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# Recommendations for improvement in communications with the internal revenues service

American Institute of Certified Public Accountants. Tax Administration Subcommittee

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TAX ADMINISTRATION SUBCOMMITTEE  
OF THE  
AICPA TAX DIVISION

Recommendations For Improvement  
In Communications With The  
Internal Revenue Service

Submitted to the  
Internal Revenue Service

April 4, 1986

Tax Administration Subcommittee  
Of The  
AICPA Tax Division

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GENERAL COMMENTS

The Tax Administration Subcommittee of the AICPA Tax Division has been working closely with representatives of the Internal Revenue Service in an effort to develop technical and policy recommendations for the improvement of the Federal tax process on procedural and general administrative matters. In the development of these recommendations, the subcommittee takes into account the interests of taxpayers, the Federal Government as well as tax practitioners. It is from this important standpoint of balancing the rights and equity afforded to taxpayers with the IRS' responsibility to promptly, efficiently and effectively collect the taxes owed to the Government that the subcommittee bases its efforts.

In response to last year's publicity describing communication problems with the IRS, the subcommittee formed a special working group in order to intensify its efforts in this area. As part of its efforts, the working group analyzed the large response the subcommittee received from an article appearing in the AICPA publication, The CPA Letter, which asked for input on IRS communication problems in an attempt to

isolate major problem areas that ultimately lead to a breakdown in the communication process. The working group found that a tremendous majority of the problems described by the practitioners had their genesis in the depository system; usually a payroll deposit. Because of the concentration of problems in this area, a number of the specific recommendations have been directed at mitigating those complaints.

The Tax Division is aware of the IRS efforts to cure the problems, most notably, the Taxpayer Correspondence Study. The objective of that study was "to recommend corrective actions to improve timeliness and responsiveness to taxpayer correspondence." The recommendations are excellent and we wholeheartedly endorse their implementation.

The Tax Division is also aware of the limitations placed on the IRS by the severe budget deficit facing our country. Reduced budget appropriations obviously affect the allocation of resources to various functional areas and hinder IRS efforts to cure problems.

The Tax Administration Subcommittee will continue its efforts in trying to improve the tremendously important area of communications with the IRS. To that end, it will also continue to involve practitioners through future requests for input as it monitors its efforts.

## SPECIFIC RECOMMENDATIONS

### 1. IRS Budget

The AICPA has long been concerned that insufficient IRS budget allocations would weaken the Service and erode public confidence which is essential to our self-assessment system of taxation.

The AICPA Tax Division, jointly with the ABA Tax Section, has endorsed the concept of a project for the development of an authoritative, independent study to test the relationship between IRS budget expenditures and additional revenues. Specifically, does a revenue multiplier exist and, if so, what is the appropriate quantification? Ultimately, are IRS budget reductions effective as part of a program to reduce the Federal budget deficit or are IRS budget cuts more than offset by foregone revenue?

### 2. Taxpayer Correspondence Study

The 45 recommendations made in this IRS study should be fully implemented at the district level before June 30, 1986. The Tax Administration Subcommittee will continue to monitor the implementation plan and recommends that the National office of the IRS develop an internal system to oversee the district adoption of the recommendations.

### 3. Quality Control

One common theme in many of the problems is the need to refine the human element in the IRS correspondence process or quality

control. The IRS should consider the importance of emphasizing quality rather than quantity in the communications process.

For example, the internal system of reviewing and intercepting notices issued by the service centers should be expanded to reduce the number of erroneously issued notices. The National office should monitor and encourage this process.

4. Notice "History"

All IRS notices should contain a "history" of previous correspondence concerning the same issue. For example, subsequent notices would contain an explanation of the issue and additional computations of interest and penalty due with each prior notice.

5. Positive Response to Settled Issue

When the IRS receives a response to its inquiry and has sufficient information to settle the issue, the taxpayer should receive an explanation of the settlement. For example, a taxpayer has received a notice assessing the underpayment of estimated tax penalty. The taxpayer responds that he filled out Form 2210 meeting "exception 1" (prior year tax) and attached it to the original return. A copy of the form is sent to the IRS with a request for abatement. The IRS accepts the explanation, abates the penalty, but does not inform the taxpayer. The taxpayer should be informed that the penalty is being abated.

6. Refund Explanation

The amount of a refund received by a taxpayer should be fully explained as follows:

- o description and calculation of overpaid tax
- o calculation of interest
- o description of and calculation of any offsets

7. "One Way" IRS Telephone Contacts

The disclosure rules under section 6103 state generally that no officer or employee of the U.S. or other person "...shall disclose any return or return information...." This section does not prohibit an employee of the IRS from listening to a practitioner on the phone, but only from imparting information in return. For example, a practitioner's client gives him an IRS notice stating that Form 2210 was not filed but should have been. Under present law the practitioner should be able to call the IRS and advise them to check the return again because the form was, in fact, filed. Present IRS policy is unclear. We recommend that this policy be clarified, through the issuance of a revenue procedure, to allow "one way" telephone contacts until such time as section 6103(c) is amended (see 8 below).

8. Amending the Disclosure Rules

Code section 6103(c) should be amended to allow the IRS to communicate with the taxpayers' designee concerning a notice without first having to secure a power of attorney. The communication

could take place only if the designee was aware of a verifiable document locator number or a different "disclosure number" assigned to the notice. Disclosure would be limited to resolution of the issue contained in the notice. A copy of all subsequent correspondence would be sent to the designee.

9. Correspondence Acknowledgment

The IRS has been sending out a card acknowledging the receipt of correspondence. The card says "We have received your correspondence of, January 1, 1985..." The problem for practitioners is that the card does not refer to the taxpayer. The practitioner may have written five or ten letters to the IRS on January 1, 1985 and does not know which one was received.

The IRS should use a sealed envelope as an acknowledgment which, under the disclosure laws, could contain the necessary taxpayer data to identify the correspondence.

10. Simplify Payroll Deposit Rules

Presently, employers must be aware of four different rules when depositing withheld income and social security taxes. In addition, Rule 4 contains eight monthly deposit periods. These rules explain various thresholds at which time a deposit must be made.

The regulations under Code section 6302 should be amended to provide a more simplified approach for depositing withheld income and social security taxes as follows:



The deposit of withheld income and social security taxes would be made once every payroll period (whether weekly, bi-weekly, monthly, etc.) Such deposit would be due on the first business day following distribution of the payroll to employees. An envelope postmarked as of the first business day following distribution would be considered timely. Those payrolls paid more frequently than once a week would be subject to a weekly deposit with the employer electing the day.

This system would eliminate the various deposit requirements employers face when they surpass the different thresholds of aggregate amounts of undeposited taxes due. It is felt that a simplification in this area would reduce employer error and resultant IRS contacts.

#### 11. Teller Education

The Tax Division would be willing to coordinate a bank teller education process with the IRS. This could be similar to the IRS mailing that went to employers in May, 1985 (Exhibit A). This notice could be mailed to all authorized Federal depositories with instructions to hand it out to all bank tellers. Tellers might then be able to recognize incorrectly prepared coupons while the employer is still on the premises and have the employer correct it.

12. Automatic Form 8109 Deficiency Notice

Presently, when the IRS receives Form 8109 (Federal Tax Deposit Coupon) with either "type of tax" or "tax period" not indicated, the service does the following:

- o when "type of tax" is not indicated, the payment is credited to 941.
- o when "tax period" is not indicated, it is credited to the period in which the deposit is received.

This should continue. In addition, the IRS should send a notice to the taxpayer explaining that there was a deficiency in the filling-out of the form, what assumptions were made by the IRS and that the taxpayer should contact the IRS if the assumptions were not correct.

13. Notification of Intention to Offset

The IRS often utilizes the procedure of transferring the overpayment of one type of tax to offset an underpayment in another area. The situation becomes complicated when the taxpayer intends to use the overpayment to reduce a subsequent liability but does not know about the offset, i.e., the taxpayer's overpayment of 1st quarter payroll taxes is applied to the 2nd quarter, but the IRS used the overpayment to offset a corporate income tax deficiency. This use of offsets in business accounts was suspended by the IRS for the 4th quarter of 1985 on a test basis. If the suspension is lifted and/or not extended to individual accounts, the IRS should notify the taxpayer of its intent to offset an overpayment

against a prior deficiency before proceeding and allow time for response. This is necessary not only because it will mitigate future problems but because, often times, the taxpayer is unaware of the deficiency.

14. Eliminate 990-C and 990-T From Form 8109

Taxes payable with regard to Forms 990-C and 990-T should be removed from the depository requirements and be paid directly to the IRS with the filing of the form or an extension (these taxes are not subject to estimated payments). This would reduce the number of choices of "type of tax" on the depository coupon by 20% and thus reduce the number of potential problems.

15. PRO Continuity

In the past, the highly regarded Problem Resolution Program (PRP) has helped to improve taxpayer and practitioner perceptions of the IRS image. Recent computer/processing problems, however, have overburdened PRP. Case workers are sometimes assigned to the program on a rotating basis to help alleviate the burden. This often leads to a rotation in the middle of a case with the new case worker having to start at the beginning. The IRS should extend the tour of duty to a minimum of one year to encourage continuity and to develop an expertise with the process.

In addition, the following should be accomplished to mitigate rotation problems:

- o Form 5543, Problem Resolution Record, should be prepared in such detail that the new case worker can easily understand the issues and continue processing the case without unnecessary taxpayer contact.
- o Strict case control should be maintained in accordance with sections 630 and 730 of the Internal Revenue Manual.

16. Requests for Form 872

Form 872, Consent Fixing Period of Limitation Upon Assessment of Income Tax, is being sent to taxpayers for signature in situations where no prior notification of intent to audit has been made. A full explanation for requesting a consent should be made at all times.

17. Date Stamping

Many practitioners bring extension requests and other tax documents into district offices to be date stamped as evidence of timely filing. Districts (i.e., Newark) are reversing their general policies and not allowing date stamping. A universal policy allowing date stamping should be implemented. Also, the issuance of a revenue procedure would clarify this situation.

18. Installment Payment of Fiduciary Income Tax

When paying the balance of tax due on Form 1041, U.S. Fiduciary Income Tax Return, the instructions state "the tax of an estate may be paid in full when the return is filed or the fiduciary may elect installment payments by paying the tax in four equal installments by the 15th day of the 4th, 7th, 10th and 13th months following the end of the tax year." Fiduciaries making this election often receive a notice requesting that the balance of tax be paid along with penalties and interest. The processing of these returns should be altered to allow the election without generating a notice.

19. Publicity

The IRS should publicize its efforts to correct the problems i.e., the Taxpayer Correspondence Study. The AICPA will publish articles for the IRS on this subject in the Journal of Accountancy, The Tax Adviser, the Tax Division Newsletter, or other appropriate publications. The Tax Division staff will assist the IRS in coordinating the submission of these articles.

