instructions are available from the EPS by calling **(215) 516-7533**, faxing the request to **(215) 516-2052** between 7 A.M. and 4 P.M., or by writing to:

Philadelphia IRS Center
ELF Processing Support
11601 Roosevelt Blvd., DP: 2721
Philadelphia, PA 19154

Individual Taxpayer Identification Numbers (ITINs)

Since the inception of the ITIN program in July 1996, the Philadelphia IRS Center has issued more than 2.4 million ITINs to domestic and international tax filers who cannot obtain and do not qualify for a Social Security Number.

As the sole processing center of ITIN applications, the Philadelphia IRS Center anticipates processing up to 2 million new applications during 1999 due to tax code regulatory changes.

ITINs are used for tax purposes only and do not supplant Social Security Numbers. ITIN recipients are not eligible for the Earned Income Tax Credit (EITC), nor is an ITIN a valid ID number for work purposes. ITINs are permanent tax identification numbers and replace the former temporary IRSNs; consequently, the IRS no longer accepts IRSNs or entries such as “applied for,” “NRA,” or “SSA205C” on tax documents and returns. As the ITIN must be applied for and assigned prior to tax form submission, “ITIN applied for” in the SSN field on a tax form is not considered a valid entry either.

Those taxpayers eligible for ITINs include resident and non-resident aliens who are:

- Required to file a U.S. tax return
- Claimed as a dependent of a U.S. person on a tax return
- The spouse of a U.S. person who files a joint return
- Claimed as a spousal exemption on a U.S. tax return
- Filing a U.S. tax return solely for a refund claim
- Non-resident filing a U.S. tax return to claim a treaty benefit.

Those not eligible for ITINs are U. S. citizens and U.S. resident aliens who are eligible to receive Social Security Numbers.

Applications for ITINs are made by filing Form W-7 with the supporting documentation described below. A revised version of the Form W-7, available since February 1998, reflects taxpayer feedback and is easier to understand and complete. A Spanish language version, Form W-7S, became available in April 1998.

Forms W-7 may be submitted through several methods:

- Individuals can present the completed Form W-7 and supporting documentation at any IRS walk-in office in the U.S. and abroad. An IRS reviewer will examine the material and return the documentation to the applicant. The Form W-7 is then certified by the reviewing office and forwarded to Philadelphia for processing. An ITIN notice containing the number is generated during processing and is mailed directly to the applicant.

- Applicants may also mail their completed Forms W-7 directly to the Philadelphia IRS Center with the required documentation (see documentation definitions and mailing address below). These applicants also receive their ITINs directly from the Philadelphia IRS Center via the mail.

- Applicants may use the services of an Acceptance Agent who is authorized to certify Forms W-7 for the IRS and review applicants' documentation. Acceptance Agents are tax practitioners and other qualifying agents, such as educational institutions and government agencies, who file the certified Forms W-7 on behalf of the applicants, receive the assigned ITINs from the Philadelphia IRS Center, and notify their clients of the assigned ITINs.

Acceptable documentation is defined as documentation that proves both identity and foreign status. When a single document satisfies both requirements (such as a passport), one proof will suffice; otherwise, two types of documentation are required. Types of acceptable documentation include passports, visas, national identity cards, and drivers' licenses.

Original documentation received by the Philadelphia IRS Center ITIN Unit is reviewed for acceptance or rejection within 14 days of receipt and returned to the applicant through the U.S. Postal Service (documents returned to foreign addresses are sent by registered mail). In lieu of original documents, applicants may also submit quality copies of documents which have either been certified by the issuing agency or notarized by a U.S. notary.

<u>Note</u>: If the documentation is in a foreign language, a certified translation must accompany it

Applications and/or supporting documentation that are rejected will be returned to the applicant with a detailed explanation for the rejection as to what information is needed.

Additional information about ITINs can be obtained from Publication 1915, "Understanding Your Individual Taxpayer Identification Number."

For more information on the Acceptance Agent Program and how to apply for Acceptance Agent status, tax practitioners can contact the IRS Assistant Commissioner/International at **(202) 874-1638**.

Forms W-7 and documentation can be mailed to:

Philadelphia IRS Center
ITIN Unit, DP 2840
P.O. Box 447
Bensalem, PA 19020

The ITIN Unit Customer Service phone number is **(215) 516-ITIN (516-4846)**. The ITIN Unit fax number is **(215) 516-3270.**

Note: Processing for Forms W-7 and issuance of the assigned ITINs may take four to six weeks from receipt. Applicants should allow for that time period in making their applications and before inquiring about the status of their applications.

Adoption Taxpayer Identification Numbers (ATINs)

Since January 1998, the Philadelphia IRS Center has been the sole processing site for Adoption Taxpayer Identification Number (ATIN) applications, assigning more than 2,000 ATINs during the first six months of the program. Qualifying applicants for ATINs are taxpayers who are in the process of adopting a child and who meet the criteria for claiming dependent status for the adoptive child, but are unable to apply for a Social Security Number (SSN) for the child, pending final adoption.

Note: ATINs are issued for domestic adoptions only. Taxpayers involved in adopting a foreign child must apply for an ITIN for the child.

ATINs are temporary numbers issued by the IRS and are valid only for a two-year time period, or until the applicant receives a SSN for the adoptive child. Many adopting parents often have custody of the child for a period of time, pending the adoption, and provide sufficient financial support during the year to claim the dependency exemption or child care credit on their returns; however, because of privacy issues, they do not have access to the child's existing SSN. Additionally, because the Social Security Administration (SSA) will only issue an SSN when the adoption is final, the parents are unable to provide a SSN when filing the return.

Note: Earned Income Tax Credit (EITC) is not allowed without a valid SSN issued by the SSA; therefore, EITC cannot be claimed while an ATIN is used on the return.

After adoption is final, and the taxpayer has obtained a valid SSN for the adoptive child, the parents may file an amended return to claim EITC during the period of pending adoption, provided all other EITC criteria are met.

Form W-7A is used by taxpayers to apply for ATINs. As with ITINs, applicants will be required to provide supporting documentation with the application. Applicants may file Form W-7A at all IRS district offices and posts of duty where field personnel will verify the information and "pre-screen" the Form W-7A for accuracy and completeness.

Applicants may also mail the Form W-7A and supporting documentation to the Philadelphia IRS Center ITIN Unit. Information about tax benefits for adoption is available in Publication 968.

Preparer Tax Identification Number (PTIN)

The IRS Restructuring and Reform Act of 1998 authorized the use of alternatives to Social Security Numbers (SSNs) to identify tax return preparers. The change responds to concerns that a preparer's SSN could be used inappropriately by clientele and others having access to a prepared return.

Preparers may download Form W-7P, "Application for Preparer Tax Identification Number," the "Tax Professional's Corner" on the IRS Web site at or call the IRS's toll-free tax forms line **1-800-829-3676**. To ensure that the person assigned to and identified by a specific Preparer Tax Identification Number (PTIN) is the person applying for it, the application form asks for the preparer's name, home address, date of birth, and SSN.

The PTIN is solely the identifying number of the individual requesting it and has no relation to firms employing tax return preparers.

Applications received by November 1999 should receive PTINs by the start of the 2000 filing season. Return preparers may continue to use their PTINs year after year without re-applying. Preparers must use either their Social Security number or a PTIN. They cannot write "PTIN applied for" in the Paid Preparer's Use Only section of the return.

Preparers are advised to consult with their respective states regarding the use of a PTIN on state tax returns.

Forms W-7P can be mailed or faxed to:

Philadelphia IRS Center
PTIN Unit, DP 2840
P.O. Box 447
Bensalem, PA 19020

The PTIN Customer Service phone number is **215-516-4846.**
The PTIN **FAX** number is **215-516-1127.**

SECTION 4:

PAYMENTS

PAYMENT VOUCHERS

To facilitate remittance processing, the IRS has included a payment voucher on the following:

Forms 940, 940EZ, 941 and **943**
Form 2290 - Heavy Vehicle Use Tax Return
Form 4868 - Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
Form 1040PC, 1040ELF, 1040TEL
Form 1040 - 5, 6, and 10 tax packages
CP 521 and **523** - Installment agreement notices

Important reminder: Both individual and business taxpayers should be sure to follow the special processing instructions included with their vouchers. The vouchers should be used only for the purpose intended.

LOCKBOX

The IRS Lockbox network consists of banks which have contracted with the government to process paper federal tax payments to optimize mail receipts and accelerate bank deposits. Each of the ten IRS Centers has a Lockbox site which processes these payments.

Utilizing machine-scannable payment vouchers included with various tax packages, the IRS benefits both the government and the taxpayers by reducing errors caused by manual input, increasing the efficiency of crediting payments, and lowering the processing cost to the government. By collecting and processing payments directly at the financial institutions, the IRS decreases the time for deposit of money and speeds the flow of funds to the U.S. Treasury.

The Lockbox processing vendor for the Philadelphia IRS Center is Bank One located in Valley Forge, PA.

Lockbox began in 1989 and expanded to handle various forms and payment vouchers including business filers who receive Form 940 and 941 vouchers. Business filers are issued two color-coded pre-addressed labels. Filers who owe tax use a white label on their envelopes and send their payment, return, and voucher to the designated Lockbox processing bank site. The bank then processes the voucher depositing the payment into the U.S. Treasury's account and forwards the processed documents to the appropriate IRS Center. Those filers who are expecting a refund use the yellow label on their envelopes and send their returns directly to their IRS Centers.

Since 1995, certain individual Form 1040 filers receive Form 1040-V packages for sending their tax returns and payments through Lockbox which processes the payments and transships the returns to the IRS Center for processing. These vouchers were sent to Form 1040 filers who are sole proprietors, self-employed taxpayers who file Schedule C, or taxpayers who file Schedule F for farm income. Others who receive the packages include taxpayers who use electronic filing options such as Forms 1040-PC and Tele-File.

Helpful Hints:

- Use the pre-printed payment vouchers when provided. Pre-printed documents are scanned, which increases accuracy and efficiency, while typed or handwritten vouchers must be entered manually.

- Enter your Social Security Number (SSN) and the quarter for which you are paying your estimated taxes on each check.

  Note: If the person writing the check, i.e., spouse, is not the primary taxpayer, the SSN of the taxpayer who is, or will be the primary tax return filer, should be annotated on the check. This will assist in ensuring accurate payment posting to the primary tax filer's account.

- Business filers - enter your Taxpayer Identification Number (TIN) and the tax period for which you are paying on each check.

- Do not write on the pre-printed vouchers. Address changes and correspondence should be mailed separately.

- Do not send correspondence or tax forms to the Lockbox address.

- Do not submit multiple checks with one voucher.

- Do not send one check for multiple taxpayers.

- Taxes paid by check or money order should now be made payable to the "United States Treasury," not the "Internal Revenue Service."

The following specific addresses should be used when mailing vouchers and payments to Lockbox to facilitate processing:

Tax Form	P.O. Box/Zip Code
940	**P.O. Box 8726 Philadelphia, PA 19162-8726**
940-EZ	**P.O. Box 8738 Philadelphia, PA 19162-8738**
941	**P.O. Box 8766 Philadelphia, PA 19162-8786**
943	**P.O. Box 8526 Philadelphia, PA 19162-8526**
945	**P.O. Box 8589 Philadelphia, PA 19162-8589**

1040-Individual	**P.O. Box 8530 Philadelphia, PA 19162-8530**
1040-ES	**P.O. Box 8318 Philadelphia, PA 19162-8318**
CP 521/CP 523	**P.O. Box 8669 Philadelphia, PA 19162-8669**
2290	**P.O. Box 8789 Philadelphia, PA 19162-8789**
4868	**P.O. Box 7990 Philadelphia, PA 19162-7990**

EFTPS
Electronic Federal Tax Payment System

The Electronic Federal Tax Payment System (EFTPS) is the next step in converting paper coupon tax payments to an electronic fund transfer system. Beyond TAXLINK, which EFTPS replaces, and which was the prototype system that allowed electronic payments only for Federal Tax Deposits (FTDs), EFTPS will accept **ALL** tax payments electronically.

Congress enacted Section 6302(h) of the Internal Revenue Code (IRC) to require IRS implementation of an electronic funds transfer system to replace the paper coupon system. EFTPS was created to meet this mandate to provide a simple, paperless FTD system.

> **Note: The previous requirement for businesses meeting a $20,000 tax deposit threshold in 1999 to use EFTPS has been eliminated. Therefore, EFTPS is a voluntary, rather than compulsory, electronic payment method for businesses that have less than $50,000 in tax deposits annually.**

Payments made through EFTPS use the Automated Clearing House (ACH) financial network which transfers funds and passes the tax payment information to the IRS.

Taxpayers will use the ACH debit or ACH credit methods to make payments, and they must enroll with one of two contracted Treasury Financial Agents—Bank One or NationsBank. They provide customer service in the enrollment and payment processes, direct payments timely to the government account, and provide tax payment information to the IRS to update taxpayers' accounts.

Through the ACH debit option, taxpayers initiate payments by instructing their financial agent to institute an ACH debit by which the financial agent actually withdraws funds from taxpayers' bank accounts for payments to the government's account. Taxpayers can initiate this action by telephone, either talking with a customer service representative, or using the automated

touch-tone phone system. Taxpayers can also initiate payments via their personal computers, utilizing Windows-based software provided by the financial agent.

Taxpayers who elect the ACH credit option for payment must first contact their banks to determine the bank's required procedure. Taxpayers making a federal tax deposit via ACH credit instruct their own banks to withdraw funds from their accounts for payment to the government's account.

The financial agents will never receive a taxpayer's tax deposits, nor are taxpayers required to open an account with the financial agent banks. Tax deposits will flow directly from the taxpayer's bank account to the federal government's account. Neither the IRS nor the financial agents charge fees for EFTPS; depending upon the individual taxpayer's banking arrangement, a taxpayer's bank may charge a fee for ACH transactions.

> **Note: Taxpayers using ACH credit should consult their banks regarding any fees that may be charged and should also be aware of the bank's deadlines to ensure their transactions result in timely payments of the tax deposits.**

In addition to receiving direct assistance from the financial agents, the taxpayer may also receive enrollment forms (Form 9779) by calling toll-free **1-800-555-4477** or **1-800-945-8400**. The enrollment process takes approximately two to ten weeks from when the financial agent bank receives the enrollment form from the taxpayer and sends the taxpayer a Personal Identification Number (PIN) and payment instructions.

Financial agents will institute a transaction with a taxpayer's bank only after receiving instructions from the taxpayer. They will not initiate an ACH debit without the taxpayer's TIN and PIN numbers.

> **Note: Although the TIN will identify the taxpayer's account for proper recording of the tax information, the IRS does not, and will not, have access to a taxpayer's EFTPS PIN number**.

Taxpayers will be able to establish that a federal tax deposit was timely initiated by using the records of either their banks or the financial agent and/or the taxpayers' books and records. The records must show that the taxpayers had sufficient funds to pay the applicable tax.

For ACH debits, the IRS will honor as proof of payment the acknowledgment number received from the financial agent and a copy of the taxpayer's bank statement (or other bank records) that shows sufficient funds to cover the withdrawal and identifies the U.S. government as the payee.

Taxpayers currently using TAXLINK will gradually be transferred to the EFTPS system, and the IRS will provide assistance during the transition.

Taxpayers who are required to use EFTPS, but do not transmit their funds electronically, will be subject to a ten percent penalty based on the deposit amount. Taxpayers who voluntarily participate in EFTPS may use paper coupons at any time.

The toll-free phone numbers for the financial agents are:

Bank One: **1-800-945-8400**
NationsBank: **1-800-555-4477**

Electronic Payment Options for Individual Filers

Electronic Form 1040 filers with balance due payments have two new electronic payment options available:

- Similar to businesses which utilize EFTPS, individuals will be able to authorize direct transfers from their checking or savings account to the Treasury account. Through this option, taxpayers can elect to file early, but also choose to defer the electronic payment until as late as April 15. This debit authorization will be part of the electronic return.

  --There is no charge from the IRS for this option; however, individuals need to check with their banks for possible debit charges the banks may require.

  --The electronic Form 1040 filer enrolled in EFTPS will be provided a special toll-free number to call for payment status information, or to cancel a payment.

- Individual electronic filers with balance due returns may use their credit cards to make payments.

After a successful test of accepting credit card payments in 1999, the Internal Revenue Service has expanded its availability to include individuals seeking automatic extensions of time to file returns and those making estimated tax payments for tax year 2000. There will also be new opportunities to file and pay taxes electronically.

The IRS offers these electronic payment options through partnerships with private industry, including credit card processors and tax preparation software developers.
More than 129,000 people paid their federal taxes by credit card, or direct debit transactions during the 1999 pilot.

All individuals will again be able to use the pay-by-phone system to charge tax payments to American Express, Discover, or MasterCard accounts. This system will accept three types of payments:

- The balance owed on a ‘99 return
- A projected balance of ‘99 taxes due on a request for an automatic extension of time to file
- Or an estimated tax payment for tax year 2000

Taxpayers charging an automatic extension or estimated tax payment will not have to file the associated paper Forms 4868 or 1040-ES. The phone system, operated by Official Payments Corporation (formerly U.S. Audiotex) will open January 14, 2000. The estimated tax payment option will become available March 1, 2000.

Three tax software developers will offer e-file and pay combinations for individuals. In these programs, the credit card payment information is part of the electronic return filed:

- Intuit will offer its program to people using its Web filing service and to tax preparers using its professional series software. The Intuit programs will allow tax payments only with the Discover Card.

- Nelco will include an option for payments using an American Express Card for both online filers and taxpayers e-filing through tax professionals.

- Orrtax Software will partner with Official Payments Corporation to allow charges to the same three cards used on the phone system to be included in returns e-filed through tax professionals.

The IRS does not set or collect any fees for credit card payments, but the private sector partners may impose convenience fees, based on the tax amounts charged.

All individuals who file electronically—including those using TeleFile, the file-by-phone system—will be able to have the balance due debited directly from their bank accounts. Many people already use such direct debits for their mortgages, auto loans, or utility bills. Last year, the IRS limited direct debits to computer-filed returns.

Check Data/Identification

A client's bank may need only the date, amount, and a signature to cash a check, but that's just part of the picture when the check is used to pay federal taxes.

A practitioner can help clients by pointing out the benefits of putting the following on the check: SSN or EIN, telephone number, tax period covered by the payment, correct name of the tax account if different from the signature, current mailing address, and type of tax form associated with each payment (**Forms 941, 1040, 1120, etc)**.

If the check is separated from the tax return or letter before the payment is properly recorded, the identification and account data on the check can help us track the payment. Also, ensuring that the SSN of the primary taxpayer is on the check will facilitate the IRS matching of the tax payment and the tax return. But the biggest benefit to the client will be that the payment will be applied to the proper account.

Some common reasons for check processing delays are:

- One check is written to cover the amount due for several types of returns.

- One check is written to cover returns of more than one individual.

- One check is written to cover both income tax due and estimated tax payments.

- More than one check is written for one document.

<u>Note</u>: One check per document will help us process checks accurately and quickly.

SECTION 5:

REFUNDS

AND

CREDITS

REFUNDS AND CREDITS

Earned Income Tax Credit (EITC)

The earned income tax credit is a special credit allowable for persons who work and meet certain criteria established by law. The credit reduces the amount of tax owed and may qualify taxpayers for a refund even if they do not owe any tax, or earned enough money to file a return. The credit is intended to offset some of the increases in living expenses and social security taxes for taxpayers with limited incomes. To receive this credit, the taxpayer must file a tax return and meet the following criteria:

- Must have earned income during the year
- Earned income and modified Adjusted Gross Income (AGI) must be less than:

  - $26,928 if you have one qualifying child
  - Or $30,580 if you have more than one qualifying child

- Investment income cannot be more than $2,350
- Filing status can be any filing status **EXCEPT** married filing a separate return
- Cannot be a qualifying child of another person. If you are filing a joint return, neither you nor your spouse can be a qualifying child of another person.
- Qualifying child cannot be the qualifying child of another person who's modified AGI is more than yours

Additionally, to claim the Earned Income Credit (EIC), you must have a Social Security Number (SSN) for you, your spouse (if filing a joint return), and your qualifying child. You cannot get the credit if, instead of an SSN, you, your spouse, or your qualifying child has:

- An Individual Taxpayer Identification Number (ITIN), which is issued to a non-citizen who cannot get an SSN
- Or An Adoption Taxpayer Identification Number (ATIN), which is issued for a child to adopting parents who cannot get an SSN for the child being adopted until the adoption is final

EIC will be denied if the taxpayer receives investment income of more than a certain amount. In addition, income from the sale of certain business assets should be excluded from investment income when computing EITC. Investment income includes taxable interest, tax-exempt interest, dividends income, capital gain net income, royalty income, and income from passive activities.

<u>Note</u>: More information about EITC may be found in the 1040, 1040A, or 1040EZ instruction booklet or Publication 596, Earned Income Credit.

Advanced Earned Income Tax Credit (AEITC)

Taxpayers who meet certain criteria may elect to receive part of their earned income credit as part of their paychecks throughout the year, instead of waiting until they file their 1999 tax returns. Eligibility for AEITC requires meeting all three of the following items:

- Expect their 1999 income be less than $26,928 with one qualifying child, or; $30,580 with two or more qualifying children
- Expect to have at least one qualifying child
- And expect to qualify for EITC

In order to get the AEITC, a Form W-5 must be filed with your employer each year. If taxpayers no longer want to get advance payments, or if their situation changes and they are no longer qualified for the EIC, they must give their employer a new Form W-5. If taxpayers received advance payments and later find out they do not qualify for the credit, they are required to repay any payments they are not entitled to when filing their 1999 returns.

> **Note: Publication 596, Earned Income Credit, explains the rules to qualify for and to claim AEITC.**

Lost or Stolen Refund Checks

If a taxpayer files a tax return and then moves without notifying the IRS of the change of address, the expected refund check will be returned to the IRS Center. For the refund check to be re-issued, the IRS Center must be notified, either in writing or via telephone contact, of the new address. You may call Customer Service toll-free on **1-800-829-1040**.

If the refund check was issued and not received by the taxpayer, and has not been returned to the IRS Center, it is presumed stolen or lost. A Form 3911, Taxpayer Statement Regarding Refund, must be completed and sent to the IRS Center. If a check was issued for a joint return, both signatures must be on the Form 3911 to re-issue the check.

Missing refund tracing is done by the IRS in conjunction with the Financial Management Service (FMS) to determine if the check has been cashed. If it has not been cashed, a replacement check will be issued. If the check has been cashed, a package, consisting of FMS's Form TFS 1133, Claims Against the United States for the Proceeds of a Government Check, TFS 3858, Claims Document, and a photocopy of the refund check, is mailed to the taxpayer. Form 1133 should be completed and returned to FMS for determination of re-issuance of the refund check.

Automated Refund Inquiry

"Where is my refund?" That question frequently asked of IRS customer service representatives during past filing periods is now handled by a "talking" computer called TeleTax. Voice-activated computer equipment allows tax refund status to be checked by taxpayers with tone-signaling push button phones.
During peak processing season, February through July, refund status is available 7-days-a-week and nearly 24-hours-a-day.
Off seasons, the lines are in operation Monday through Friday from 7:00 A.M. to 11:30 P.M. Rotary dial or pulse dial phone users can only reach the refund system during normal business hours (8:00A.M. to 4:30 P.M.).

You will need to have identifying information available when making the call. **The information needed includes your Social Security Number, exact amount of refund expected, and filing status indicated on the tax return**. To keep returns confidential, the computer system will provide you with refund status only if you respond correctly to requests for the identifying information.

The refund inquiry computer is programmed to search the IRS Center computer records to tell you the status of the expected refund check. If the refund status changes because of an error on the return, the taxpayer will receive a notice explaining the error and the correct amount of the return.

The refund inquiry system can be reached by dialing the TeleTax phone numbers listed in the indiviual tax packages and other general tax assistance publication. A caller living *outside* the local dialing area of any TeleTax number may use the toll-free **1-800-820-4477** number.

Refund Anticipation Loans

Some tax preparers and tax professionals may offer refund anticipation loans, particularly in conjunction with electronic tax filing. These loans are made to tax filers based on expected refunds, which may not agree with the amount determined when the IRS processes the tax return. Refund anticipation loans are strictly an agreement between the taxpayer and the tax preparer. IRS has no involvement whatsoever with refund anticipation loans.

Erroneous Refunds

Taxpayers occasionally receive refunds in error. Should this occur, the following action(s) should be taken to correct the taxpayer's account-standing. Erroneous checks that are being returned should be sent to the IRS Center where the taxpayer filed their return. Include a brief explanation of why the check is being returned to assist in the resolution of the situation.

- If the check has not been cashed, the taxpayer should mark the back "Void" and return the check.

- If the check has been cashed, the taxpayer should repay the refund by personal check or money order. Make the check or money order payable to the **"United States Treasury**" not "Internal Revenue Service."

- If two refund checks have been received and neither has been cashed, the taxpayer should return the first refund received.
  The check should be marked “Void” across the back.

- If two refund checks have been received and both have been cashed, the taxpayer should repay the refund by personal check or money order. Make check payable to “**United States Treasury**” not “Internal Revenue Service.”

If they prefer, taxpayers may take the erroneous refund check or their repayment to the local Internal Revenue Office listed in the local telephone directory.

SECTION 6:

AT

YOUR

SERVICE

CUSTOMER SERVICE

The Customer Service Representative (CSR) plays a key role in the "one-stop service" concept essential to the Customer Service operations.

CSRs use sophisticated telephone and computer systems at their workstations that allow them to access taxpayer accounts while on the phone and address taxpayer and practitioner concerns immediately during the initial phone contact.

CSRs were selected from diverse backgrounds to provide a solid base of IRS Center knowledge and have received extensive cross-training to enhance their abilities to deal with multiple issues simultaneously. CSRs have the knowledge and technology to access case histories, consult Internal Revenue Manuals and technical reference materials, make adjustments and generate notices, all from their workstations. A computerized Decision Support System aids the CSR in providing assistance to taxpayers' inquiries and provides guidance in resolving questions and concerns.

The Customer Service goal is to resolve 95 percent of all taxpayer contacts on the first phone call.

ASPECT

An integral piece of equipment called ASPECT is the backbone of the telephone portion of Customer Service. ASPECT is the name for a computerized telephone system that utilizes a Voice Response Unit (VRU) to guide callers through menus and selections or prompts to reach an assistor who will help resolve their problems based on the selections the taxpayer chooses from the prompts.

The ASPECT equipment consists of a teleset and a headset for CSRs and replaces the phones previously used. The ASPECT system is used for incoming taxpayer calls either via an 800 number or a local telephone number, whether in response to an IRS-initiated notice, or a taxpayer problem or question. When taxpayers call a designated telephone number, they are asked to press certain digits if they have a touch-tone phone or asked to remain on the line if they are using a rotary phone. Through this screening method, taxpayers are routed to an employee who can best help them based on their selections. However, depending upon the availability of CSRs, the system may direct calls to a CSR in another part of the country in order to minimize the taxpayer's waiting time; regardless of the CSR’s actual location, the taxpayer inquiry can be resolved.

This new way of doing business will help to resolve inquiries and issues more quickly, consistently, and efficiently, both for the taxpayers and the IRS.

The following Customer Service toll-free phone lines have been established for specific types of inquiries and requests:

- **1-800-829-8815:** CSRs on this toll-free line respond to specific questions regarding refunds, notices, and payments.

  Notices for this number pertain to the following issues: math errors on tax returns,

balances due, earned income credit, estimated tax penalties, overpayments, credit reversals, credit elects, adjustments to tax returns, and collection notices.

Individual CP notices which can be addressed on this toll-free number are: **CP 09, 10, 11, 12, 13, 14, 16, 21A, 21B, 21C, 22A, 23, 24, 25, 27, 30, 30A, 34, 39, 42, 45, 45S, 48, 49, 51A, 51B, 51C, 54B, 60,** and **62.**

Business CP notices for this number are: **CP 101, 102, 112, 128, 138, 145, 160, 161, 210, and 267.**

Collection CP notices addressed on this number are: **CP 501/601, 503/603, 504/604, 521/621,** and **523/623.**

CSRs answering the **1-800-829-8815** number may also respond to various other issues including:

- Requests for forms, publications, and public use documents
- Requests for transcripts of accounts and account information
- Inquiries regarding collection notices on balance due accounts and delinquent returns
- Requests for installment agreements, payroll deductions, and direct debit agreements

- **1-800-829-1040:** CSRs in district offices respond to technical and tax law inquiries, as well as notice issues other than those listed for the **1-800-829-8815** toll-free number.

- **1-800-808-4262:** CSRs answering this line respond to inquiries specific to refunds, including math error Earned Income Tax Credit notices (**CP 11A, 12A, 13A**). Taxpayers who are not satisfied through the TeleTax automated refund inquiry line are also referred via TeleTax to this customer service number for assistance.

- **1-800-829-0433**: CSRs take reports of tax fraud on this line--the Informants' Hot Line.

Customer Account Services On-Line (CASOL)

Customer Account Services On-Line (CASOL) is an integral part of the ELF Processing Support's Electronic Communication System (ECS) at the Philadelphia IRS Center. The ECS allows for information sharing under a controlled environment from personal computers. Simply dial **(215) 516-7625** to connect to the ELF Processing Support bulletin board system.

CASOL is a more efficient way to resolve tax questions as a result of receiving a notice or letter from the Philadelphia IRS Center.

It is an automated program that allows practitioners the ability to correspond directly with the IRS via their own personal computer and modem. Thousands of tax practitioners throughout the country have been introduced to this different way to communicate with the Philadelphia IRS Center and many are taking advantage of the services CASOL offers.

CASOL is neither the Internet nor e-mail. Correspondence is strictly confidential and encrypted for security. Tax practitioners are protected through the use of an Electronic Transmitter Identification Number (ETIN) and their own individualized password.

Benefits to the Taxpayer:

- Issues are resolved in 14 days or less--Average response time is six days
- Personal, yet professional response

Benefits to the Tax Practitioner:

- Saved time and increased efficiency
- Traditional office hours are expanded with around-the-clock accessibility
- Free technical support during normal working hours
- Status of correspondence file is always available
- Receipt, progress, and closure can be monitored
- Eliminates paper correspondence, postal delays, telephone tag, and missed messages
- Ability to save or print IRS responses
- Decal and certificate identifying you as a "Certified CASOL User" issued after using CASOL twice

How Responses Are Handled:

- If you have Power of Attorney - responses will come directly to you
- If you do not have Power of Attorney - we will inform you through CASOL that we received your inquiry, and we will respond to the taxpayer directly

What Equipment Is Needed:

- Personal computer with a modem
- Communication software
- We provide step-by-step instructions for Windows 95, Windows 3.1, and DOS operating systems

How Do I Apply?

Request an application by calling the "help desk" phone number listed below. Complete the application, fax it to us on **(215) 516-2052**, and you will receive a letter with your ETIN. You will also receive step-by-step instructions and information about the system. The ETIN is your key to CASOL.

Important Phone/Fax Numbers:

- Help desk phone **(215) 516-7533** or **1-800-829-6945**
- Computer support for problems getting into the ECS or sending a file - **(215) 516-2068** or fax **(215) 516-2930**

TAXPAYER WALK-IN SERVICE

Taxpayers can pick up copies of forms, make payments, and receive informational assistance on technical and procedural matters, including notices, at the Philadelphia IRS Center's taxpayer walk-in service area, located in the IRS Center's South Building at 11511 Roosevelt Boulevard (7:30 A.M. to 4:00 P.M.). Taxpayers arriving in person will be directed by the security guard to the proper entrance where they can receive personal assistance.

The walk-in area office hours are 7:30 A.M. to 4:30 P.M. during the year, with an expanded office hour schedule (7:30 A.M. to 8 P.M.) during the filing season.

Although a wide variety of forms and schedules are available, those wishing to obtain bulk quantities are encouraged to use the **1-800-TAX-FORM** number to do so. Also, tax assistance is always available by dialing **1-800-829-1040.**

COMMUNICATIONS OFFICE

The Philadelphia IRS Center's Communications Office can arrange Philadelphia IRS Center tour programs for tax practitioner organization groups.

The program, for groups of between 15 and 40 people, generally includes a welcome/overview with a management official, a Philadelphia IRS Center-produced video highlighting center operations and a walk-through tour of the pipeline processing areas. Customized agendas, developed according to the group's needs, may include briefings on specialized areas and a panel discussion with Philadelphia IRS Center executives. Upon request, visiting practitioners may also bring problem cases to the Center for resolution (Power of Attorney is required).

Appointments for Philadelphia IRS Center tours require a minimum of 30 days advance notice and are subject to availability on requested dates.

You may contact the Philadelphia IRS Center Communications Office on **(215) 516-2482** or by mail:

Philadelphia IRS Center
DP 1420
Attn: Communications Office
P.0. Box 245
Bensalem, PA 19020

SECTION 7:

CUSTOMER

ASSISTANCE

CUSTOMER ASSISTANCE

Installment Agreements

Form 9465

Form 9465, Installment Agreement request, can be filed either as a paper document or through the Electronic Filing System. A paper installment may be filed as either an attachment to Form 1040 or as a stand-alone request. Forms 9465 that are sent without a Form 1040 are sent to one of the IRS Center Customer Service Branches. Those that are sent with Form 1040 are detached from the return and forwarded to the Customer Service Branch. The majority of installment agreements are currently requested by the taxpayer in response to balance-due notices.

The Installment Agreement user fee will be assessed by Customer Service once the Installment Agreement is established. There is a fee of $43 for a newly established agreement, and a fee of $24 for reinstating or restructuring an agreement.

On the Web

A new collection application on the IRS Web Site Digital Daily, **www.irs.gov**, allows taxpayers to assess for themselves whether they might qualify for an installment agreement and help them in calculating the payments.

Offer-In-Compromise

An Offer-in-Compromise (OIC) is a contract between a taxpayer and the IRS to settle unpaid accounts for less than the total balance due.

A Form 656, Offer-in-Compromise and Form 433 A or B, Collection Information Statement, must be completed and sent to the appropriate district office Collection function. The basis for the OIC has been expanded. Under new regulations filed with the Federal Register on July 19, 1999, the IRS for the first time will be allowed to consider economic hardship factors in cases where taxpayers try to settle unpaid tax debts through the OIC program, and where settlement would promote effective tax administration.

This change expands the OIC program, which allows the IRS to negotiate a settlement with people unable to pay their entire tax bill. Prior to the new regulations, the IRS could accept the taxpayer's OIC only when there was doubt about whether the tax debt could ever be collected, or whether it was owed.

The provision outlined in the temporary regulations (TD 8299) creates a new category of OIC to resolve cases where acceptance of the offer would promote effective tax administration.

Generally, the IRS will not accept an Offer-in-Compromise unless the taxpayer complies with all current filing requirements. The terms of the offer require future compliance for a period of

five years. The IRS may reinstate the entire tax liability if the taxpayer does not abide by all the terms of the offer.

Practitioner Hotline Numbers For District Offices

Pennsylvania District
Pittsburgh Office: (412) 281-0281

Delaware-Maryland District
Baltimore Office: (410) 727-7965
Wilmington Office: (302) 573-6421

Virginia-West Virginia District
Richmond Office: (804) 698-5010

Priority Case Procedures

The IRS Center has priority case procedures for handling practitioner inquiries about problems that do not meet Taxpayer Advocate (TA) criteria, but that the practitioner believes need special handling. Priority cases are:

- Cases that the practitioner believes cannot be resolved through normal channels because of the complexity of the matter. These may include requests for adjustments or credit transfers to multiple tax periods or types of tax

- Or persistent or recurring problems that indicate a defect in our normal processing procedures

- Or follow-up inquiries which do not meet TA criteria and involve a case regarding returns or documents filed with more than one IRS Center

- Or cases previously handled by a Center technician if they involve the same type of tax, and are for the same period

Such inquiries should be mailed to:

Philadelphia IRS Center
P.O. Box 6073 - Priority Case
Philadelphia, PA 19114

Final responses on priority cases will be made within 14 days of the date the IRS receives the inquiry. If this is not possible, an acknowledgment will be mailed within seven days of receipt advising the practitioner when to expect the final response.

All supporting documents should accompany the initial inquiry, including copies of: tax return of the account in question, applicable letters or notices, front and back of pertinent checks, documents where IRS took no action or incorrect action (i.e., claims, amended returns, extension, Form SS-4, and penalty abatement requests), and letters that were received concerning the matter.

Taxpayer Advocate Service

The Taxpayer Advocate Service has three major goals:

- To provide an independent, effective complaint-handling system which will assure that individual taxpayer problems, which have not been resolved through normal channels, are promptly and properly handled

- To determine the causes of these problems so that systemic, procedural, or organizational problems can be identified and corrected, thereby preventing future taxpayer complaints

- And to serve as an advocate for taxpayers within IRS, representing their interests and concerns in the agency's decision-making process

If you have a problem you have been unable to resolve through normal channels, call the new National Taxpayer Advocate Hotline on **877-777-4778**.

The Taxpayer Advocate Organization has identified circumstances that qualify taxpayers for special assistance, including an independent review by a Taxpayer Advocate of actions that have been taken, or need to be taken, to resolve the problems they are experiencing. Situations meeting the following criteria should be forwarded to the local Taxpayer Advocate for special handling:

- The taxpayer is suffering or about to suffer a significant hardship

- The taxpayer is facing an immediate threat of adverse action

- The taxpayer will incur significant costs if relief is not granted (including fee for professional representation)

- The taxpayer will suffer irreparable injury to, or long-term adverse impact if relief is not granted

- The taxpayer has experienced a delay of more than 30 calendar days to resolve a tax - related problem or inquiry (However, if an IRM or other official internal document prescribes a normal time period for processing a taxpayer submission or request, then the 30-day period will begin on the day following the prescribed period.)

- For example, the 30-day period for a refund request would begin six weeks after the return is filed.)

- The taxpayer has not received a response or resolution to the problem by the date promised

- A system(s) or procedure(s) has either failed to operate as intended, or failed to resolve the taxpayer's problem or dispute within the IRS

Send subsequent inquiries to the following address:

Philadelphia IRS Center
Taxpayer Advocate Office, DP 1300
P.O. Box 16053
Philadelphia, PA 19114

The following type of cases should **not** be referred to Taxpayer Advocate Service:

- When the complaint or inquiry **only** questions the constitutionality of the tax system
- Or when the facts in the case clearly indicate the taxpayer is employing frivolous tax strategies to avoid filing or paying federal taxes

Practitioners should include authorization or Form 2848, Power of Attorney, from the taxpayer, copies of notices, and any prior correspondence.

Inquiries which should be forwarded to the IRS Center for resolution include:

- CP 2000 inquiries (unreported or underreported income)
- Lost or stolen refund check
- Requests for change in accounting period (Form 1128)
- Inquiries concerning election by a small business corporation (Form 2553)
- Carryback claims
- Requests for Employer Identification Number

As a result of Taxpayer Advocate inquiries, many systemic or procedural problems are identified, and corrective action is taken to avoid further problems.
The practitioner community can provide valuable information to the IRS in identifying these problems. If you suspect a recurring problem, contact the Taxpayer Advocate Service, at the address on the previous page, with examples of cases.

Form 911, Application for Taxpayer Assistance Order

Due to the Restructuring and Reform Act of 1998, circumstances that traditionally had been considered significant hardships have been expanded. The following situations are also reviewed using the hardship criteria:

- The taxpayer is suffering, or about to suffer, a significant hardship
- The taxpayer is facing an immediate threat of adverse action
- The taxpayer will incur significant costs if relief is not granted (including fees for professional representation)
- The taxpayer will suffer irreparable injury to, or long-term adverse impact, if relief is not granted

When a Form 911 is received in the IRS Center, it is forwarded to the Taxpayer Advocate (TA) for action. The TA can expedite action, such as the issuance of a refund, or suspend action, including wage levies or seizure of property.

There is no relief available if the statute itself produces the hardship and enforcement action, in and of itself, is not a hardship with additional factors.

Form 911 concerning a notice of lien/levy or a district office examination case should be filed with the appropriate district office. The Taxpayer Advocate notifies the taxpayers or representative of a decision and, if the request is denied, the action will be carried out as usual.

Form 911 can be ordered by calling **1-800-TAX-FORM** and is also available at local IRS district offices.

Photocopy Requests

The fee to request a photocopy of a tax return or other related documents is $23. Form 4506, Request for Copy or Transcript of Tax Form, has been revised so the taxpayer may opt for a RTFTP (Return Transcript for Taxpayer) of the return at no cost, or a photocopy of the return at the $23 charge. If no return has been filed, verification of that fact will be sent to the requestor at no charge.

Power of Attorney (POA)

The Internal Revenue Code (IRC) Section 6103 permits taxpayers to appoint individuals as their representatives to perform certain functions concerning tax matters. These representatives may also be granted the power to receive and inspect copies of all notices and other correspondence between the taxpayer and the IRS. The appointment documents used are called Power of Attorney, Form 2848, or Tax Information Authorization, Form 8821.

Form 2848, Power of Attorney, may be used by a taxpayer who wishes to appoint an individual to represent that taxpayer before the IRS. Form 8821, Tax Information Authorization (TIA), allows taxpayers to authorize the disclosure of confidential information to any individual, corporation, firm, organization or partnership.

POAs are only processed at IRS Centers. The following special post office box will expedite Power of Attorney requests:

Philadelphia IRS Center
DP 6816
Philadelphia, PA 19255

The Philadelphia IRS Center has a fax system to receive Power of Attorney requests, which automatically records the receipt of the form. Taxpayer representatives may use telephone number **(215) 516-5994** for faxing.

The IRS is permitted to receive written or verbal information concerning taxpayers from third parties without Power of Attorney, Form 2848, or Tax Information Authorization, Form 8821.

However, the IRS can disclose information to third parties only if authorized Form 2848 or Form 8821 was previously submitted.

Purpose

Powers of Attorney allow practitioners access to specific tax returns and client account information. Tax returns are confidential and may be provided to third parties only in accordance with regulations based on Public Law 94-455 which became effective January 1, 1977. The Privacy Act requires all persons, private and government, to keep tax returns and return information confidential. Congress considers the privacy of tax information so important that violators may be charged with a felony. The maximum penalty is a $5,000 fine and/or five years in prison.

Additional Information

A Philadelphia IRS Center publication entitled "What You Need To Know About...IRS Power of Attorney" is available upon request. You may order the 11-page brochure by contacting the Communications Office **(215) 516-2482** or write to:

Philadelphia IRS Center
P.O. Box 245, DP 1420
Bensalem, PA 19020

For further information on Power of Attorney, Form 2848, and Tax Information Authorization, Form 8821, please refer to IRS Publication 947, Practice Before the IRS and Power of Attorney.

SECTION 8:

HELPING

US

HELP

YOU

HELPING US HELP YOU

Taxpayers and tax practitioners can assist the IRS in the timely and correct processing of tax returns, payments, and correspondence by following a few simple procedures and through careful checking of submitted items to ensure that all required entries and information, including the appropriate forms, schedules, and attachments, are enclosed.

The following reminders and tips take just a moment, but can save many hours spent by both IRS and the taxpayer in tracking down information and correcting unintentional or overlooked items.

- The Service added a new line last year to the U.S. Individual Income Tax Return, Forms 1040 and 1040A, found at the bottom of the form right next to the signature and date line. The line is for the taxpayer's daytime telephone number (with area code) and will prove extremely helpful when a taxpayer has sent us an incomplete or unsigned form. A phone call to the taxpayer will get an awaited refund off weeks faster than having to correspond with the taxpayer for the same item. We encourage all taxpayers to provide their phone numbers to speed up processing of their returns and refunds.

- Last year, the IRS removed the primary Social Security Number from the pre-printed label for disclosure reasons. Therefore, it is essential that taxpayers <u>write</u> <u>in</u> their correct Social Security Number, and that of their spouses if filing jointly, in addition to affixing the label on their return. Failure to do this can result in processing delays. Despite the IRS' best educational efforts, the myth persists that these labels "flag" a return for audit. In actuality, the information on the pre-printed labels saves time and money by decreasing the number of keystrokes for data transcribers inputting name and address entity information. The result is decreased transcription errors and speedier transcription, which means quicker processing. When necessary, the pre-printed label can be updated by simply crossing out the incorrect information and legibly printing in the new information.

- Please use the proper IRS pre-printed envelope (the one enclosed with the tax package, form or notice) when sending information to the IRS. Both the bar-coding and the other pre-printed markings on the envelope assist the Postal Service and the IRS in ensuring that your submission is promptly delivered to the correct area. When taxpayers mix up the IRS reply envelopes, or send in a form or payment using the nearest IRS envelope at hand, the result is a delay in processing, as misdirected mail must be analyzed and re-routed before reaching the proper destination.

- Checking the completeness and the proper order of tax forms and schedules will help expedite processing and reduce taxpayer contact and correspondence. Taxpayers should refer to the "Attachment Sequence Number" in the upper right hand corner of many tax forms and schedules. This sequence number, which differs from that of the actual form number, will indicate the proper placement of that form or schedule within the completed tax form submission.

The correct order of placement is as follows:

- Form 1040 (pages 1 and 2)
- Form 2210 (if applicable)
- Forms and Schedules (in the Attachment Sequence Number order)
- Copy of approved extension (if applicable)
- Forms and Schedules with Attachment Sequence Numbers (in actual form and schedule number order)
- Separate statements

Reminder: Forms W-2 and remittances should always be attached to the front page of the completed tax form.

- Clearly identifying each tax payment and remittance can help eliminate a major cause for taxpayer contact and correspondence, as well as reduce the number of unidentified remittances. Separate remittances should be submitted for each tax form or document to ensure proper crediting of a taxpayer's account. Single payments for multiple forms can cause processing delays and payment posting problems. When tax payments are made without an accompanying tax form or document, taxpayers should notate essential information, including Social Security or Taxpayer Identification Number, type of payment and tax period to which the payment is to be applied right on the check. This will aid in the proper crediting of the taxpayer's account.

- Ensure that the correct Social Security Number matches the first name line on all tax forms; when filing jointly, taxpayers should check that the spousal Social Security Number matches the name listed on the second name line. When sending tax payments, correspondence or any documentation to IRS, please refer to the primary Social Security Number as listed on the tax returns. This is especially important when a spouse sends in a tax payment on a check that has his/her name--referring to the primary SSN on the check will aid in the proper posting of the payment.

- Also, check and ensure that Taxpayer Identification Numbers (TINs) have been entered for all dependents listed, both on the tax return and on Schedule EIC when claiming the earned income tax credit. All dependents born before December 1999 **MUST** have a TIN listed when they are claimed. For more information, contact the local Social Security Administration (SSA) Office.

- A quick, final proofreading of tax forms, payments, and correspondence can help catch and eliminate many of the minor, but important omissions--missing signatures, missing SSNs, missed entries, entry transpositions, missing schedules or attachments--that nonetheless cause major headaches for both the IRS and the taxpayer and which delay processing.

Taxpayer/Tax Preparer Errors

The Philadelphia IRS Center provides statistics on all documents processed through the Computer Assisted Pipeline Review (CAPR). The following information was taken from returns processed during the first seven months of the 1999 filing season.

The Error Analysis Report for the Philadelphia IRS Center reveals the following percentages of taxpayer/tax preparer error rates for individual tax returns:

- 8.4% of Form 1040 returns (over 535,000 returns out of 6.4 million filed)
- 14.3% of Form 1040A returns (over 69,000 returns out of 1.6 million filed)
- 13.1% of Form 1040EZ returns (over 419,000 returns out of 1.1 million filed)

Following are the most common errors by type of Forms 1040, 1040A, and 1040EZ. Under each form heading, there is a description of each error and the impact on taxpayers, as well as on IRS Center processing.

Child Tax Credit

Child Tax Credit errors account for 13.8% of all errors on Form 1040 returns (over 74,000 returns); for Form 1040A returns, the rate was equal to 7.2% (over 16,000 returns).

This error was caused by the taxpayer/tax preparer not indicating the dependents qualifying for the Child Tax Credit by checking the boxes in the Exemption area of the return.

Earned Income Tax Credit

Earned Income Tax Credit errors account for 4.5% of all errors on Form 1040 returns (more than 24,000); for Form 1040A returns, the rate was equal to 12.9% (more than 30,000 returns). For Form 1040EZ returns, the rate was equal to 7.6% (over 5,300 returns).

The most common errors on the EITC schedule were math errors, or incorrect entries. Many errors were due to the incorrect amount of earned income tax credit being entered on the tax return. This error will be corrected by the IRS. The taxpayer will receive a notice, and there will be a one or two-day delay in processing the return.

Amount of Refund/Balance Due

Amount of refund/balance due line errors made by taxpayers/tax preparers account for 4.9% of all errors on Form 1040 returns, which equates to more than 26,000 returns. For Form 1040A returns, the rate was over 7.8% which equates to over 18,000 returns. For Form 1040EZ returns, the rate was 14.7% which equates to over 10,000 returns.

This error was most likely due to incorrectly subtracting the total tax from the total payments that include income tax withheld, estimated tax payments, and earned income tax credit. Also, many refund/balance due errors were due to taxpayers/tax preparers not entering the required amount on the refund/balance due line.
Since the Internal Revenue Service has to compute this, a refund delay could result.
The amount of refund/balance due errors will be corrected by the IRS. The taxpayer will

receive a notice, and there will be a one or two day delay in processing the return. Taxpayers/tax preparers are urged to carefully check their math and enter the correct amount on the “amount of refund/balance due” lines.

Exemptions Disallowed

Taxpayer/tax preparer failure to provide a Social Security Number for a dependent resulted in a 2.2% error rate (over 12,000 returns) for Form 1040. For Form 1040A, the rate was 2.6% (over 6,000 returns).

Social Security Numbers provided did not match records provided by the Social Security Administration and resulted in a 10.9% error rate (over 58,000 returns) for Form 1040. For Form 1040A, the error rate was 6.0% (over 10,000 returns).

Amount of Tax

Of all the taxpayer/tax preparer errors on Form 1040 returns, 2.7% (over 14,000 returns) were related to the incorrect tax amount entered on the return. For Form 1040A returns, the error rate was 12.0% (over 8,000 returns).

This error was caused by the taxpayer/tax preparer when the tax amount entered on the return was not the correct amount from the tax table. This error will be corrected by the IRS. The taxpayer will receive a notice, and there will be a one or two-day delay in processing the return.

Entity Business Accounts

The complete name that was submitted by the taxpayer when the Employer Identification Number (EIN) was assigned should be shown on all federal tax returns, payments, and related correspondence. If any variation in the name or EIN is used, it may cause a delay in processing incorrect information of the taxpayer’s account or cause the taxpayer to be assigned more than one EIN.

SECTION 9:

TAXPAYER

PROTECTION

REVENUE PROTECTION STRATEGY

During 1999, validation of Social Security Numbers (SSNs) and other Tax Identification Numbers (TINs) became a very noticeable portion of our prevention efforts. The IRS is expanding the validation of SSNs and TINs on all forms and schedules requiring identification numbers.

The IRS can identify dependent SSNs claimed on more than one return and improper claiming of dependency exemptions and/or Earned Income Tax Credit (EITC). Taxpayers with incomplete returns, invalid, or duplicate SSNs, can expect their refunds to be delayed and/or disallowed.

The Earned Income Tax Credit Recertification process will be the most visible enhancement in 2000. This new process is designed to prevent taxpayers from receiving EITC if they did not, or could not, provide proof that they met all eligibility requirements.

A notice will be issued to inform taxpayers of recertification requirements. Before receiving EITC, taxpayers must provide additional information on Form 8862, Information to Claim Earned Income Tax Credit After Disallowance. The entire refund, or in some cases, only the EITC portion of the refund, is held until the recertification form is reviewed. This process provides an opportunity for taxpayers to furnish the necessary information or documents to prove EITC eligibility.

For detailed information on the specific tests and eligibility criteria, refer to instructions included in the 1040, 1040A, or 1040EZ tax package, Publication 17, Your Federal Income Tax, or Publication 596, Earned Income Credit.

STATUTE OF LIMITATIONS

The Internal Revenue Code states that the IRS will assess tax, refund credit, and collect taxes within a specific time limit. This limit is known as the statute of limitations. When it expires for a tax return, the IRS can no longer assess additional tax for the period of that return, nor can it allow a claim for refund by the taxpayer. The determination of statute expiration varies:

- The **Assessment Statute Expiration Date** (ASED) is three years from the due date, or three years from the received date of the original tax return, whichever is later.

  Exception: The ASED for Forms 941, 943, and 945 is three years from April 15 of the year following the tax quarter or tax year. If a return is filed after April 15 of the succeeding year, then the ASED is three years from the received date of the return. An ASED cannot be established until a return has been filed.

- The **Refund Statute Expiration Date** (RSED) is within three years from the date the original return was filed, or two years from the date the tax was paid, whichever is later.

  Exception: An original delinquent return with prepaid credits (i.e., withholding) is considered a timely claim if received (IRS Received Date) within three years from the due date of the return, including any approved extensions of time for filing to receive a credit or refund of prepaid credit. If no return was filed and a payment was made, a claim is allowable if filed within two years from the date of payment.

- The **Collection Statute Expiration Date** (CSED) is ten years from the date of the assessment of tax. An amendment to extend collection proceedings from six years to ten years was signed into law on November 5, 1998. Any collection expiration date that was due to expire before November 5, 1990 was under the six-year rule, whereas any account still open for collection in November 1990 was extended to ten years. If no return for a tax period is filed, the CSED cannot be computed and will not expire.

DISCLOSURE PROGRAM

The Disclosure Office is responsible for establishing and administering the disclosure program in the IRS Center.

The purpose of the program is:

- To protect the confidentiality of returns and return information
- To safeguard the taxpayer's right to privacy
- To administer the disclosure provisions of the Internal Revenue Code, Freedom of Information Act, and Privacy Act

The Disclosure Officer is responsible for developing local procedures to ensure compliance. Ensuring a high level of disclosure awareness throughout the IRS Center is a significant program responsibility.

Freedom of Information, Privacy Act, and testimony issues (subpoena, court order, etc.) are processed in the Disclosure Office.

Reasonable Cause

If you are asking for relief from paying penalties, you must follow specific guidelines.

Internal Revenue Code Section 6651 authorizes the abatement of penalties for failure to file tax returns and for failure to pay tax if the failure is due to reasonable cause, and not willful neglect.

Individuals requesting reasonable cause consideration for a penalty may be requested to submit a written supporting statement signed by either the taxpayer or a representative having

Power of Attorney. It should be filed with the District Director or the Director of the IRS Center where the return is required to be filed. The declaration must be made under penalties of perjury and must fully explain the facts related to the reasonable cause.

Forgiveness of penalties is decided on a case-by-case basis. Generally, if the taxpayer exercised ordinary business care and prudence and was, nevertheless, unable to file the return on time, the delay is considered due to reasonable cause. Also, a failure to pay may be due to reasonable cause if the taxpayer exercised ordinary business care and prudence, yet could not pay the tax liability.

If the IRS determines that failure to pay or failure to file was due to reasonable cause and not willful neglect, the penalty will not be assessed. The taxpayer would still be responsible, however, for the tax owed plus interest due.

TAXPAYER BILL OF RIGHTS

The second Taxpayer Bill of Rights (TBOR2) was signed into law on July 30, 1996, amplifying and extending certain provisions and protections contained within the original Taxpayer Bill of Rights in 1988. The 1998 Act clarifies and expands several taxpayer rights.

Following are some key taxpayer protection provisions of the 1998 Act:

- Taxpayers and third parties can recover civil damages from the government for certain negligent acts committed by IRS officers and employees
- Restriction on the use of financial status or economic reality examinations
- Certain publications are required to be rewritten to clarify taxpayer rights
- In non-criminal tax proceedings, a taxpayer is afforded the same confidentiality with respect to tax advice given by any federally authorized tax practitioner as the taxpayer would have if the advising individual were an attorney
- Taxpayer notification regarding issuance of a summons by the IRS seeking information from others has been expanded
- Prohibitions from third party contact without prior taxpayer notice have been enacted
- More definitive notices to taxpayers regarding contact names and telephone numbers
- Strengthening of IRS telephone helpline operations to address the diverse needs of taxpayers
- Collection actions require supervisory approval prior to issuing a notice of lien or levy
- Listing of local IRS office locations and telephone numbers in local telephone directories
- Provisions broadened regarding use of early appeals

- Explanation of IRS examination and collection process included with first notice of deficiency sent to taxpayer

- Provide taxpayers with installment agreements that are in effect an annual statement allowing them to clearly track outstanding liabilities (effective no later than July 1, 2000)

- Joint and several liability relief (Innocent Spouse) requirements are made less stringent.

- Equalization of interest rates for underpayments and overpayments

- Shifting the burden of proof in a court proceeding regarding a factual issue from the taxpayer to the IRS under certain conditions

- Computation of interest and penalties disclosed to taxpayers

Department of the Treasury
Internal Revenue Service

www.irs.gov

Publication 1966 (Rev. 01-2000)
Catalog Number 23138V