Electronic Tax Administration Advisory Committee

ANNUAL REPORT

TO CONGRESS

June | 2013

Publication 3415 (Rev 6-2013)
Catalog Number 28110R

Electronic Tax Administration Advisory Committee

Committee Members

Shaun Barry

Timothy (Tim) Blevins

Sean J. Brennan

Alice Burnett, Chairperson

Mark Castro

Cyrus Daftary, Vice Chairman

Ned Drinker

Steve Lewis

Yasmine (Mimi) Nolan

Douglas Simon

David Sullivan

Timur Taluy

Terrance M. (TJ) Turner Jr.

Blair Whitworth

Harris W. Widmer

PREFACE

The Electronic Tax Administration Advisory Committee (ETAAC) was formed and authorized under the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). ETAAC's primary charter is to provide input to the Internal Revenue Service (IRS) on the development and implementation of the IRS strategic plan for electronic tax administration. Accordingly, ETAAC's responsibilities involve researching, analyzing, and making recommendations on a wide range of electronic tax administration issues.

Pursuant to RRA 98, ETAAC reports annually to Congress concerning:

- Progress of the IRS in reaching its goal to receive electronically 80% of tax and information returns;
- Status of IRS strategic plan for electronic tax administration;
- Legislative changes assisting the IRS to meet the 80% goal; and
- Effects on small businesses and the self-employed of electronically filing tax and information returns.

IRS ensures ETAAC membership reflects broad experience and stakeholder perspectives, including representation from state departments of revenue, large tax preparation companies, solo tax practitioners, software companies, and business filers from both the non-profit and for-profit sectors. ETAAC member biographies are in Appendix A.

In conducting its assessments and formulating its recommendations, ETAAC relies on a variety of information sources. Most importantly, ETAAC participated in numerous discussions with IRS representatives. ETAAC also reviewed several reports, including those from the IRS Oversight Board (Oversight Board), the National Taxpayer Advocate, the Government Accountability Office (GAO), and the Treasury Inspector General for Tax Administration (TIGTA). The Committee is most grateful for their observations. Finally, on occasion, ETAAC sought background insights from both industry and state departments of revenue. Notwithstanding the foregoing, the recommendations and opinions expressed in this report are solely those of ETAAC.

The Oversight Board, also established pursuant to RRA 98, has among its duties the delivery of an annual report to the Director of Electronic Tax Administration (or other IRS delegate) and a similar Congressional reporting responsibility with respect to advancing electronic tax administration. Over the past years, the Oversight Board and ETAAC have concurred in many opinions and recommendations on the IRS' progress in the areas of electronic filing and electronic tax administration. Both the Oversight Board and ETAAC look forward to continuing to do so in the face of industry-wide changes and expectations from the tax paying community served.

Finally, ETAAC recognizes the employees and leadership of the IRS for their continued efforts to administer an increasingly complex tax system, meet taxpayer service expectations, and successfully process billions of transactions and hundreds of millions of tax returns. The United States tax system could not operate without their dedication, commitment, and talent. IRS employees and managers made themselves available during the filing season and on many other occasions to brief ETAAC on a variety of issues and initiatives, answered questions, and provided requested information despite their demanding schedules. ETAAC appreciates their dedication, openness, and candor. Without the continuing and full support of IRS, ETAAC could not perform the job the IRS has assigned to this Committee.

Public comments on this report may be sent to etaac@irs.gov.

This page intentionally left blank.

TABLE OF CONTENTS

Tables

EXECUTIVE SUMMARY

ETAAC's key observations and recommendations for 2013 are included below along with a brief recap of last year's progress and recommendations. The remainder of this Report is organized into sections covering ETAAC's analysis, assessment, and proposed outcomes.

1. IRS is within 7% of Reaching the Milestone of Success in Filing Season 2013 Related to the 80% E-File Goal

The growth in electronic filing for the 2013-filing season continues to be attributed to the individual return types. Although the electronic filing of Corporate and Fiduciary returns increased 14% and 13% respectively over the 2012 projected electronic returns the increase has little effect on the overall goal.

2. IRS Continued Progress Toward ETAAC's 2012 Recommendation Areas

IRS made progress in key areas related to ETAAC's 2012 recommendations for transitioning all individual *e-file* return processing to the 1040 Modernized e-file (MeF) platform during the 2013 filing season and the completion of the Customer Account Data Engine (CADE2). Opportunities for progress remain in other important areas, including proactive fraud discovery and prevention, increasing taxpayer and tax preparer tools and resources, and leading enhanced industry collaboration and partnership.

3. The Future Environment Continues to Increase in Complexity and Challenge

With the extreme late legislation in late 2012/early 2013 and the sequester in 2013, IRS continues to face ever-increasing budget and environment challenges as it deals with increased tax complexity, expanded responsibilities, reduced budgets, and increased taxpayer expectations. IRS needs to continue implementing new and innovative business processes and collaborative engagements with industry and states. Increasing identity theft and fraudulent tax return submissions requires that the IRS more closely review return submissions, which necessitates the IRS find the balance between processing faster refunds with the need to protect taxpayers from fraudulent activity.

4. Recommendations in Five Key Areas

For 2013, ETAAC is making 17 recommendations to drive five key outcomes.

- ***Key Outcome 1:*** Publish and Implement technology and infrastructure standards and processes regarding security, privacy, and fraud prevention to safeguard taxpayer data and promote confidence in electronic tax administration**.**

- ***Key Outcome 2:*** Continue to focus on the growth, improvement, and consistency of the 80% electronic filing goal on major return types.

- ***Key Outcome 3***: Given appropriate consent from the taxpayer, increase taxpayer, tax return preparer, and third party access to information through real-time internet tools in order to mitigate fraud and to achieve more accurate and timely returns.

- ***Key Outcome 4:*** Leverage tax service delivery channels from the private sector through partnerships and collaboration with accounting firms and associations, tax software developers, and tax preparation companies to better understand stakeholder perception and needs for further adoption of and confidence in the use of electronic tax administration to simplify and improve compliance with tax laws and collection.

- ***Key Outcome 5***: Congress should provide IRS with adequate funding to ensure that there is sufficient staffing and for the additional system changes needed to complete the implementation (and make necessary improvements) to the Modernization Program which includes Modernized e-file (MeF) and the Customer Account Data Engine (CADE2).

PROGRESS TOWARD 80% E-FILE GOAL AND CONSIDERATIONS FOR THE FUTURE

One of ETAAC's primary responsibilities is to research, analyze, consider, and make recommendations on IRS' progress toward achieving its 80% e-file goal for major returns.[1] In 2013's filing season IRS made modest progress with a 3% increase in electronic filing of major returns. IRS can continue to make progress with continued focus and active engagement with industry. In keeping with historical analysis and reporting, ETAAC uses an electronic filing index (EFI) in this Report. The Index assesses the e-file rates of a defined set of major tax returns, including a methodology to project full year e-file rates, based on "season to date" information for the main driver of electronic filing rates – the individual tax return. Details about the Index and ETAAC's methodology are in Appendix B.

ANOTHER YEAR OF E-FILE GROWTH FOR IRS MAJOR RETURN TYPES

ETAAC estimates a 72.81% e-file rate for all major return types in 2013

Table 1: 2010 – 2013 Electronic Filing Index

Electronic Filing Rate	2010	2011	2012	2013 Projection
EFI	60.07%	68.08%	70.72%	72.81%

Source: June 2012 ETAAC Annual Report to Congress, IRS Publication 6186 (Rev. 10-2012) Table 2 and actual data through 4/26/13 with historical analysis of rate degradation. See Appendix B.

The index growth continues to bedriven by Individual return types. Although Corporations and Fiduciary return types saw a significant growth when compared to the prior year ETAAC projection, the impact on the EFI is minimal based on overall return volume.

Table 2: 2013 Projected Electronic Filing Index (EFI)

	2013 Projection		
Type of Return	Total	E-Filed	EFI
Individual (Forms 1040, 1040-A, and 1040-EZ)	147,598,300	121,497,065	82.32%
Employment (Forms 94x)	28,596,200	8,296,500	29.01%
Corporation Income Tax (1120,1120-A ,1120-S)	6,637,200	4,131,900	62.25%
Partnership (Forms 1065/1065-B)	3,704,300	2,172,200	58.64%
Fiduciary (Form 1041)	3,006,100	2,117,100	70.43%
Exempt Organizations(Forms 990, 990-EZ)	602,900	231,600	38.41%
Total	190,145,000	138,446,365	72.81%

Source: IRS Publication 6186 (Rev. 10-2012) Table 2. Calendar Year Projections of the Number of Returns to be Filed with IRS. See Appendix B.

1 In the 80% goal, IRS considers the major tax returns filed by individuals, businesses, and tax-exempt entities. IRS Strategic Plan 2009-2013, Pub. 3744 (4-2009) (IRS Strategic Plan). As used in ETAAC's report, "major types of tax returns" refers to the most significant of those returns as identified in 2012 ETAAC Report, Appendix B.

ETAAC 2012 Projection Results

In ETAAC's June 2012 Report, ETAAC projected the e-file rate for Individual returns (Forms 1040, 1040-A, and 1040-EZ) of 80.38% and projected an EFI for all major returns of 69.81%. The e-file rate for Individual returns for 2012 is 80.44% with an EFI of 70.72% for all major returns. The same projection methodology was used in this report and can be found in Appendix B.

Table 3: 2011 IRS Data vs. EFI Projection

	2012 IRS Data vs EFI Projection		
Type of Return	EFI	IRS Data	Variance
Individual (Forms 1040, 1040-A, and 1040-EZ)	80.38%	80.44%	0.06%
Employment (Forms 94x)	25.97%	27.72%	1.75%
All Major Returns	69.81%	70.72%	0.91%

Source: IRS Publication 6186 (Rev. 10-2012) Table 2 and June 2012 ETAAC Annual Report to Congress.

Information Return Reports

ETAAC notes the majority of information returns exceed the 80% threshold with an EFI of over 90%. These are not addressed in this report. Although the majority has reached the threshold, there are two information return types that still fall below that 80% threshold; Form 1099-MISC and Schedule K-1. As the EFIs for the major return types, which produce the Schedules K-1 increases, the EFI for the Schedules K-1 will naturally increase and reach the 80% threshold. However, the EFI Form 1099-MISC is still projected to be below the threshold at 63.5% for 2013 with 29.4 million Forms 1099-MISC filed on paper. ETAAC advises the IRS to consider a strategy to improve the EFI for Form 1099-MISC. See Recommendation 5.

Table 4: Information Returns to Note

	2013 Projection		
Type of Return	Total	Paper	EFI
Form 1099-MISC	80,698,000	29,432,000	63.53%
Schedule K-1s	34,078,000	8,969,000	73.68%
Total	114,776,000	38,401,000	66.54%

Source: IRS Publication 6961 (7-2012) Catalog Number 59088W Table 1. Comparison of Projections Made in 2011 vs. 2012 for Calendar Year 2013 (some data rounded).

Growth of Individual, Corporation and Fiduciary Returns E-File Drove the Overall E-File Growth Rate

IRS and industry drove a modest increase in the electronic filing for the majority of all major return types in filing season 2013. Corporation returns saw the largest increase of 14% and Fiduciary returns saw the next largest increase of 13% of electronically filed returns over last year as of the end of the primary filing season[2] as projected by ETAAC in the June 2012 Annual Report. However, since the overall volume of Corporations and Fiduciary returns are low in comparison to the Individual return types the impact of these increases are minimal to the

2 *"Primary filing season" refers to the filing period from January through mid-April.*

overall EFI rate. ETAAC anticipates the e-file growth for all major return categories to be modest in the future without additional resources being allocated to increasing of the EFI for Employment (94X) return types.

Table 5: Estimated and Projected Calendar-Year Electronic Filing Index

Type of Return	Total	E-Filed	EFI	Total	E-Filed	EFI	E-File Unit Growth	Increase in Rate
Individual (Forms 1040, 1040-A, and 1040-EZ)	145,823,300	117,296,800	80.4%	147,598,300	121,497,065	82%	4,200,265	2%
Employment (Forms 94x)	28,698,400	7,955,000	27.7%	28,596,200	8,296,500	29%	341,500	1%
Corporation Income Tax (1120,1120-A,1120-S)	6,518,000	3,627,600	55.7%	6,637,200	4,131,900	62%	504,300	7%
Partnership (Forms 1065/1065-B)	3,614,500	2,012,900	55.7%	3,704,300	2,172,200	59%	159,300	3%
Fiduciary (Form 1041)	3,030,100	2,054,000	67.8%	3,006,100	2,117,100	70%	63,100	3%
Exempt Organizations(Forms 990, 990-EZ)	590,300	208,900	35.4%	602,900	231,600	38%	22,700	3%
Total	188,274,600	133,155,200	1	190,145,000	138,446,365	73%	5,291,165	2%

Source: IRS Publication 6186 (Rev. 10-2012) Table 2. Calendar Year Projections of the Number of Returns to be Filed with IRS (some data rounded).

The year-over-year full-year comparisons in Table 5 provide a clear indication of IRS' e-file opportunities. Employment returns continue to be the biggest barrier to IRS' progress towards the 80% goal.

INCREASE THE EMPLOYMENT RETURN ELECTRONIC FILING RATE

ETAAC estimates an additional 13.6 million more returns must be e-filed if the IRS is to achieve its overall 80% goal. As the paper returns for individual return types continues to decline with approximately 26 million remaining in the Individual return category, it continues to create challenges for the IRS to achieve the 80% goal without engaging the other return families. The largest e-file gap remains in the employment return family, primarily Forms 940 and 941 (Forms 94x). These returns are projected to have a 2013 e-file rate of approximately 29% and have the largest volume gap to achieve the 80% goal for that form type – about 14.5 million returns. It is highly improbable the IRS can achieve an overall 80% EFI without increasing the e-file rates of the 94x series.

Table 6: E-File Gap

	2013 Projection			80% EFI Goal		
Type of Return	Total	E-filed	EFI	Total E-Files Required	Numeric Gap[1]	Percentage Gap[2]
Individual (Forms 1040, 1040-A, and 1040-EZ)	147,598,300	121,497,065	82%	118,078,640	(3,418,425)	0%
Employment (Forms 94x)	28,596,200	8,296,500	29%	22,876,960	14,580,460	51%
Corporation Income Tax, Total	6,637,200	4,131,900	62%	5,309,760	1,177,860	18%
Partnership (Forms 1065/1065-B)	3,704,300	2,172,200	59%	2,963,440	791,240	21%
Fiduciary (Form 1041)	3,006,100	2,117,100	70%	2,404,880	287,780	10%
Exempt Organizations(Forms 990, 990-EZ)	602,900	231,600	38%	482,320	250,720	42%
Total	**190,145,000**	**138,446,365**	**73%**	**152,116,000**	**13,669,635**	**7%**

Source: IRS Publication 6186 (Rev. 10-2012) Table 2. Calendar Year Projections of the Number of Returns to be Filed with IRS (some data rounded).
Table Notes: (1) Approximate number of additional e-filed returns required to achieve 80% goal for each of the major types of tax returns. Individual Forms manage an excess over the 80% goal reducing the gap for other categories. (2) Approximate percentage of additional e-filed returns required to achieve 80% goal for each of the major types of tax returns.

Both the Oversight Board and ETAAC have identified the need to investigate the root cause of low e-file rates for Forms 94x. In the June 2012 Annual report to Congress, ETAAC conducted its first initial in-depth review of employment returns and offered several observations and recommendations in this area. ETAAC recommends an incentive program to encourage an increase in e-file rates of the 94x series, see Recommendation 4.

Table 7: Other Electronic Interactions Cumulative Data

Type	Tax Year		Growth
	2012 (01/01 - 4/27)	2013 (01/01 - 4/26)	%
Visits to IRS.gov	245,261,101	305,536,143	24.50%
Visits to Where Is My Refund	53,112,008	103,477,821	94.83%
Refunds:	99,104,000	97,752,000	-1.36%
Direct Deposit	75,726,000	76,135,000	0.54%
Other (Paper check, etc.)	23,378,000	21,617,000	-7.53%

Source: http://www.irs.gov/uac/Newsroom/Filing-Season-Statistics-April-26,-2013

THE 80% E-FILE GOAL AND THE FUTURE

As previously noted in this section, the IRS has exceeded the 80% participation level for individual tax returns again for tax year 2012. However, the goal of 80% participation for all other major returns falls short of the desired threshold and is likely to continue. Clearly, increasing electronic interaction and compliance with the IRS is gaining acceptability, if not preference overall, based on the growth and success of other electronic interactions with the IRS. Examples such as IRS.gov uses, electronic refund participation, electronic filing of information returns, and the growth of tax based computer and smartphone applications, as well as other electronic interactions substantiate this. ETAAC recognizes under the current fiscal environment that the IRS cannot do much to expand the EFI for the non-individual returns. However the IRS may want to consider a strategy to improve the electronic filing associated with the Form 1099-MISC.

PROGRESS TOWARD 2012 RECOMMENDATIONS

IRS addressed several elements related to ETAAC's 2012 recommendations.

REINFORCE TAX INDUSTRY SOFTWARE TECHNOLOGY AND INFRASTRUCTURE STANDARDS FOR THE ELECTRONIC COMMUNITY

IRS should publish, promote, and educate on appropriate standards for the electronic tax community in the key area of security.

The IRS has drafted a Project Plan towards implementation of the ETAAC Privacy and Security recommendations. The IRS has also formed an industry partnership with the American Coalition for Taxpayer Rights (ACTR) for the purpose of addressing refund fraud and identity theft.

INCREASE IN ELECTRONIC FILING OF MAJOR RETURN TYPES

IRS should focus more attention on increasing the electronic filing of employment tax returns and, particularly, Forms 940 and 941.

Although the Committee was encouraged by the IRS commitment to create a service-wide team for improving the communications and outreach related to electronic filing of Forms 940 and 941, the sequester in 2013 has significantly decreased the IRS' ability to assign resources to address this segment of the taxpayer population. ETAAC urges the IRS to improve communications both internally and externally in order to increase participation in the electronic filing of these forms. Furthermore, ETAAC continues to recommend the IRS investigate cost effective ways to increase e-filing these simple forms.

TAXPAYER ACCESS TO THE SPECIFIC TAX INFORMATION ASSOCIATED WITH THEIR TAX ACCOUNT AT THE IRS AND OTHER COLLATERAL INFORMATION NECESSARY TO ELECTRONICALLY FILE TAX RETURNS

IRS should make taxpayer information available using internet-based tools taxpayers can use real-time on an all-day every-day basis.

IRS has initiated an enhanced *Where's My Refund* application and is discussing enabling a simplified messaging web tracker to enhance the customer experience. IRS.gov is the delivery channel for providing future services to taxpayers. The IRS continues to rethink how to build and provide services for taxpayers so that IRS can provide the American taxpayers with the access to services "anywhere, anytime, on any device". Simultaneously, IRS continues to exercise its duty and responsibility to protect against threats to their IT infrastructure.

LEVERAGE TAX SERVICE DELIVERY CHANNELS FROM THE PRIVATE SECTOR TO ENHANCE AND IMPROVE TAX SERVICE DELIVERY BY PARTNERING AND COLLABORATING

IRS is conducting a "proof of concept" on call-center management with several external partners and has established weekly meetings during filing season and monthly outside of filing season. IRS has also facilitated several sessions with the Council for Electronic Revenue Communication Advancement (CERCA) covering refund messaging, *Where's My Refund* changes, and MeF contingency planning.

Final Implementation of MeF and CADE2

Congress should fully fund MeF and IRS should complete MeF implementation as well as take prompt action to work with industry to reduce the volume of e-file rejects.

For filing season 2013, MeF was the only e-file platform and all Software Developers/Transmitters and States were required to use this platform. The full migration to MeF was a success and IRS is now able to retire the 1040 legacy system.

EMERGING ENVIRONMENT AND CHALLENGES

Since its inception in 1998, ETAAC has provided over 100 recommendations to IRS for improved electronic processing and taxpayer services. During the last decade and a half, IRS has fully or partially implemented over 50 of these recommendations. This adoption of the ETAAC recommendations can be seen as an acknowledgement of the contributions of the committee over the years. During the last five years, ETAAC has expanded recommendations to IRS and Congress to address the evolving landscape and challenges to continued improvements in the IRS electronic environment. In the 2010 report, ETAAC accurately predicted that IRS was approaching a strategic inflection point in performing its mission due to increased responsibilities, reduced budgets, and heightened taxpayer expectations. Those predictions have turned into factual challenges that have significantly impacted the IRS' ability to continue growth in electronic services and interactions with the taxpayer community.

In 2011, the IRS major re-organization resulted in the elimination of the Electronic Tax Administration (ETA) division. Although this re-organization indicated that the IRS had adopted electronic processing as a part of the day-to-day environment, it also presented new challenges in the continued focus on the overall benefits and challenges in electronic interaction with the taxpayer community. The taxpayer community has come to expect a centralized leadership governing electronic policies and procedures, and now must deal with individual initiatives across IRS divisions that may or may not be indicative of overall organizational policy. As one of the only IRS advisory committees that represent all elements of the taxpayer community, ETAAC's role in supporting IRS goals and delivering the concerns of the varied taxpayer community is more relative than in any other period since 1998.

The late legislation in December 2012/January 2013, along with the budget impacts of the sequester, provide a clear picture of the negative impact of these unplanned challenges. Delays in programming IRS systems, external software provider updates, and reduced IRS staffing caused an undue strain on taxpayers during the 2013 filing season. Particularly delays in some tax refunds were felt by many taxpayers that could least afford the wait. Although IRS was able to delay all furloughs until after the filing season, these required furloughs will potentially have impacts to the 2014 filing season.

As of the date of this report, the IRS has not published the strategic plan for 2014 -2018. This upcoming five year plan will most likely include goals related to managing fraud and the increased responsibilities related to compliance to the Affordable Care Act provisions. Without the benefit of the updated strategic plan, ETAAC continues to believe that increased responsibilities, lower budgets, and late legislation are relevant concerns and have the potential of decreased confidence in the taxpayer community of the overall tax system.

Late Breaking Tax Legislation

ETAAC encourages Congress to take into account the negative impact of passing legislation very late in the calendar year has on the entire tax system, especially on the taxpayers. An illustration of this impact occurred at the beginning of 2013. Because the legislation did not pass until January 3, the start of the filing season was delayed which has a negative economic impact on taxpayers who traditionally file early and on taxpayers who file certain forms because they could not file their returns until as late as the beginning of March. These delays cause hardship to all taxpayers.

The impact of the passage of late legislation has also now spread from mainly having a detrimental impact to the IRS processing systems, to also affecting when forms and instructions are made available to tax industry stakeholders, States, and taxpayers. When forms and instructions are not released until near the end of the calendar year it negatively impacts the tax system by increasing the potential for more returns to be rejected or have inaccurate calculations (especially at beginning of filing season) due to the decreased time to adequately test any changes required by late legislation both during IRS e-file testing and by software developers themselves.

ETAAC would like to reiterate late tax law changes are difficult to administer effectively and undermines the efficiency and effectiveness of those changes. It is a time consuming process for the IRS to update their systems, tax forms and instructions, and to test those changes. It is also true for the State agencies to do the same and for tax software developers to modify and test their tax software programs and to train and educate tax return preparers and taxpayers on the new provisions.

Growth and Proliferation of Tax Fraud

The federal government is facing a future of increasing abuse and misuse of the tax system through tax fraud, identify theft, and other uses of taxpayer information for illegal gains. In addition to scope and volume are increases in complexity and sophistication of schemes. This increasing fraud and system misuse serves to undermine not only confidence in the tax system but also can bolster relaxation on the issue – an "everybody is doing it" mindset. IRS is acutely aware of the issue and making great strides to develop fraud detection and prevention systems and build on the broad experience they have including working with portions of the tax industry on various detection and preventative measures.

The focus should remain on issue prevention and detection, but an increased emphasis should be placed on enforcement and accountability. With increased enforcement and punishment to both taxpayers and professional tax preparers where applicable, in conjunction with prevention and detection, the return on investment of misuse of the tax system will be less attractive.

Sequester, lack of timely budgets, and no updated strategic plan

As of the publication of the ETAAC 2013 recommendations, the IRS had not released a Strategic Plan for 2014 and beyond. In light of the challenges from the sequester and no 2013 approved budget, ETAAC believes it is imperative the IRS develop and follow a long term strategy that applies across all divisions of the agency. Without such a plan, IRS cannot ensure that technology, operational, and staffing approaches are consistent throughout the IRS. Without these guiding principles and goals, the direction of the various divisions may become divergent and cause confusion and limit current IRS initiatives.

ETAAC 2013 RECOMMENDATIONS

ETAAC believes the IRS is facing more emerging challenges than at any other time in history as it relates to successful administration of the tax laws of this country. To continue the great history of service and tax administration long established by the IRS, future considerations should include some or all of the following recommendations.

First, IRS must continue to define security standards and educate taxpayers on the standards to ensure taxpayers have confidence in the security, privacy, accuracy, and reliability of the tax system.

Second, even though the electronic filing participation rate for all major returns increased 2%, bringing the overall electronic filing to 72.8%, broader consideration for the remaining major return types in electronic filing must be maintained and grown in order to achieve true electronic filing success and the numerous compliance and economic benefits that will result.

Third, taxpayers have come to expect technology services, tools, and resources to be state of the art, current, convenient, reliable, and useful. As tax preparers continue to service the majority of taxpayer needs, state of the art tax administration tools and resources should be expanded and refined to quickly and efficiently serve those needs and can have an exponential multiplier effect for any advances in IRS provided tools and support.

Fourth, as the IRS will continue to be challenged to deliver more and superior service in a resource-constrained environment, IRS should look to the private sector for collaboration and delivery of select services and to provide for the needs and wants of the taxpaying community.

Finally, MeF and CADE2, among other IRS modernization, efforts should be evaluated and refined for lessons learned with the recent implementation and future efforts to maximize the use of these new and powerful systems.

ETAAC's 2013 recommendations align with and enable these key outcomes.

Key Outcome 1: Publish and Implement technology and infrastructure standards and processes regarding security, privacy, and fraud prevention to safeguard taxpayer data and promote confidence in electronic tax administration.

Recommendation 1: IRS should approve and publish an IRS Authorized e-file Provider Security Publication and include the Security Controls Implementation Plan and adopt a phased approach for plan implementation that promotes, educates, and guides appropriate and scalable Industry security and privacy standards for tax payer data inclusive of an Industry assessment template and an implementation timeline.

Recommendation 2: The IRS should utilize its practitioner communication channels, to advocate, promote, and disseminate privacy tools and concepts; and to advance the dialogue for improving privacy protection outcomes.

Recommendation 3: The IRS should move aggressively to adopt a modern approach to detecting fraudulent and non-compliant tax returns – one that complements electronic filing and timely issuance of refunds, yet performs thorough detection prior to completion of return processing.

Key Outcome 2: Continue the focus on the growth, improvement, and consistency of 80% electronic filing goal on the IRS major return types.

Recommendation 4: The IRS should provide a basis to encourage the electronic filing of the 94x series by expanding the definition of the first time abatement (FTA) to include the *Promotion of Electronic Filing*.

Recommendation 5: The IRS should work with withholding agents as well as service providers to remove barriers to facilitate electronic filing as the preferred filing method by implementing electronic filing of Form 1099-MISC via the IRS website or expanding awareness and access to free or cost-effective electronic filing solutions.

Recommendation 6: Phase II design of the IRS FATCA compliance Portal ("Portal") should allow for bulk upload of information required for FATCA compliance.

Key Outcome 3: To accurately prepare and file increasingly more complicated tax returns, taxpayers need expanded access to data. By providing taxpayers the ability to view their information, the IRS potentially can increase compliance and reduce fraud. Since the vast majority of taxpayers use a paid preparer or tax software, the IRS should enable access to both entities subsequent to consent by the taxpayer.

Recommendation 7: The IRS should offer taxpayers, and the taxpayer's designee, be it a return preparer or tax software, access to resources currently available internally within the systems of the Service. The IRS should make this information accessible using internet-based tools available in real-time subject to taxpayer consent.

Recommendation 8: Offer dynamic account access to the taxpayer's record of account to the taxpayer and to a return preparer or tax preparation software with the taxpayer's consent.

Recommendation 9: To mitigate the effects of tax refund fraud the IRS should enable a taxpayer to register and authenticate with the IRS and provide an email address, or other contact information, so the IRS can notify the taxpayer when a return is received using the taxpayer's social security number. Since fraud is usually not discovered until the taxpayers file their returns, which can be months later, the SSN alert could greatly accelerate the implementation of appropriate anti-fraudulent actions. In addition, it may lessen the burden of fraud and decrease the time it takes for fraud victims to receive their tax refunds.

Recommendation 10: The IRS should encourage those who issue Forms 1099 and W-2 to make those forms available over the internet for taxpayer retrieval.

Recommendation 11: The IRS should provide leadership and guidance to the Exchanges established by the Affordable Care Act (ACA) so there is a method for taxpayers to retrieve information required to file their tax returns over the internet from the website of the Exchange.

Key Outcome 4: Leverage tax service delivery channels from and with the private sector for outreach, issue resolution, and requirements gathering. This includes face-to-face interactions and virtual delivery to simplify compliance and ensure confidence in electronic tax administration activities.

Recommendation 12: Congress should provide funding for and IRS should continue current collaboration activities with the tax software preparation industry through ETAAC, direct provider contact, and trade organizations. This includes face-to-face meetings, attendance at industry conferences, regular communications, and specific project and issue resolution to advance electronic tax administration.

Recommendation 13: Broaden outreach activities by leveraging and expanding current partnerships with accounting professionals and other taxpayer groups through low cost and high return electronic delivery channels such as current electronic media and new virtual delivery methods, particularly for the ACA impact on tax administration and to communicate filing season status and future trends.

Recommendation 14: Stakeholder Liaison should remain an integral component for IRS advancement of electronic tax administration (ETA). ETA is advanced when Stakeholder Liaison can provide for the complex and divergent needs of its external constituencies through outreach programs delivered by a staff of field level liaisons providing direct personal interaction and utilizing a sophisticated and cost effective virtual forum.

Key Outcome 5: Congress should provide IRS with adequate funding to ensure that there is sufficient staffing and for the additional system changes needed to complete the implementation (and make necessary improvements) to the Modernization Program which includes Modernized e-file (MeF) and the Customer Account Data Engine (CADE2).

Recommendation 15: Continue to work towards the completion of MeF for all form types, which includes the 94X family, fiduciary (1041) returns and the remaining ancillary forms for the 1040 family.

Recommendation 16: IRS should continue to work towards completing the Customer Account Data Engine (CADE2) to ensure that the IRS has only one system that is processing individual returns.

Recommendation 17: Now that electronic filing is closing in on the 80% goal, the IRS should begin to find ways that the taxpayer can file returns electronically in all situations.

The remainder of this report provides ETAAC's summary and detailed recommendations and its supporting assessment.

KEY OUTCOME 1

Tax Software, Technology, and Infrastructure: Security, Privacy, and Reliability

Key Outcome 1: Publish and Implement technology and infrastructure standards and processes regarding security, privacy, and fraud prevention to safeguard taxpayer data and promote confidence in electronic tax administration.

Recommendation 1: IRS should approve and publish an IRS Authorized e-file Provider Security Publication and include the Security Controls Implementation Plan and adopt a phased approach for plan implementation that promotes, educates, and guides appropriate and scalable Industry security and privacy standards for tax payer data inclusive of an Industry assessment template and an implementation timeline.

Recommendation 2: The IRS should utilize its practitioner communication channels, to advocate, promote, and disseminate privacy tools and concepts; and to advance the dialogue for improving privacy protection outcomes.

Recommendation 3: The IRS should move aggressively to adopt a modern approach to detecting fraudulent and non-compliant tax returns; one complementing electronic filing and timely issuance of refunds, yet performing thorough detection prior to completion of return processing.

Detailed Recommendation

Implement previous recommendations regarding "digital infrastructure" including recommended security controls.

- The ETAAC 2011 Security Working Group[3] report identified specific controls the IRS should utilize with the Authorized e-file providers, the IRS should not only review the original set of identified controls for change in the control structure of the SP 800-53[4] but also insure the individual controls within each of the Dash-1 Control groups[5] are specific to this community as recommended by the ETAAC 2011 Security Subcommittee working group and are maintained and not expanded in the initial issuance of the requirements.

---

3 The full report and recommendations of the Security Working Group of the ETAAC Software Subcommittee are available in the GSA

FACA database for the ETAAC Public Meeting on June 15, 2011, and should be consulted. See http://www.facadatabase.gov/committeemenu.asp?CID=76687

4 NIST Special Publication 800-53 Revision 3 Recommended Security Controls for Federal Information Systems and Organizations

http://csrc.nist.gov/publications/nistpubs/800-53-Rev3/sp800-53-rev3-final_updated-errata_05-01-2010.pdf

5 NIST Special Publication 800-53 Revision 3 Recommended Security Controls for Federal Information Systems and Organizations

http://csrc.nist.gov/publications/nistpubs/800-53-Rev3/sp800-53-rev3-final_updated-errata_05-01-2010.pdf

As described in NIST SP 800-53 (Revision 3), as amended, the first security control in each family is also known as the "dash one" control (e.g., AC-1, CP-1, SI-1, etc.). It generates the requirement for policy and procedures that are needed for the effective implementation of the other security controls and control enhancements in the family.

The security requirements as articulated in the new IRS Publication for Authorized e-file Providers Security Controls should accommodate the concept of compensating controls[6]. Compensating controls are "the management, operational, and technical controls (i.e., safeguards or countermeasures) employed by an organization in lieu of the recommended controls in the low, moderate, or high security control baselines, that provide equivalent or comparable protection for an information system." See NIST IR 7298, Glossary of Key Information Security Terms.[7]

There are numerous security requirements in place today for the IRS Authorized e-File Providers including: [8]

- The Gramm-Leach-Bliley Financial Modernization Act of 1999
- FTC Standards for Safeguarding Customer Information Rule (16 CFR Part 314)
- Sarbanes-Oxley Act of 2002 (17 CFR Parts 232, 240 and 249
- FTC Privacy of Consumer Financial Information Rule (16 CFR Part 313)
- Title 26: Internal Revenue Code (IRC) § 301.7216.1
- Internal Revenue Procedure 2005-60
- Many state laws govern or relate to the privacy and security of financial data, which includes taxpayer data

Additionally, some members of the IRS Authorized e-file Provider community are already participating in compliance requirements from other programs like:

- Free File Alliance
- Payment Card Industry Standards (PCI)

The NIST 800-53 Security Controls[9] and the associated NIST 800-53 Security Assessment[10] against those control families can be used to articulate and access the IRS Authorized e-file Providers entire enterprise level security framework and measurement process.

---

6 Publication 4812 Contractor Security Controls "Handling and Protecting Information or Information systems"

http://www.irs.gov/pub/irs-pdf/p4812a.pdf

"Organizations subject to the security controls under the new IRS Publication for Authorized e-file Providers do not necessarily have to develop a plan specific to each family if and when those policies and procedures are already established in some existing formal or institutional document that the contractor can readily identify (to the satisfaction of IRS), and the plan contains policies and procedures that address the material elements or requirements for that particular dash one control and security control family. For example, if the PS-1–Personnel Security Policy and Procedures requirements for a formal documented personnel security policy (and procedures to implement those polices and associated personnel security controls) are already contained in the contractor's existing Human Resources policies, the contractor would not have to recreate this documentation so long as the IRS or a IRS approved third party security assessment provider determines (or is in a position to determine) these existing products or records fulfill the key, germane aspects and requirements for that particular dash one control, as specified in Publication 4812.

Only when the contractor does not have standing policies and procedures that adequately and fully address each respective security control family dash one requirement (or the existing policies and procedures are inadequate and need to be supplemented), does the contractor need to develop specific policies and procedures to address that particular control family.

Publication 4812 is a newly developed laypersons guide of security controls specific to IRS, based on controls establish in NIST SP 800-53 (Revision 3), as amended.

7 NIST IR 7298, Glossary of Key Information Security Terms

http://csrc.nist.gov/publications/nistir/ir7298-rev1/nistir-7298-revision1.pdf

8 IRS Publication 4557 Safeguarding Taxpayer Data http://www.irs.gov/pub/irs-pdf/p4557.pdf

9 NIST 800-53 Security Controls

Continued

Utilizing the concept of compensating controls for all security related requirements will reduce the number of different security control structures and assessment and reporting processes required for achieving enterprise security compliance for IRS Authorized e-file Providers.

The IRS should develop an IRS Publication similar to IRS Publication 4812[11] Contractor Security Controls that can be used for IRS Authorized e-file Providers: Transmitters, Software Developers, Intermediate Service Providers, and Online Providers to understand the exact N.I.S.T. 800-53 Security Controls and their associated assessment processes and standards. This new IRS Publication for Security Controls for Authorized e-file Providers should include a balanced assessment strategy, oversight of implementation and success rates, supported by an education process with phased and prioritized roll-out.

- While the IRS Publication 4812 is meant for Contractor Security Controls it can serve as the foundation for a new IRS Publication for Authorized e-file Provider Security Controls that establishes the new security controls and their associated assessment requirements. This format of this guide clearly lays out each "dash one" control for the specific community of practice (in the case a laypersons guide of security controls specific to the IRS Authorized e-file Providers)[12] and the associated controls within that control family.

  For the IRS Authorized e-file Providers ETAAC recommends the IRS should require periodic self and third party security assessments. The ETAAC Committee is recommending annual self-assessments, supplemented by independent third party assessments every three years, which is consistent with the frequency of IRS assessments of government agencies receiving federal tax information pursuant to the IRS Safeguards Program.[13]

  Third Party Security assessments every three years allow the Authorized IRS e-File Providers to synchronize their Security controls and controls assessment processes against the baseline controls and assessments. This allows the organization to use them as both an affirmation of its security posture and a learning experience to be matured through their corrective action plan based on findings.

  ETAAC recommends the IRS allow for the use of commercial third party experts for third party security assessments which is consistent with government practices (for example, IRS Office of Safeguards uses

---

NIST Special Publication 800-53 Revision 3 Recommended Security Controls for Federal Information Systems and Organizations

http://csrc.nist.gov/publications/nistpubs/800-53-Rev3/sp800-53-rev3-final_updated-errata_05-01-2010.pdf

10 NIST 800-53-A Security Assessment

Guide for Assessing the Security Revision 1Controls in Federal Information Systems and Organizations

http://csrc.nist.gov/publications/nistpubs/800-53A-rev1/sp800-53A-rev1-final.pdf

11 IRS Publication 4812 Contractor Security Controls Publication 4812 Contractor Security Controls "Handling and Protecting Information or Information systems" http://www.irs.gov/pub/irs-pdf/p4812a.pdf

12 IRS Publication 4812 Contractor Security Controls Publication 4812 Contractor Security Controls "Handling and Protecting Information or Information systems" http://www.irs.gov/pub/irs-pdf/p4812a.pdfIRS Publication 4812

13 The full report and recommendations of the Security Working Group of the ETAAC Software Subcommittee are available in the GSA FACA database for the ETAAC Public Meeting on June 15, 2011, and should be consulted. See http://www.facadatabase.gov/committeemenu.asp?CID=76687

commercial third party IT security experts to assist with its assessments), and recognizes the federal government's fiscal realities.[14]

ETAAC recommends there may be specific segments of the IRS Authorized e-file Providers such as the transmitter community the IRS may prefer to conduct the third party assessments through its own resources. The electronic filing digital infrastructure has large repositories of tax returns, and includes: e-file transmitters serving both professional and consumer software users; online/hosted tax prep providers serving both consumer and professional users; and, large franchisor "centralized" customer and tax return databases. There may also be specific instances of non-compliance from specific entities within the IRS Authorized e-file Providers that could require an IRS provided third party assessment.

The IRS should conduct a formal comment period on the new IRS Publication on Security Controls for the IRS Authorized e-file Providers, conduct outreach and education sessions to the e-file Provider Community, communicate with and work with appropriate industry associations, and phase-in the effectiveness of any new guidance and requirements over a two to three year period. Additionally, the IRS should communicate with and educate the Authorized e-file provider industry on these security requirements and provide a yearly reporting validation process that is incorporated in other yearly processes to attest compliance processes required by the IRS Authorized e-file Providers that gives the IRS a view into process and success of participants within the program implementation. ETAAC recommends the IRS allow for the use of commercial third party experts for third party security assessments or appropriate and agreed upon peer review assessments which are consistent with other government practices (for example, IRS Office of Safeguards uses commercial third party IT security experts to assist with its assessments), and recognizes the federal government's fiscal realities.

Recommendation 2: The IRS should utilize its practitioner communication channels, to advocate, promote, and disseminate privacy tools and concepts; and to advance the dialogue for improving privacy protection outcomes.

Promoting Privacy

The IRS is considered a leader in incorporating privacy controls and protections into its structure and operations among federal governmental agencies.[15] IRS responsibilities include extremely complex and multifaceted roles; maintaining taxpayer data privately from unwarranted intrusion is among the most important.

Taxpayer privacy must remain the cornerstone of any IRS function and across the spectrum of its responsibility. Therefore, ETAAC agrees with the recent clarification made by the IRS to Congress reinforcing the decision of

---

14 The full report and recommendations of the Security Working Group of the ETAAC Software Subcommittee are available in the GSA FACA database for the ETAAC Public Meeting on June 15, 2011, and should be consulted. See http://www.facadatabase.gov/committeemenu.asp?CID=76687

15 The survey entitled, "*ETAAC 2013 Industry Survey of Privacy Controls and Information Protection" was conducted from January 8, 2013 through March 25, 2013 and was disseminated to a cross section of industry stakeholders. The survey was non-scientific and individual respondent results are confidential.*2 *"Consumer Privacy in a Networked World: A Framework for Protecting Privacy and Promoting Innovation in the Global Digital Economy", P.44 the White House, Washington D.C., February 2012.*

the *United States Sixth Circuit Court* in *US v. Warshak* that, "taxpayer emails cannot be read without a proper search warrant.[16]

This publicly stated privacy commitment, made to the American tax-payer, can only enhance and support the IRS's drive to build a more web based and online operating strategy. The successful expansion of this strategy best serves the IRS stated goals of generating increased operating efficiencies and reducing costs.

ETAAC understands IRS must remain vigilant to the continued systemic threats against the electronic tax system such as fraud and identity theft, but believes it must do so in a manner that supports the privacy concerns of the American public.

ETAAC began addressing privacy in a 2011 sub-committee report.[17] This report, while focusing mainly on security related issues, identified privacy concerns and a corresponding apprehension of utilizing the internet as two impediments to continued e-filing growth.[18] It seems reasonable to ETAAC mitigating the public's concern over privacy matters can only enhance electronic tax administration.

In the 2012 report to Congress ETAAC decided to build upon the subcommittee work and made preliminary privacy recommendations including an industry survey to enhance our understanding of best practices.[19]

ETAAC believes continued engagement with IRS on privacy matters can further the original objectives of the ETAAC sub-committee and enhance our collective understanding of privacy related issues.

The following are ETAAC's detailed recommendations for 2013:

Detailed Recommendations:

Recommend greater use of IRS's online communication services for providing consistent, tailored privacy messaging through available social media outlets

IRS has experienced explosive growth regarding its social network channel and internet services. The number of social network users has grown exponentially since inception and website usage has increased to millions of daily "hits" at peak usage.

---

[16] *The Congressional Record, April 16, 2013 testimony of acting-Commissioner Stephen Miller before Senate Finance Committee.*

[17] *"Internal Revenue Service, Electronic Tax Administration Advisory Committee (ETAAC), Software Sub-Committee- Security and Privacy Working Group, Final Report to ETAAC on the Recommendations for Enhancing the Security of the IRS Authorized E-File Provider".*

[18] *From footnote 13, P. 10 of Electronic Tax Administration Advisory Committee (ETAAC), Software Sub-Committee- Security and Privacy Working Group, Final Report to ETAAC on the Recommendations for Enhancing the Security of the IRS Authorized E-File Provider". "Security and privacy were very important to all taxpayer groups surveyed, and response data suggests that taxpayers are just as apprehensive about the security and privacy of the Internet as they are about the security and privacy of electronically submitting their income tax returns."* "IRS Advancing *E-file* Study Phase 2 Report, An Examination of Options to Increase Electronic Filing of Individual Returns, December 15, 2010 MITRE Corporation, p. 25".

[19] *Internal Revenue Service, Electronic Tax Administration Advisory Committee (ETAAC*) Annual Report to Congress, June 2012, P. 20.

ETAAC believes this development is a positive occurrence and a continuing trend that exists in all markets. IRS can utilize this development to further its operational objectives but can also leverage this channel for raising public awareness to privacy through a tailored privacy campaign.

Create a privacy e-forum, accessible throughout IRS channels, for disseminating best–privacy practices and scalable suggestions. Create a specialized and detailed privacy tab on the IRS website with an accessible bulletin board for industry and practitioner recommendations with periodic suggestions from internal IRS Stakeholders.

The decision to create a dedicated tab or folder within *irs.gov* would advance privacy awareness and centralize the dissemination of best practices and make access to information less challenging. The tabbed format located within the "Tax Professional" website section or on the website's front page can become a repository of both regulatory privacy requirements (e.g., Publication 1075) and non-regulatory requirements for all stakeholders (articles and posted suggestions, etc.).

An industry *list-serve or bulletin board,* within this folder, might require a professional inputting one's PTIN or EFIN, depending on the stakeholder, to allow for access. A professional and real time e-forum for posting questions or recommending articles could develop which would bring together all the IRS privacy stakeholders. Rather than stakeholders accessing individual industry websites with varying levels of information; the IRS site would become a centralized privacy market given IRS channel access and yet IRS would only be charged with maintaining the regulatory component of the website folder and updating it as it would any other website resource material.

On a volunteer basis internal IRS privacy experts may offer general support or guidance on privacy matters or disseminate information on specific areas or tools such as the use of Privacy Impact Assessments (PIA's).

Results from ***"****ETAAC 2013 - Industry Survey of Privacy Controls and Information Protection" (see detailed recommendation 4)*, indicated a significant lack of specific awareness of PIA's but a very significant number of respondents expressed a desire for additional information, guidance, templates and suggestions for implementation. However as ETAAC discussed and recommended in its 2012 report, the dissemination of scalable suggestions, information and best practices (such as PIA's) could greatly benefit all sized firms faced with similar privacy concerns.

Request Taxpayer Advocate Service assistance in regularly disseminating IRS support for the public awareness of best - practitioner privacy practices and the proposed e-forum.

The National Taxpayer Advocate has supported many significant change initiatives within IRS and has generated public support and increased awareness to facilitate that change.

ETAAC recommends the Taxpayer Advocate Service (TAS) be tasked with monitoring and supporting privacy awareness. ETAAC believes the attention that the TAS will generate, through dialogue with important stakeholders, will have a tremendous impact.

Consider the results from the ETAAC 2013 - Industry Survey of Privacy Controls and Information Protection and provide tangible support for the implementation of identified survey findings.

ETAAC recommended a privacy survey of industry stakeholders in its 2012 report to Congress.[20] ETAAC developed this survey that commenced in 2013.[21] The survey obtained 413 industry responses encompassing in excess of 200,000 stakeholders. Every respondent did not answer every question. The lack of statistical validity to the survey does not diminish, in our opinion, the value of the responses toward understanding privacy concerns among the stakeholder community. Survey results are combined as one footnote per page (for brevity) and then sequentially ordered, by footnote number, in Appendix B.

The survey consisted of 22 questions encompassing a range of privacy and data protection related scenarios and a final question soliciting suggestions. The respondents provided ETAAC basic non-identifiable demographic information regarding the state in which the business operates and the firm type and firm size. ETAAC identified no specific geographic orientation.

72% of the respondents identified as a full service firm, which is defined as a firm providing three of the following five services: Tax, Accounting, Payroll, Consulting, or Other. The survey indicated 61 respondents with a firm size greater than 2,500 individuals (the majority of these identifying as "other") and 155 firms with less than 50 employees. The remaining firm size respondents were situated on an ascending scale, with three additional choices, between the two extreme variables.

The individuals completing the survey on behalf of their respective firms indicated that half were executive or management level (CEO, Partner, Director, Manager, etc.) and half were non-management staff or "other."

The ETAAC survey provided the following highlights regarding specific industry practices including:

- File maintenance, control and file storage and access (active and inactive files).
- Use of non-firm issued computer devices and the controls utilized.
- Policy on File Destruction, Privacy statements and Background Check Usage.
- Cost Estimates for Firm Privacy Breaches and the Amount Firms Spend Annually on Privacy.
- The Understanding and Support to use Privacy Impact Assessments (PIA's)

Across all survey respondent firm size categories; client files are maintained and stored on-site rather than offsite or by an offsite, third party storage provider.[22] This result remains true for both active and inactive client files. However, almost twice as many firms indicate 50-100% of their inactive files are maintained only as a paper file when compared to maintenance of active files 48.6% to 26.1%.[23] This result would seemingly indicate a need for tighter physical controls for these inactive files as paper is more easily lost or destroyed. Approximately 61% said they maintain between 50 and 100% of their active files in both computer and paper format with slightly less, 56% saying inactive files are kept redundantly.[24]

When asked if firms allowed employees to "Utilize a non-firm owned PC or a personal device to access the firm network and download or access client data files", survey responses were 72% negative and 28%

[20] *Internal Revenue Service, Electronic Tax Administration Advisory Committee (ETAAC*) Annual Report to Congress, June 2012, P. 20.

[21] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection" was conducted from January 8, 2013 through March 25, 2012 was disseminated to a cross section of industry stakeholders. All further ETAAC survey references in the 2013 report should be assumed to reference this survey. Further citation not required.*

[22] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*
[23] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*
[24] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*

affirmative.[25] None of the survey firm size categories had more affirmative responses than negative responses indicating cloud technology has not completely taken hold yet in this industry. As firms develop better understanding of how to handle privacy and security concerns this number will undoubtedly increase.

The existence of a written firm policy on the destruction of files appears to closely follow the size of the firm. Firms are split nearly 50-50 on this issue (except for firms of 101-250), but once the firm size reaches 1000 or more employees, then 90% of these larger firm respondents had developed a written firm policy on the proper destruction of files.[26]

Privacy statements are a firm requirement for all of the respondents of this survey. When asked if firm privacy statements are: Written? Posted Online? Disseminated Annually? The pool of respondents answered affirmatively, 82%, 56%, and 60% respectively.[27] This result clearly indicates an opportunity for better outreach as the annual dissemination of privacy statements is a firm requirement under the Graham, Leach, Bliley Act.[28]

Background checks in the hiring process are becoming much more common place and can often be done over the internet at a minimal cost. When firms were asked if they utilize this effective hiring tool, 76% said "yes" and 24% said "no." However firms with less than 50 employees utilized background checks only 62% of the time.[29] These smaller firms may have less opportunity to utilize background checks, as they have fewer hiring opportunities. However given the relative inexpensive nature of this concept (often $50 or less) background checks should not be overlooked.

Furthermore, those surveyed from this same firm demographic, of fewer than 50 employees, having an expectation of a greater than $25,000 financial loss due to a privacy breach, was 40%. The disconnect noted is the inexpensive background check can be an effective method of assisting firms in preventing a catastrophic financial loss due to poor hiring. This question restricted the loss estimate to financial terms and did not ask respondents to consider the impact of loss of reputation and other non-quantifiable impacts. Finally, 53% of **all** respondents thought that a privacy breach would cost the firm at least $50,000 and yet 73% of all respondents spend less than or equal to $5,000 annually on any privacy related controls. It appears more consideration should be given by industry to mitigate this perceived risk and to access or develop more cost effective tools.

Examples of specific tools, indicated by this survey, as not being utilized by industry are the availability of governmental privacy programs and Privacy Impact Assessments (PIA). 78% of survey respondents indicated that they were unaware of the well-regarded Department of Health and Human Services (DHHS) "Stop. Think. Connect" privacy program and yet 77% stated they would support a privacy industry awareness program and 71% would

[25] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*

[26] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*

[27] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*

[28] *The Gramm-Leach-Bliley Act "Privacy of Consumer Financial Information" Federal Trade Commission Bureau of Consumer Protection Division of Financial Practices," P. 5*

[29] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*

participate in such a program.[30] Responses indicate a void exists between the desire to learn more about privacy protection and the lack of information on public initiatives.

Several of the survey questions focused on the afore-mentioned PIA's and the results were very significant. In summary, the Committee asked the respondents the following:

- Utilize PIA's?
- Accept sample PIA's?
- Accept guidance on PIA's?
- Areas PIA's would be utilized?

The degree to which respondents had no knowledge of PIA's and wanted guidance and examples of usage was unexpected. 16% presently utilize PIA's but 61% would like to receive both samples and guidance on PIA's.[31] Finally, given a list of five potential choices for PIA usage (New Systems, Data Storage, Social Media, Cloud Computing, Data Exchanges) respondents stated they, "May Use PIA's or Will Definitely Use PIA's" 55%, 58%, 44%, 46%, 49% respectively.[32] These numbers are very encouraging considering the initial lack of familiarity with PIA's by the respondents.

> ETAAC considers these survey results to clearly indicate important areas where additional IRS outreach and education can make an important contribution to developing better privacy outcomes for stakeholders.

Recommendation 3: The IRS should move aggressively to adopt a modern approach to detecting fraudulent and non-compliant tax returns; one complementing electronic filing and timely issuance of refunds, yet performing thorough detection prior to completion of return processing**.**

Detailed Recommendations

Adopt modern technology for proactive fraud and non-compliance detection

The IRS currently uses the Electronic Fraud Detection System (EFDS) as the technology to evaluate individual income tax returns for risk of fraud and non-compliance. Through interviews with the Office of Compliance Analytics, ETAAC determined EFDS was originally designed as a workload selection and delivery system – not as a fraud and compliance detection system. To its credit, the IRS has re-purposed the existing EFDS technology to support fraud scoring and selection. EFDS has performed this function with some level of effectiveness, as shown in the following chart, by the growth in fraudulent returns identified and stopped over the past four processing years.

---

[30] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*
[31] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*
[32] *ETAAC 2013 Industry Survey of Privacy Controls and Information Protection Appendix C*

Processing Year	Number of Fraudulent Refund Returns Identified	Number of Fraudulent Refund Returns Stopped	Amount of Fraudulent Refund Returns Identified	Amount of Fraudulent Refund Returns Stopped
2009	457,369	369,257	$2,988,945,590	$2,517,094,116
2010	971,511	881,303	$7,300,996,194	$6,931,931,314
2011	2,176,657	1,756,242	$16,186,395,218	$14,353,795,007
2012	3,422,505	3,110,788	$20,721,203,369	$19,247,812,922

Understandably though, EFDS has significant limitations as an enterprise fraud detection platform. EFDS does not allow the IRS to quickly make changes to models and business rules that are necessary to keep pace with the rapidly evolving set of tax fraud schemes.

Private industry has adopted modern technology and advanced analytical models to tackle the problem of detecting fraud before a transaction is fully executed. Banks, credit card issuers, and other financial services firms have invested heavily in technology to stem the rising tide of fraudulent behaviors. CyberSource Corporation, an affiliate of Visa, has performed research that found credit card issuers were able to reduce losses from fraud by over 60% between 2000 and 2007. This reduction was attributable primarily to adoption of advanced analytical models to detect fraudulent transactions as they occur.[33]

ETAAC has found the IRS recognizes the limitations of EFDS and the advances made by the private sector. As a result, the IRS is undertaking a project called the Return Review Program (RRP) to modernize its fraud detection capabilities. RRP is expected to provide the IRS with a modern technology platform that enables advanced analytical methods – similar to those used in private industry – and that gives the flexibility to quickly change models and fraud rules to respond to mutations in fraud schemes.

Based on interviews with the Office of Compliance Analytics and with other IRS experts, ETAAC strongly endorses the RRP initiative. We also provide the following recommendations on how RRP should be implemented:

- Aggressively implement RRP, and sunset EFDS – The IRS should set and meet an aggressive schedule for full implementation of RRP. The new technology platform will provide significant benefits to the IRS and to taxpayers – a substantial increase in refund fraud detected and stopped, more precise identification of non-compliant taxpayers, and better taxpayer service for compliant taxpayers. Just as importantly, the IRS should sunset EFDS as soon as practical, while validating the appropriate knowledge transfer of learned business rules is made to RRP. Continued reliance on this insufficient and outdated technology will only hamper efforts to modernize IRS fraud detection capabilities.
- Expand RRP to include scoring of balance due returns – ETAAC agrees with the IRS approach to pursue individual income tax returns with a refund request as a first step in the RRP implementation. However there significant non-compliance issues are also contained on individual income tax returns with balances due. The IRS should expand the scope of RRP to include analysis of balance due returns to allow for equal treatment of all taxpayers who submit a return.
- Focus on both individual taxpayers and tax preparers – ETAAC recommends the IRS develop RRP models and business rules to identify both individual taxpayers and tax preparers. Advanced analytical methods

[33] Online Fraud Report, CyberSource Corporation, 2008.

allow for simultaneous scoring for both types of entities. Identifying suspicious tax preparers is generally a more cost-effective method of enforcing compliance than conducting examinations of individual taxpayer returns.

- Use historical return data for both model building and scoring – ETAAC recommends that the IRS use historical return data for both model and rule building, and for scoring of individual income tax returns. ETAAC recognizes that implementing such a recommendation may come with technical challenges. The use of historical data in scoring can provide substantially more accurate results for fraud detection.
- Establish a Communications Plan for RRP rollout – ETAAC recommends the IRS establish a strong communications plan to practitioners for the RRP rollout. This plan should provide precise guidance on the types of correspondence that may be received, and the treatment stream(s) that may flow from returns flagged by RRP.
- Provide sufficient funding for RRP rollout, including staffing to resolve flagged refund requests – ETAAC is aware of the continued funding challenges faced by all federal government agencies, including the IRS. Both the acting Commissioner of the IRS and the National Taxpayer Advocate have called for greater funding for compliance initiatives like RRP. [34] ETAAC urges both Congress and the Department of Treasury to allocate sufficient funding for RRP implementation. This includes funding for resources that will perform the appropriate treatment stream(s) that result from RRP-flagged returns. Providing insufficient funding is short-sighted and will likely lead to greater revenue loss due to undetected fraud and non-compliance.

Implement a proactive process to detect identity theft prior to refund issuance

Stolen Identity Refund Fraud (SIRF) is a specific form of fraud and non-compliance that continues to plague tax administration in the United States. The IRS estimates known identify fraud cases have grown by 650% since 2008.[35] A recent report by the Treasury Inspector General for Tax Administration (TIGTA) found that "The impact of identity theft on tax administration is significantly greater than the amount the IRS detects and prevents." The report estimates that there are approximately 1.5 million tax returns with identify theft issues that go undetected by the IRS each year. This failure to detect could represent as much as $5.2 billion in refund requests annually.[36]

SIRF has been a significant focus of the IRS over the past four years. The IRS and interested parties have proposed a number of solutions to the problem, including better information reporting, allowing law enforcement access to tax records for victims of identity theft, implementation of a "real-time" tax system, educating return preparers on identify theft issues, and increasing staff.[37] The IRS has already taken a number of significant steps to assist taxpayers who have been the victims of identity theft.

ETAAC has found the solutions employed to address identity theft generally focus on reacting to the crime after it has already been committed. The RRP technology, however, gives the IRS the capability of taking a highly proactive approach to identity theft – detecting and stopping returns filed by identity thieves before a refund is issued.

---

[34] "New resources and funds needed to battle tax identity theft, Miller says," Tax Notes Today, April 17, 2013.
[35] "Why your tax return isn't safe," The Wall Street Journal, April 13-14, 2013.
[36] "There are billions of dollars in undetected tax refund fraud resulting from identity theft", Treasury Inspector General for Tax Administration, July 19, 2012 (Reference Number 2012-42-080).
[37] "IRS Oversight Board Brainstorms Real-time Tax System, ID Theft Initiative", Tax Notes Today, May 2, 2013.

ETAAC recommends the IRS use the RRP technology to specifically detect identify theft as early as possible in the tax processing cycle. This approach complements the current reactive approach that the IRS has adopted for handling identity theft issues. The RRP capability should replace the current identify theft filters contained in the DDb system, maintained by the Return Integrity & Correspondence Services (RICS) unit. Additionally ETAAC provides the following recommendations on how RRP should be implemented for identity theft:

- The IRS should use RRP to analyze both individual income tax returns and quarterly wage reports, which may provide an early warning system for some types of identity theft.
- For tax filings found to have a high probability of identity theft, the IRS should utilize the identity-proofing capability (also known as "Out-of-Wallet" initiative) currently being piloted by the IRS to validate identity prior to allowing the tax filing to complete processing.

<u>Reduce the publicly stated refund payment window for valid, compliant returns.</u>

The RRP technology is expected to provide strong fraud detection and scoring capabilities for the IRS. RRP will score each individual income tax return with a refund request and assess the risk of non-compliance. That means RRP will detect those returns with a high probability of fraud. Conversely, RRP will also identify those returns that have a low probability of fraud.

ETAAC recommends the IRS use the RRP risk assessment capability in a positive way – that is, to reward compliant taxpayers. Specifically, ETAAC recommends that the IRS reduce the publicly stated refund payment time for valid, compliant returns, which is currently set at twenty-one (21) days from receipt of an electronically filed return. Paying refunds faster – and more accurately – will improve the public perception of taxpayer service.

KEY OUTCOME 2

Growth, Improvement, and Consistency of 80% Electronic Filing Goal on the IRS Major Return Types

- ***Key Outcome 2:*** *Continue to focus on the growth, improvement, and consistency of the 80% electronic filing goal on major return types.*

  Recommendation 4 The IRS should provide a basis to encourage the electronic filing of the 94x series by expanding the definition of the first time abatement (FTA) to include the *Promotion of Electronic Filing.*

  Recommendation 5: The IRS should work with withholding agents as well as service providers to remove barriers to facilitate electronic filing as the preferred filing method by implementing electronic filing of Form 1099-MISC via the IRS website or expanding awareness and access to free or cost-effective electronic filing solutions.

  Recommendation 6: Phase II design of the IRS FATCA compliance Portal ("Portal") should allow for bulk upload of information required for FATCA compliance.

Detailed Recommendation

80% EFI Cannot Be Achieved without the 94x Series

The goal of an 80% EFI cannot be attained without increasing the electronic filing rate of the 94x series. Many solutions and strategies for increasing the EFI of this series have been proposed over the years. However IRS still projects virtually no increase in the e-file rate of the 94x series over the next several years. From an ETAAC survey performed and presented in its 2011 report, ETAAC found when taxpayers performed a cost benefit analysis of transitioning to E-Filing from paper filing, they discovered little incentive to make the change. The ease of filing paper is simply too significant an obstacle to overcome without providing some enhanced benefit to e-file. The current paper process is quick, easy, and extremely low cost for taxpayers to maintain. Transitioning to e-file requires an extensive enrollment processes with the IRS, requires software considerations, and entails compliance risks. Without providing some benefit for taxpayers to transition to e-file, taxpayers are unlikely to convert, as evidenced by the IRS statistics on electronic participation of major tax return types.

Mandates Are Not an Option for the 94x Series

Mandates have been discussed as a way to increase the EFI for the 94x series. While mandates have proven successful in increasing the EFI for individual returns, it is important to note individual return mandates were focused on the tax **preparer** community rather than the **taxpayer** community. Since the 94x filing community consists primarily of self-filers and small business, as opposed to paid or professional tax preparers, an effective mandate would need to focus on the taxpayer and the small-business community. Congress and IRS have reiterated their reluctance to place mandates on individual taxpayers or to create obligations increasing the burden on small-business. Accordingly mandates are not a viable option for improving the 94x electronic filing rate at this time.

Incentives for E-Filing are Legal and Appropriate

RRA 98 is the legislation passed by Congress that creates ETAAC. In that legislation Congress specifically requests and authorizes incentives for electronically filed returns.

> SEC. 2001. ELECTRONIC FILING OF TAX AND INFORMATION RETURNS.
>
> "(c) PROMOTION OF ELECTRONIC FILING AND INCENTIVES. Section 6011 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection: .
>
> "(f) PROMOTION OF ELECTRONIC FILING -
>
> "(2) INCENTIVES.-The, Secretary may implement procedures to provide for the payment of appropriate incentives for electronically filed returns."

<u>Incentives to Compel E-File Already Exist</u>

Incentives and penalties are a compelling tool used in many cases to promote taxpayer behavior. Providing benefits to taxpayers who demonstrate specific behaviors is prevalent throughout the IRS and in the tax code. Such inducements should be considered to increase the 94x electronic filing rate.

Accelerated Refund Time for Individual E-Filers

The promise of a faster refund led to the increase of the EFI rate within the 1040 series. The IRS clearly outlines on its website it will treat a paper filer differently than an electronic filer for refund processing purposes:

> http://www.irs.gov/uac/When-Can-I-Expect-My-Refund%3F
>
> *Following technology improvements, the IRS will issue refunds to more taxpayers in as few as 10 days this year for those who e-file and select direct deposit. Overall, the IRS issues the vast majority (more than 9 out of 10) of all refunds — whether filed electronically or on paper — in 21 days or less.*

Enhanced Reporting Services for Individual E-Filers

The IRS has created a system specifically to handle e-filed returns. These returns are processed differently than their paper counterparts. As part of that processing, taxpayers receive enhanced reporting from the IRS through their software provider regarding the status of their return or what errors may exist. The paper filer cannot take advantage of these services.

Different Regulations Apply to Different Filing Methods

There are numerous examples demonstrating how the IRS treats e-filers differently than paper filers. Take, for example, constructive receipt of a return. As paper and electronic returns are transmitted to the IRS differently, they obviously require different regulations. A paper return is considered filed timely if it is post-marked by the due date of the return. However a paper return post-marked by the due date, but unsigned or having an EIN mismatch, is still considered to be filed timely. However, an electronic return not electronically signed, or having an EIN name mismatch, is not accepted and not considered filed.

Tax Code Incentives

Countless provisions in the tax code encourage specific tax payer behavior either through the use of tax incentives or penalties based on a specific behavior. For example, tax incentives to promote saving for retirement [§401(k)] created an entire industry dedicated to taking advantage of this tax incentive. The Affordable Care Act penalizes taxpayers failing to purchase health insurance. Not only is it proper, but there is historical support to consider the use of incentives to influence taxpayer behavior. ETAAC recommends similar inducements be considered in the case of the 94x series.

The First-Time Abatement (FTA)

FTA Is Currently In-Force

There is currently a penalty waiver known as the First-Time Abatement. According to recent TIGTA Report issued 9/19/2012 (reference #2012-40-113):

> ***The purpose for granting the waiver, called a First-Time Abate (FTA), is to reward past tax compliance and promote future tax compliance.***

Essentially, the IRS waives FTF (Failure to File) and FTP (Failure to Pay) penalties for some taxpayers who have demonstrated full compliance over the prior three years. The complete details of the FTA program can be found in section 20.1.1.3.6 of the IRS Penalty Handbook (http://www.irs.gov/irm/part20/irm_20-001-001r-cont01.html). While the FTA is not specific to the 94x series, it is applicable to the 94x Series.

Append the Definition of the FTA Waiver

As is evident in the definition of the FTA waiver above, specific and preferred tax behavior is rewarded with the receipt of a FTA waiver. By expanding the scope of the FTA to consider if a return was e-Filed or paper filed, IRS would be confirming through policy the specific and preferred method of filing is through e-File. Furthermore the IRS reiterates when these preferred behaviors are demonstrated, this conduct is rewarded. ETAAC considers this to be both a meaningful message to convey and a powerful incentive. Additionally it would help to alleviate any compliance concerns taxpayers have about the transition from paper to the e-File process. By expanding the FTA to promote E-Filing returns, taxpayers will have a new incentive and additional motivation to rely on the e-File system.

ETAAC recommends amending the definition of the FTA to include electronically filing as follows:

> *The purpose for granting the waiver, called a First-Time Abate (FTA), is to reward past tax compliance, promote future tax compliance,* ***and promote electronic filing.***

In practice this expanded scope could be accommodated by providing an additional FTA waiver option if the penalty applies to an e-filed return. However the specific code changes required to accomplish this additional waiver option are beyond the scope of this recommendation.

Far-Reaching Impact

It is important to note the FTA does not apply solely to the 94x series. While this change certainly would be applicable to the 94x filers, it could have a much broader impact of promoting electronic filing across all return types.

Implementation Costs

IRS costs for administration and implementation should be relative low and easily determined. However use of the FTA waiver may increase if it is publicized and if taxpayers require its use as a result of errors encountered in converting to the e-file process.

Publicizing the Change

If IRS intends to act on this recommendation, publicizing the FTA will be critical. As noted in the TIGTA report, FTA is currently underutilized. Expanding the definition of the FTA will have an impact only if taxpayers are aware of the benefits they can derive through E-Filing.

RECOMMENDATION 5: **The IRS should work with withholding agents as well as service providers to remove barriers to facilitate electronic filing as the preferred filing method by implementing electronic filing of Form 1099-MISC via the IRS website or expanding awareness and access to free or cost-effective electronic filing solutions.**

Implement online filing application for Forms 1099-MISC.

The IRS should:

- Develop a free, online solution for interactive filing of Forms 1099-MISC via the IRS website.
- Designate an IRS industry liaison to partner with withholding agents and tax compliance service providers to facilitate industry adoption of the solution.
- Liaise with existing service providers who provide free e-filing for withholding agents completing a de minimus number of Forms 1099-MISC (i.e., under 100) annually to enhance awareness and increase the utilization of these applications.

Withholding agents are required to file Forms 1099-MISC to report payments of FDAP income made to non-exempt U.S. persons. This requirement impacts all withholding agents engaged in a trade or business, whether a Fortune 500 multi-national corporation (potentially issue thousands of forms in a given year), or a small, local non-profit which may issue less than ten forms during a given year. There are a variety of service providers who will print, mail, and electronically file Forms-1099, a withholding agent would generally need to file anywhere from 200 to 250 forms annually for this option to be cost effective. The intricacies of registering and maintaining a FIRE account as well as presenting data in a usable format also present challenges to withholding agents when a withholding agent could purchase the materials to prepare 100 copies of the Form 1099-MISC at retail stores for $48.99. It is these withholding agents, filing less than 200 Forms 1099-MISC annually, most in need of a reasonable cost, low maintenance solution electronic filing if the IRS is to reach its goal of a real-time tax system.

The IRS should develop a free, online solution for interactive filing of Forms 1099-MISC via the IRS website, similar to existing e-file applications. By offering this as a free service, the IRS provides significant incentive to small withholding agents with a minimum number of Forms 1099 to migrate from paper filings to electronic filings. In addition the IRS could implement other requirements, such as TIN matching, as a condition for using the service. By doing this, the IRS could benefit from a real time tax perspective as it will receive the filings electronically while further minimizing operational burdens of B-Notices, penalty notices, and associated follow-up. In order to manage growth effectively of the application, the IRS could subject the service to income testing (e.g., taxpayer's with AGI less than $100,000) or certain use thresholds (e.g., taxpayers filing fewer than 100 Forms 1099-MISC annually).

The IRS should designate an industry liaison to partner with both withholding agents and tax compliance service providers in order to develop the most effective solution possible and maximize utilization. Initially the industry liaison should prioritize understanding the industry's needs and assisting in the design of a solution responsive to these needs. Several existing tax compliance vendors currently provide electronic filing services for Forms 1099-MISC, some of which offer free filing for taxpayers with a de minimus number of forms. By partnering with these service providers, the industry liaison can gain useful insight into what features and functionality should be incorporated into the IRS solution to encourage wide-spread usage. An in-depth understanding of not only the functionality desired in a solution but current barriers to electronic filing will provide the necessary insight to create a solution that will be accepted and utilized by withholding agents.

Following development of the application, the industry liaison should be responsible for driving both awareness of the solution and its utilization. In the interim the industry liaison could help generate awareness of existing solutions offering free filing for certain withholding agents. These efforts will be critical to help increase electronic filing of Forms 1099-MISC and to reach the 80% real-time tax filing target.

Information reporting requirements have significantly expanded in recent years; e.g., cost basis reporting and 6050W reporting. The Foreign Account Tax Compliance Act ("FATCA") now promises to make the most significant impact since the 1984 TEFRA Act, and with it, will come significant additional information reporting and other compliance requirements. While the IRS is actively preparing for these requirements, the IRS should implement FATCA requirements in ways that will minimize the compliance burdens of participating withholding agents. Specifically, whenever possible, the IRS should allow for upload functionality, including bulk uploads to allow for an interactive **Global Intermediary Identification Number** ("GIIN") matching process based on the existing TIN matching design, and in order to standardize reporting schema for both reporting to the IRS as well as reporting to foreign governments which will then automatically share information with the IRS.

Recommendation 6: Phase II design of the IRS FATCA compliance Portal ("Portal") should allow for bulk upload of information required for FATCA compliance.

The IRS should:

- Implement functionality allowing for the bulk upload of information required to complete the FFI Agreement/FFI Registration process.
- Design systemic solutions for foreign financial institutions ("FFI") to update FFI Agreements and registrations for changes in control such as acquisitions, divestitures, mergers, and liquidations.
- Develop systemic processes for Responsible Officers to certify compliance via the Portal and manage other logistics associated with their position as a Responsible Officer.

FATCA requires all participating foreign financial institutions ("PFFIs") and registered deemed-compliant financial institutions ("RDCFFIs"), including FATCA Partner Jurisdiction financial institutions, register their status via the IRS Portal. A PFFI would accomplish this by registering a lead FFI, which identifies all FFIs, included in an expanded affiliated group, which would then each be required to register separately. The process as currently designed requires all of this information to be manually entered. While this process is easily manageable for individual FFIs or smaller groups, this will be a significant undertaking for multi-national financial institutions, some of which will be registering more than 1,000 PFFIs and RDCFFIs in a limited amount of time. Furthermore ongoing changes to information provided as part of the initial registration process, such as turnover in Responsible Officers, address changes, or changes in control, resulting from an acquisition or divestiture would require similar data input efforts. Providing the ability for withholding agents to execute these changes via upload, as opposed to manual data entry, will be critical to assuring information is provided in a timely manner to the IRS for their administration of FATCA compliance. Similarly effective online administration will minimize the need for offline work arounds.

The IRS should leverage similar functionality in designing the Responsible Officer certification process. A PFFIs Responsible Officer is an officer of the institution responsible for making certain certifications regarding the institution's compliance and for managing the controls framework necessary to be comfortable making such certifications. Certain certification specific to completion of pre-existing account due diligence requirements must be filed within 60 days of the two year anniversary of the FFI Agreement effective date. Ongoing periodic certifications related to internal controls must be filed once every three years. Developing a systemic process for Responsible Officers to complete required certifications will be critical to obtaining required information during the specified time frames. In addition capturing this data electronically will facilitate the IRS's ability to develop queries and expedite the review of results in order to prioritize review of significant issues timely.

The IRS should allow for a more interactive Global Intermediary Identification Number (GIIN) matching process.

The IRS should:

- Leverage the existing IRS TIN matching application as a model.
- Allow for both interactive and bulk GIIN matching.
- Permit GIIN matching to be conducted in "real time" as opposed to via a monthly list.

All PFFIs and RDCFFIs will receive a GIIN upon completing the FFI Agreement or FFI Registration process. These institutions are then required to provide this GIIN to financial institutions where they maintain accounts in order to demonstrate their FATCA compliant status. Withholding agents are required to verify a PFFI or RDCFFI client's GIIN within 90 days of receipt and annually thereafter. As the process is currently envisioned, a withholding agent is required to download the monthly IRS FFI report in order to match the name and the GIIN of the PFFI or RDCFFI. Withholding agents with sophisticated technology teams will be able to develop applications to facilitate the review process. However this process will be cumbersome to withholding agents attempting to validate thousands, if not tens of thousands of GIINs on an annual basis and potentially will frustrate compliance given the month long lead time to obtain an updated IRS FFI Listing.

The IRS currently operates an extremely successful TIN matching program used to validate U.S. Taxpayer Identification Number/Name combinations as reported on Forms 1099 subject to backup withholding requirements. Withholding agents can either use the application on an interactive basis, meaning they enter the combination directly, or the bulk process, where they upload a file of up to 100,000 combinations for validation. This application is available 24 hours a day and can validate in real time. TIN matching and GIIN matching are essentially the same process – leveraging this existing technology will facilitate the ability of withholding agents to validate information and verify FATCA compliance. The result is a reduction in IRS administrative costs as two separate systems would not need to be maintained. In addition leveraging the existing TIN matching system likely will result in increased TIN matching as withholding agents would be able to validate TINs as well as GIINs with minimal incremental effort. Additional TIN matching will minimize IRS administrative effort associated with B-Notices, penalty notices, and resulting follow-up.

The IRS should work towards requiring all information return filings to be in .XML format in lieu of those formats allowed by Publications 1187 and 1220 (i.e., Forms 1042-S, 1099, and 8966). In addition information returns such as Forms 1098, Schedule K-1's, etc., should be required to be filed in .XML.

The IRS should:

- Develop an .XML schema to standardize government-to-government reporting as required by the FATCA Intergovernmental Agreements ("IGA").
- Apply this standard schema across all IRS information reporting filing requirements.

The U.S. Department of Treasury is in the process of negotiating various IGAs which will ultimately provide a global standard for account due diligence and information sharing. Many of the agreements entered thus far require reciprocal information exchange from U.S. withholding agents. In the Model 1 version of the IGA, non-U.S. withholding agents would provide required information reporting to their local government taxing authority which would then supply this information to the IRS. U.S. withholding agents would do the same for countries which have executed reciprocal agreements. However, in this case, information would first be provided to the IRS, which would then exchange the information with the foreign taxing authority. Given the significant number of countries expressing an interest in an IGA agreement (currently in excess of 50) the IRS should establish a global standard for the information exchange between governments.

The .XML standard is an expansion of the OCED Trace program and the Standard Transmission Format ("STF"). The STF allows for various formats (i.e., .XML, .DOC, .CSV). This will be an .XML schema which is essentially agreed/based upon taxonomy to be used for the information exchange and reporting processes. Leveraging the .XML standard will facilitate the ability of withholding agents to meet multiple reporting requirements being implemented in a narrow window of time. Furthermore, the U.S. Treasury Department will continue to negotiate IGA Agreements so providing a standard schema for information exchange will facilitate the IRS's ability to promptly implement information sharing with additional IGA jurisdictions. Similarly, by adopting the .XML schema for all information reporting requirements, the IRS will reduce the administrative costs associated with managing multiple schemas.

The information return is a valuable weapon in the IRS's tax compliance arsenal as it is a cost-effective means to foster voluntary compliance and enables the IRS to swiftly identify those taxpayers not correctly reporting income. However the utility is premised on the IRS being able to effectively match the information return against an individual's return via the taxpayer identification number and name and run the matching process. This process is most effective when there is electronic filing. Partnering with tax service providers and withholding agents to develop an interactive filing option for withholding agents with a de minimus number of annual Forms 1099 will significantly increase electronic filing and allow the IRS to continue making significant strides in its efforts to move to a real-time tax system.

However, as tax administration continues to evolve, the IRS will also need to develop its electronic administration efforts. FATCA is the latest in a series of regulatory regimes which will enhance both the quality and quantity of information reporting. In order to maximize the benefit of these filings, the IRS should develop bulk upload functionality for the FFI Portal, leverage existing IRS TIN matching technology for GIIN matching, and utilize a standard .XML schema across information reporting regimes. Given FATCA is ever-evolving, ETAAC is willing to work with the IRS to conduct surveys with FFIs in order to determine what improvements can be made to the FFI Portal.

KEY OUTCOME 3

Taxpayer and Tax Return Preparer Tools, Resources and Services

***Key Outcome 3**: To accurately prepare and file increasingly more complicated tax returns, taxpayers need expanded access to data. By providing taxpayers the ability to view their information, the IRS potentially can increase compliance and reduce fraud. Since the vast majority of taxpayers use a paid preparer or tax software, the IRS should enable access to both entities subsequent to consent by the taxpayer.*

Recommendation 7: The IRS should offer taxpayers, and the taxpayer's designee, be it a return preparer or tax software, access to resources currently available internally within the systems of the Service. The IRS should make this information accessible using internet-based tools available in real-time subject to taxpayer consent.

Recommendation 8: Offer dynamic account access to the taxpayer's record of account to the taxpayer and to a return preparer or tax preparation software with the taxpayer's consent.

Recommendation 9: To mitigate the effects of tax refund fraud the IRS should enable a taxpayer to register and authenticate with the IRS and provide an email address, or other contact information, so the IRS can notify the taxpayer when a return is received using the taxpayer's social security number. Since fraud is usually not discovered until the taxpayers file their returns, which can be months later, the SSN alert could greatly accelerate the implementation of appropriate anti-fraudulent actions. In addition it may lessen the burden of fraud and decrease the time it takes for fraud victims to receive their tax refunds.

Recommendation 10: The IRS should encourage those who issue 1099s and W-2s to make those forms available over the internet for taxpayer retrieval.

Recommendation 11: The IRS should provide leadership and guidance to the Exchanges established by the Affordable Care Act (ACA) so there is a method for taxpayers to retrieve information required to file their tax returns over the internet from the website of the Exchange.

For several years ETAAC has both recommended and encouraged the IRS to provide more information to taxpayers through a variety of online tools and resources. This year ETAAC reiterates those recommendations and suggests specific projects as part of an overall proposal to make more information available to the taxpayer community.

ETAAC believes by providing the tax-paying public more effective and efficient, accurate and accessible information, the IRS will effect more accurate and efficient the returns, either produced by a taxpayer's return-preparer or produced through the use of tax-software. ETAAC believes access to and the inclusion of additional relevant information will yield more accurate returns, thereby significantly diminishing errors, dramatically reducing the burden of return preparation, and considerably mitigating fraud along with all its attendant undesirable consequences.

For the IRS to offer access to the taxpayer and the taxpayer's return preparer or tax software, the taxpayer must consent as provided by IRC Section 6103. Appendix D to this report provides historical information on the issues surrounding IRS disclosure of taxpayer information. This discussion highlights certain systematic disclosure strategies currently in place. These range from the checkbox on the Form 1040 allowing a third party designee to discuss tax return information with the IRS, to power of attorney requests executed through an authenticated internet interaction.

ETAAC believes the IRS must develop more systemic methods of consent for the taxpayer to knowingly execute should a taxpayer choose to share his information with a return preparer or tax software as contemplated in the recommendations contained in the Committee's 2013 report. ETAAC further recommends the reader review the discussion in the appendix, along with the referenced publications and documents included) for a greater understanding of the history of consent and the existing consent methods available today.

Recommendation 7: The IRS should offer taxpayers, and the taxpayer's designee, be it a return preparer or tax software, access to resources currently available internally within the systems of the Service. The IRS should make this information accessible using internet-based tools available in real-time subject to taxpayer consent.

Detailed Recommendations

For several years, ETAAC has encouraged the IRS to develop new web-based tools for online access to taxpayers. ETAAC has further encouraged the IRS to make this information available to the tax return preparer or tax preparation software given appropriate consent by the taxpayer. In the IRS response to the 2012 ETAAC Report, primary focus was placed on the Service's plan for improving *Where's My Refund*. This tool is a valuable feature for taxpayers and has experienced a significant increase in usage during the last few years. However the Committee believes the IRS should significantly expand the scope of online services in order to encourage and validate electronic tax administration.

A primary reason for developing new electronic forms of communication between the IRS and taxpayers is consumer demand and interest. Internet access has reached nearly every demographic in the United States with little exception for age, socio-economic status, or geography. There is an expectation companies, government agencies, and other entities will provide opportunities for increasing electronic interaction and engagement.

This assumption is verified through increased traffic on the irs.gov site as well as on the particular page-level tools facilitating electronic interaction. According to the GAO, traffic on irs.gov increased over 25% between 2009 and 2012.[38] Heavy volume on *Where's My Refund* in 2013 caused the IRS to publish a statement regarding slow site performance.[39]

---

[38] See GAO-13-435

[39] See IRS Press Release 2-14-2013

New tools that enable electronic access to information from the IRS encourage e-filing more broadly. Offering this functionality promotes a culture of electronic engagement which assumes the best way to transact business with the IRS is through a computer rather than via paper, fax, or phone. Internet based tools increase the quality of service by being available all day every day and have the potential to lower the cost of interacting with the taxpayer.

Web tools can be constituent parts of the "Real Time Tax" program the IRS has envisioned.[40] IRS staff can create features that would, essentially, be components of Real Time Tax. This would both decrease overall time for development and would provide important test-data on usage.

A final benefit of web-based functionality is the potential to combat fraud and its effects. A notification system proposed later in this report could give users the ability to learn of changes to their accounts at a time closer to when the activity takes place. This could provide significant security value to both the taxpayer and the IRS.

Currently, a taxpayer can request, via paper or online, a copy of his/her tax return (Form 4506) and his/her account transcript (Form 4506T). This copy or transcript is delivered on paper. Transition to an electronic delivery method is desirable and a good start towards providing full account access. Likewise, a taxpayer with a situation requiring outside help can have the tax professional advance, via the online application previously described, into the Electronic Account Resolution or Transcript Delivery System. What is lacking in the current IRS suite of online services is a way for the taxpayer, not just the tax professional, to have dynamic access to his tax information or the ability to assign access to his tax preparer using the appropriate consent.

The 2011 and 2012 ETAAC reports proposed a number of valuable ideas on this topic. Because of ongoing budget constraints most of those concepts have yet to be implemented. For 2013 ETAAC's recommendations are particularly cognizant of the financial challenges the IRS faces.

Recommendation 8: Offer dynamic account access to the taxpayer's record of account to the taxpayer and to a return preparer or tax preparation software with the taxpayer's consent.

Detailed Recommendation

ETAAC believes it is more constructive for the IRS to roll-out tools on an individual basis rather than combining into a large-scale launch of a consumer or preparer portal. Limiting the scope of projects minimizes both risk and investment. It also enables IRS staff to learn on an incremental basis what is effective and useful to taxpayers, preparers, and developers. In evaluating the range of possibilities for implementation in 2013, the Committee recommends the IRS complete work on a tool where taxpayers can request and receive their Record of Account online in the same session. The IRS should further enable secure computer to computer access where, given appropriate taxpayer consent, third parties can facilitate the request and receive transaction between the taxpayer and the IRS. The GAO has made similar comments in their recent report, Long-Term Strategy Needed to Improve Interactive Services (GAO-13-435).

This will require the IRS concurrently deploy its out-of-wallet authentication system. In this authentication system taxpayers can provide the IRS information about themselves the IRS has come to know. This out-of-wallet model can be extended to allow for the taxpayers to use a return preparer to tax software as an intermediary to

---

40 See IRS.gov Page On Real Time Tax.

exchange the information between the taxpayer and the IRS. Making mainstream this proof-of-concept will be valuable for future online services.

Recommendation 9: To mitigate the effects of tax refund fraud the IRS should enable a taxpayer to register and authenticate with the IRS and provide an email address, or other contact information, so the IRS can notify the taxpayer when a return is received using the taxpayer's social security number. Since fraud is usually not discovered until the taxpayers file their returns, which can be months later, the SSN alert could greatly accelerate the implementation of appropriate anti-fraudulent actions. In addition, it may lessen the burden of fraud and decrease the time it takes for fraud victims to receive their tax refunds.

Detailed Recommendation

This recommendation necessitates a vehicle where taxpayers can authenticate to the IRS and provide an email address. In the absence of another scheme to authenticate and register the taxpayer through a new service, e-Services can be a vehicle to deliver this service. ETAAC is not recommending IRS use e-Services. However the authentication methodology and ability to provide additional data the IRS are the desirable characteristics. Refund fraud is an insidious threat to individuals and the U.S. tax system. ETAAC submits a service such as e-Services with online tools could be deployed for the use and benefit of non-professional taxpayers in reducing refund fraud. To accomplish this, registration, now generally limited to tax professionals, would need to be made available to non-professionals. Once registered, the taxpayer could apply for an "SSN Alert." This dynamic interactive tool would utilize information from the registration coupled with the submission of a tax return into in the IRS return pipeline. "SSN Alert" would notify the registrant of a return filed with his/her SSN. As is done by the private sector in areas such as internet banking, the notification would read as a confirmation and provide instructions to contact the IRS if the taxpayer did not initiate the filing of the return. If reported in a timely fashion, it could allow the IRS to take appropriate action including blocking the issuance of the refund. With "SSN alert" the registered taxpayer would receive an email a tax return with his/her SSN had just been submitted to the IRS.

Recent legislation[41] has called for shortening the average time for closing identity theft cases from 196 days to 90 days. An SSN alert tool could be instrumental in such an endeavor.

Recommendation 10: The IRS should encourage those who issue 1099s and W-2s to make those forms available over the internet for taxpayer retrieval.

Detailed Recommendation

Currently some payers offer electronic delivery of forms 1099 and W-2, and some even offer electronic retrieval of those documents into tax preparation software. ETAAC suggests the IRS encourage all issuers to provide this service. Being able to directly import information to a tax return will improve return accuracy by eliminating transcription errors and could encourage more complete reporting.

Another related product useful to tax professionals and non-professionals alike is a Check Information Return tool, so the taxpayer registrant or an authorized tax professional, could check/verify the 1099 income with which the taxpayer is being attributed. Such a tool could reduce the need for automated under-reporter notices issued many

---

41 S.676: "Identity Theft and Tax Fraud Prevention Act of 2013", introduced by Senator Bill Nelson (D, Florida).

months in the future saving IRS expense and taxpayer confusion. In the current system this tool could only be used well after the return is filed. This is because the IRS does not have the information until after the original return is filed.

Additionally the existing e-Services for tax professionals could be enhanced by enabling TIN Matching for non-payers such as tax return preparers. Currently TIN Matching is only available to e-Services registrants who are "payers" for purposes of filing 1099s. Non-payers, such as tax preparers, would benefit from the ability to use TIN Matching because it would enable them to verify taxpayer IDs before submitting returns, rather than receiving notices or rejected e-file transactions, post filing.

Recommendation 11: The IRS should provide leadership and guidance to the Exchanges established by the Affordable Care Act (ACA) so there is a method for taxpayers to retrieve information required to file their tax returns over the internet from the website of the Exchange.

Detailed Recommendation

The ACA established a number of reporting requirements for insurers, employers, and other entities. One of these regulations is Exchanges are required to provide statements to citizens with details on services received, the amount paid to the Exchange, and the premium tax credits received. Information from these statements will be required in order for taxpayers to file their returns.

The ACA does not include an explicit deadline for the delivery of these statements (unlike the requirement for other information returns). If none is provided by the IRS, taxpayers who received services from the Exchange would be unable to file a complete accurate return until they receive this information.

If these statements are not received in a timely fashion, taxpayers may have to delay filing their return. Alternately, taxpayers may elect to file an incomplete tax return early, and then amend using the paper amendment process once they receive this statement. For this reason, ETAAC recommends IRS include a regulatory deadline for Exchanges to issue statements to taxpayers so they can accurately file their return. ETAAC recommends the IRS consider a date not to be after the one already in place for the issuance of Forms 1099: January 31.

ETAAC believes timely, accurate reporting to the taxpayer will result in more accurate returns filed to the Service. ETAAC also recognizes the IRS has significant experience in developing reporting requirements for employers and other payers.

With these new coming requirements ETAAC recommends the IRS develop certain best practices with regard to the Exchange issued information statements. ETAAC recommends the IRS consider the filing patterns of taxpayers who fall into the income category to benefit from the Health Insurance Premium Tax Credit. For example, if the majority of these taxpayers currently file their returns in January or early February, IRS guidance should recommend issuance of those documents earlier in the year.

Since the information in these statements will be used for preparation of a tax return, IRS should include in its guidance a standard formatting methodology for the exchanges either over the internet or on paper. ETAAC understands certain Exchanges are already working with tax return preparers and tax software publishers to make available the automatic import of Exchange statement information into tax software. With IRS' experience in this area, ETAAC believes IRS should provide, in its guidance, how Exchanges can make the disclosure of information in a systemic way with taxpayer consent.

Toward a long term strategy

The IRS should acquire broad feedback on its online tools and resources roadmap as was published in the GAO report GAO-13-435.

As mentioned earlier ETAAC encourages a phased roll-out of web-based functions for the various constituent groups. The Committee is aware the IRS has a tentative schedule for future tools and resources. ETAAC strongly encourages IRS staff to actively engage the tax-preparer and developer communities in this process. While the IRS may have data to suggest what functionalities would be most valuable, the Committee believes it is imperative to get a broad set of voices to weigh-in on this matter.

We believe implementing the five recommendations described above and enabling the taxpayer to consent to their information being disclosed will enable the IRS to aggressively pursue additional web-services in 2014 and the years ahead. In order to achieve the benefits of electronic tax administration it is essential the IRS expand the number of tools available. IRS should engage its return preparers, taxpayers, and other stakeholders after the implementation of these recommendations to study and understand their utility and to gather environmental knowledge.

On June 7, as this report was being finalized, the IRS announced that it plans to retire the Disclosure Authorization (DA) and Electronic Account Resolution (EAR) tools in e-Services as of August 11.[42] In their notification the IRS stated that the program is being retired due to low usage, and that the Service will increase staffing to handle the additional paper submissions.

Practitioner groups dispute IRS's claim that these online tools suffered from low usage asserting that there has been a "demonstrated and steady" increase in practitioner usage of e-Services DA since its inception.[43] Further a TIGTA report shows a steady increase in usage of this tool[44]. Some practitioners additionally pointed to a lack of IRS outreach when it comes to educating practitioners and publicizing the various uses of e-Services products.[45]

ETAAC believes that internet based tools are the gateway to the IRS providing expanded services to the tax payer and tax preparation community. If the intent is to replace these tools through Modernized eFile or another internet tool then the IRS should communicate that. If there is not a replacement plan ETAAC believes that removing online tools and reverting to a paper submission process is counter-productive.

---

42 See www.irs.gov, e-News for Tax Professionals 2013-23
43 CPA Practice Advisor, June 9, 2013
44 TIGTA Report June 29, 2012 2012-40-071
45 CPA Practice Advisor, June 9, 2013

KEY OUTCOME 4

Public Sector and Private Sector Partnering and Collaboration

Key Outcome 4: Leverage tax service delivery channels from and with the private sector for outreach, issue resolution, and requirements gathering. This includes face to face interactions and virtual delivery to simplify compliance and ensure confidence in electronic tax administration activities.

Recommendation 12: Congress should provide funding for and IRS should continue current collaboration activities with the tax software preparation industry through ETAAC, direct provider contact, and trade organizations. This includes face to face meetings, attendance at industry conferences, regular communications, and specific project and issue resolution to advance electronic tax administration.

Recommendation 13: Broaden outreach activities by leveraging and expanding current partnerships with accounting professionals and other taxpayer groups through low cost and high return electronic delivery channels such as current electronic media and new virtual delivery methods, particularly for the ACA impact on tax administration and to communicate filing season status and future trends.

Recommendation 14: Stakeholder Liaison should remain an integral component for IRS advancement of electronic tax administration (ETA). ETA is advanced when Stakeholder Liaison can provide for the complex and divergent needs of its external constituencies through outreach programs that are delivered by a staff of field level Liaisons providing direct personal interaction and utilizing a sophisticated and cost effective virtual forum.

The first goal of the IRS Strategic Plan for 2009 to 2013[46] is “improve service to make voluntary compliance easier.” The four main objectives to reach this goal all deal with building relationships; they include terms such as interaction, timely resolution, outreach, and partnership. ETAAC recognizes the need for the IRS to collaborate with the taxpayer community through the means outlined in the following detailed recommendations to achieve the IRS’s strategic goals and objectives of making compliance easier. The Committee recognizes under the current budget restraints and economic uncertainties the IRS needs to consider interacting with its partners in the most cost effective possible way.

---

[46] IRS Strategic Plan 2009-2013 at http://www.irs.gov/pub/irs-pdf/p3744.pdf last visited April 2, 2013.

Even though budget constraints are a reality, ETAAC would like emphasize the importance of partnering and collaborating to maintain confidence in electronic tax administration advancements. Reaching the 80% goal for individual tax filings was a major accomplishment. Through partnership and collaboration the risk these rates drop can be mitigated greatly.

There are three main ways the IRS can engage stakeholders: outreach, issue resolution, and requirements. The recommendations included in this section focus on three different segments of stakeholders for each of the areas. The segments include the tax technology industry, the general taxpayer community, and the preparation community. In this overview, ETAAC highlights the importance of current programs and further opportunities of engagement for each area.

Outreach is an area where ETAAC commends the many avenues the IRS currently utilizes to reach millions of taxpayers in the most efficient and effective way possible. Mainly this is accomplished through programs involving third parties that reach large groups of taxpayers, sometimes referred to as the multiplier effect. Outreach activities tend to focus on status and instructional related items communicated in order to help taxpayers successfully prepare and electronically file returns. A great example this past year was resetting of expectations in 2013 for when returns could be electronically filed and refunds issued. The new Affordable Care Act (ACA)[47] compliance and administration by the IRS will bring about many new opportunities for outreach to the taxpayer community. Issue resolution, particularly with electronic filing activities through direct contact with software providers and/or tax technology industry groups is always a top priority. Industry collaboration is greatly needed and appreciated.

Requirements gathering, both strategic and operational, is an area where there are still opportunities to increase stakeholder collaboration, particularly on the front end of new product and service opportunities for the IRS. ETAAC recognizes there are inherent hurdles for the IRS to improve in this area, including the current budget restraints and the complex processes and procedures that must be followed to gain approvals to work with external stakeholders.

However as technology advancements allow for faster access by taxpayers to their tax information and broader services to be provided by the government, the opportunity for stakeholders to offer their perspective and help the IRS define strategic priorities and requirements is aligned with the IRS' strategic objective "incorporate taxpayer perspectives to improve all service interactions." The communication of the stakeholder process and opportunities for participation is essential to reaching this objective.

Recommendation 12: Congress should provide funding for and IRS should continue current collaboration activities with the tax software preparation industry through ETAAC, direct provider contact, and trade organizations. This includes face to face meetings, attendance at industry conferences, regular communications, and specific project and issue resolution to advance electronic tax administration.

Detailed Recommendation

Over the years, particularly in the area of electronic filing, there is no greater example of the benefits of collaboration than the IRS' interactions with external groups including ETAAC and electronically focused

[47] The Affordable Care Act, Section by Section at http://www.healthcare.gov/law/full/index.html last visited April 30, 2013.

organizations such the National Association of Computerized Tax Professionals (NACTP)[48] and the Council for Electronic Revenue Communications Advancement (CERCA). [49]

No other group in the tax technology ecosystem provides a broader and more encompassing perspective to help the IRS with its strategic direction than ETAAC. ETAAC represents the public, not just the industry. The Committee includes representation from the accounting and tax preparation industry, state departments of revenue, payroll, individual and corporate income tax preparation industry, tax technology industry, general software development industry, small and medium size regional accounting industry, and IT industry. The importance of this diverse group of stakeholders interacting with the IRS to support the taxpaying community is paramount to the IRS short and long term success in electronic tax administration.

Recommendations and insight from ETAAC have helped the IRS to break down barriers and overcome and foresee obstacles to reach electronic filing goals. For example, ETAAC recognized the importance of working with Federation of Tax Administrators (FTA) and state revenue agencies which contributed to the success of modernized electronic adoption of the Fed/State program.

Not only has ETAAC been a partner in electronic filing modernization, but it has also served to help the IRS to both understand the impact and overcome barriers of adoption of a broad array of electronic services available to the taxpayer and preparer community as outlined in this year's report.

The NACTP's mission is to promote efficient and effective tax filings and help the IRS and other revenue agencies provide the best possible service to taxpayers. CERCA was founded to provide a forum and a liaison point between the IRS and industry as well as other key stakeholders with the goal to assist in building electronic filing and advance electronic tax administration. Again these two committees, the IRS and FTA, have shared many successes working together. The NACTP has been particularly instrumental in working with states and FTA to help them adopt the Fed/State E-file programs. CERCA has created several working groups including most recently "Health Care, Security, and Online Services" to assist the IRS in the roll out of these important initiatives.

In order for each of these organizations as well as other stakeholders the IRS works with to continue to be effective, ETAAC strongly urges the IRS to continue funding face-to-face interactions for several reasons. For instance, it is critical to the development of the topics of this report to have in person meetings. Meeting held in person help the flow of ideas and the interaction of members of the committee with IRS personnel. Gathering of information needed for the report and brainstorming with IRS personnel and committee members on areas of improvement and strategic importance is far more effective in person than via e-mail or phone.

ETAAC is by design a diverse group of leaders in different segments of the tax industry. On occasion some members know each other from trade associations, vendor relationships, etc., but the majority does not. Unlike colleagues in a business enterprise, the Committee does not have rapport based on longevity of relationship or common business goals. Those characteristics are part of what makes remote work function effectively. Therefore in person sessions are crucial to build those bonds and then quickly and effectively accomplish the tasks at hand. Remote meeting technologies can and should be used for much of what is done. Nevertheless, in order to achieve goals on time that are worthwhile, ETAAC needs the opportunity to work in person.

One of the primary reasons the IRS and state tax agencies have saved money in the past, and will continue to save money in the future, is because of electronic tax administration and the relationships the IRS has built with industry that support and foster electronic tax administration adoption. ETAAC, NACTP, and CERCA have played an important role in fostering ideas/initiatives relating to electronic tax administration. Limiting face-to-face meeting

[48] About NACTP at http://www.nactp.org/index.php/about-nactp last visited May 1, 2013.
[49] About Us at http://www.cerca.org/about/index.cfm last visited May 1, 2013.

will have a negative effect on the report generated by ETAAC and adversely affect the mission of both NACTP and CERCA. This, therefore, could limit future initiatives that could help reduce IRS' budget.

Recommendation 13: Broaden outreach activities by leveraging and expanding current partnerships with accounting professionals and other taxpayer groups through low cost and high return electronic delivery channels such as current electronic media and new virtual delivery methods, particularly for the ACA impact on tax administration and to communicate filing season status and future trends.

The IRS has published and maintains an abundance of information to taxpayers to aid with tax preparation and compliance. ETAAC urges the IRS to communicate and market thoroughly and effectively what is available and utilize new organizations and virtual electronic delivery means to further its outreach. A brief visit to the IRS website[50] shows quick links to forms and publications, tools, filing and preparation options, and even social media. ETAAC commends the IRS for its focus on online services and recommends the expansion and promotion of these services more aggressively. Taxpayers can sign up for several IRS emails subscriptions. There are You Tube videos with helpful instructions on services to use and how to use them. There are mobile applications, such as the IRS2Go application, to help taxpayers access their refund status. These are effective services, and the IRS should ensure taxpayers know of them. Promoting these will help to instill confidence in the taxpaying industry and keep the trends of electronic filing adoption progressing and evolving in exceedingly useful and appropriate ways.

Another way ETAAC suggests the IRS further its outreach is to evaluate new organizations and groups and to leverage ways to get messages utilizing technology and virtual delivery methods with these groups. For example, employers have staff-members who file returns. The IRS could create a series of instructional videos and/or quarterly online meetings geared to employers. These could be used to teach employers fundamental mistakes many filers make. Then employers can distribute this information to their employees.

Additionally, the IRS could look at ways to allow the public and taxpayers to easily submit feedback on IRS electronic tax administration policies and processes. A link could be added to the IRS website to provide suggestions. This feedback could either be solicited on specific topics by the IRS or left open. ETAAC does understand the responses could be enormous, but with the analytical tools available today, it should be very cost effective to consolidate and summarize the stakeholder feedback. This in turn could be used to inform the IRS strategic direction for electronic tax administration.

Recommendation 14: Stakeholder Liaison should remain an integral component for IRS advancement of electronic tax administration (ETA). ETA is advanced when Stakeholder Liaison can provide for the complex and divergent needs of its external constituencies through outreach programs that are delivered by a staff of field level Liaisons providing direct personal interaction and utilizing a sophisticated and cost effective virtual forum.

Detailed Recommendation

Stakeholder Liaison or ("SL") remains an integral component for the IRS advancement of electronic tax administration. SL supports both internal and external stakeholders on behalf of a myriad of IRS objectives. Internally SL meets with various operating groups to establish and confirm consistent and appropriate messaging, generates output for web-based-services, and assembles various intra-agency partners to discuss questions and

[50] IRS at http://www.irs.gov/ last visited May 1, 2013.

concerns. SL is a source for disseminating information across internal business units when tax law revisions occur or when "late tax legislation" impacts the tax community.

The taxpayer outreach component of the SL mission is carried out by Stakeholder Liaison Field and Headquarters with the support of Stakeholder Liaison Communications.

The challenge in operating any governmental area considered a support function, particularly in a financially constrained operating environment, is for this support function to demonstrate the ability to continuously shed costs, improve efficiency, *and* deliver value. Stakeholder Liaison is not immune from such operational realities.

The operational goals of cost containment and cost reductions along with value delivery are often inherently quantitative measurements and, therefore, lend themselves to a "score card" analysis and objective results interpretation. IRS utilizes meaningful metrics and measurements for quantifying results throughout its organization, and SL is responsible to the entire agency for delivering positive performance results.

Operationally, SL has reduced its head count from approximately 400 employees, fifteen years ago, to less than 200 employees today. During this period IRS directives to SL have greatly expanded the SL mission to include such important Service outreach efforts as, "IRS National Tax Forums" and expanded website content responsibilities, as well as additional internal and external outreach programs stemming from public policy directives.

ETAAC believes continued staffing reductions in Stakeholder Liaison could negatively impact IRS service delivery. The Office of The National Taxpayer Advocate, in its 2012 Report to Congress, identified the "underfunding and reduction of the scope of Stakeholder Liaison as a significant risk to noncompliance."[51] ETAAC agrees with this view.

SL has a strong case history for positively affecting performance measures in the disparate IRS operational areas. These include: decreased IRS call center volume, tax return reject processing, increased rate of electronic filing, tax return accuracy, and audit reduction. Although difficult to measure, these improvements are extremely beneficial to both taxpayers and the IRS ultimately saving the IRS millions of dollars annually.

ETAAC believes Stakeholder Liaison must develop more sophisticated quantitative financial metrics for directly tying its operational achievements to financial measurements along with the successful performance measurement of outreach and education. Once these are accurately and completely quantified, any cost reductions achieved or operating efficiencies created should be directly allocable to the Stakeholder Liaison ledger "thus becoming the basis for understanding and developing appropriate and realistic future funding SL levels."

Furthermore SL should obtain the support and agreement of its various internal partners for the specific metrics to be utilized in quantifying success. Clearly associating the financial impact of SL efforts, in its respective operating areas, to agreed-upon financial measurements is integral for generating the insight and clarity to allow IRS management to properly understand the value SL provides to the IRS, and its various stakeholders, and then to make truly informed decisions.

Stakeholder Liaison also must generate financial savings through increased usage of technology such as webinars and virtual meeting technology as well as including other efficiency improvements and necessary cost reductions. SL must continuously and economically leverage its resources to the same extent all areas within IRS are measured.

However the IRS cannot develop a false sense of accomplishment technologically driven services delivery completely or successfully captures all necessary stakeholders and personal delivery service could or should be diminished because this area is non-critical. ETAAC believes the mission of Stakeholder Liaison should be

[51] National Tax Payer Advocate 2012 Report to Congress, December 31, 2012, "The Most Serious Problems Encountered by Taxpayers" P. 25.

expanded not contracted, whenever possible, to accommodate the dual reality of the need for multiple support channels required for providing critical SL services.

Certain demographic realities exist in the tax industry, which cannot be overlooked, require a multi-channel approach to outreach. While many stakeholders may simply prefer a personal delivery model, the demographic reality of the tax industry is many stakeholders will be overlooked or neglected if personal education and outreach by field level SL employees is eliminated or reduced. Furthermore certain tax related issues do not lend themselves to virtual solutions and require the personal interaction the local Stakeholder Liaison provides. The reality is webinars and other web based outreach services, which often require advanced timelines to produce and disseminate, may not always be available to address immediate tax industry issues.

This is not to suggest the IRS should acquiesce to stakeholder intransigence at technological advancements. Rather it is the recognition of the necessity for multiple points of access and engagement which in turn has a multiplier effect toward maximizing the administrative benefits to IRS electronic tax administration.

Furthermore, SL field-level educational outreach in the 1990's led to the heralded state-level SL programs, such as "Working Together" and "Practitioner Liaison." These programs allow a multitude of tax professionals unique access to a cross-section of IRS employees from collections, exam, SB/SE and wage and investment in an informative and collegial one-day setting at a very low cost. Twenty-five years later these same programs remain enduring examples of successful in-person IRS educational initiatives.

ETAAC believes any diminution of IRS outreach efforts can have significant negative side effects on overall electronic tax administration performance. The impact of "late tax legislation" and the continued expansion in tax credit programs and other social program implementation through the tax return process increasingly will require industry to have greater access to specialized IRS information. SL outreach to the national account level stakeholders and to all other tax industry stakeholders allows for an equitable opportunity for *all* stakeholders fair access the IRS. In an era of tax professional uncertainty regarding increasing regulatory requirements coinciding with continued reductions in personal outreach and education programs may give the misleading impression IRS direct interaction with the tax community is no longer supported. This, ETAAC considers, would not be in the best interest of advancing electronic tax administration.

Key Outcome 5

Modernization - MeF and CADE2 and Beyond

Key Outcome 5: Congress should provide IRS with adequate funding to ensure that there is sufficient staffing and for the additional system changes needed to complete the implementation (and make necessary improvements) to the Modernization Program which includes Modernized e-file (MeF) and the Customer Account Data Engine (CADE2).

Recommendation 15: Continue to work towards the completion of MeF for all form types which includes the 94X family, fiduciary returns (1041) and the remaining ancillary forms for the 1040 family.

Detailed Recommendation

The IRS has been successful in transitioning the 1040 program to the MeF system. For the 2013 filing season the IRS received all individual federal returns and all state individual returns (for those states that participate in the Fed/State MeF program) through the MeF system.

The IRS was able to correct the programming problems that occurred during the 2012 filing season and were able to work with the states to resolve the IRS gateway issues that were encountered last filing season as well. This has led to a much smoother 2013 filing season for the MeF system, even with the last minute changes needed due to the passage of late legislation at the beginning of January 2013.

With the 1040 program now successfully operating on the MeF system, the focus should now be on transitioning the 94X family of forms (as well as improving the usability of the 94x e-file process) and the fiduciary (1041) returns to the MeF system. The IRS is in the process of converting these form types and is scheduled to start receiving them through the MeF system in January 2014.

Since the IRS has successfully completed the 2013 filing season with 100% of e-filed returns being received through the MeF platform, ETAAC believes that the Legacy system no longer needs to be maintained as a contingency. The IRS has proven the MeF system is able to handle the entire federal return volume. In addition, states have discontinued using the Legacy platforms as strict budgets have not allowed for the maintenance and updating of two filing platforms. The maintenance of one platform will now allow the IRS to focus all of its efforts on converting the remaining individual 1040 forms as well as the 94x and 1041 series to the MeF platform.

To help ensure the remaining programs are transitioned to MeF successfully, ETAAC continues to encourage open communication between the IRS and its stakeholders not only during the filing season but all year round.

Recommendation 16: IRS should continue to work towards completing the Customer Account Data Engine (CADE2) to ensure that the IRS has only one system processing individual returns.

Detailed Recommendation

As the IRS moves forward with its CADE2 program implementation, which will result in a single relational database to store all individual taxpayer account information in a central data source, they need to ensure that the final steps of fully implementing this system stays on schedule.

The full benefits CADE2 offers IRS will not be realized until the old IRS Master File is retired and all taxpayer account information is transferred to the CADE2 program. The IRS has indicated that a fully implemented CADE2 program will result in timelier taxpayer data, increased analytical data stores, improved/expanded tools to more effectively use data for compliance and customer service, and enhanced data security.

With the rising expectations of taxpayers to interact with the IRS electronically and for the IRS to be able to give taxpayers more timely information regarding the status of their return, their refund and their account history it is imperative that the IRS finish the implementation of CADE2 as quickly as possible.

ETAAC believes that the full implementation of the CADE2 program remains critical to IRS's ability to meet taxpayers' needs. This is important not only for the efficient processing of returns but also in the IRS's ability to give taxpayers' information about their return and account history in a more timely manner and in an electronic format as opposed to mailing them their information as they presently do.

In addition, CADE2 will enhance the IRS' ability to offer enhanced services to all individual taxpayers and give them quicker and more accurate information regarding their tax information.

As in the 2012, 2011 and 2010 ETAAC reports, ETAAC continues to strongly encourage Congress to fully fund the IRS CADE2 program and other modernization efforts.

As these enhanced modernized services become more available, IRS should clearly communicate to its partners (which include states and the tax preparation industry) the status of the completion of all taxpayer accounts to CADE2. IRS should review what new capabilities that will be made available as a result of the completion of CADE2 and consider the development of additional tools for use by both the taxpayers and the tax preparation industry consistent with the other sections of this report.

Recommendation 17: As part of the final implementation of MeF and to reinforce the message that all returns should be filed electronically, the IRS should allow taxpayers the ability to file their return electronically in all situations.

Detailed Recommendation

At the present time the IRS requests that returns be filed on paper if the taxpayer cannot resolve a reject situation, additional documentation is required to process the return, etc. In these situations a solution should be found for the return to be filed electronically and the issue be resolved after the return is filed or additional documentation be attached to the return electronically or sent to the IRS separately.

The following are examples of situations where a solution needs to be found for taxpayers to file their return electronically:

- Returns rejected for something other than a math or format error (such as SSN/Name does not match IRS Database).

  A number of years ago the IRS added an "imperfect return indicator" to the individual e-file program for two specific rejects. This indicator allowed the taxpayer at their election to file the return electronically with the understanding that this one issue still needed to be resolved and thus the final processing of the return would be delayed. Without this indicator the only option would be for the taxpayer to file the return on paper. Since the taxpayer still needs to file their return they should be able to file it electronically.

The IRS should expand the "imperfect return indicator" program to include more reject criteria for situations other than a math or format error. If the taxpayer has tried to resolve the reject situation or believes that the applicable information is correct, the IRS should allow the taxpayer to include an explanation and the indicator with their return and permit it to be filed electronically.

- Situations where the IRS requires additional documentation to be included with the return in order to complete the processing of the return, such as occurred with the First Time Homebuyer's Credit and the Adoption Credit when it was a refundable credit for 2010 and 2011.

  The ultimate solution is to allow the applicable documents to be attached as a PDF to the electronic return.

  As an interim solution, the IRS should allow the additional documentation to be attached to the Form 8453 and be mailed to the IRS.

- Returns of taxpayers who have been victims of identity theft and have been rejected because the Taxpayer's SSN was used on a previously accepted electronic return.

  The IRS has instituted the Identity Protection Personal Identification Number (IP PIN) program to combat identity theft and fraud. Under this program just before each filing season the IRS issues a unique identifier (the IP PIN) to taxpayers who the IRS believes have become a victim of identity theft. By using the IP PIN on their return, the taxpayer validates their identity when filing their return..

  The IRS should expand the IP PIN program as follows:
    - Allow for the issuance of an IP PIN to taxpayers who become victims of identity theft during the filing season.
    - Allow a taxpayer with an IP PIN the ability to file their return electronically in all situations. This includes the situation where someone has filed a fraudulent return using the taxpayer's SSN before the real taxpayer has had a chance to file his return.

As the IRS improves their ability to detect fraud, which will include an enhanced capability to determine whether the return that is being filed is truly the taxpayer's return, the IRS should look at this as an opportunity to find a way to allow the taxpayer to override the duplicate SSN reject and file his return electronically.

This page intentionally left blank.

APPENDIX A: ETAAC MEMBERS

Shaun Barry – Mr. Barry is the Principal Solutions Architect in the Fraud & Security Intelligence practice at SAS Institute from Rockville Centre, New York. He is responsible for developing and implementing technology solutions that give government leaders the power to identify and manage tax compliance, fraud, and improper payments issues. Mr. Barry has 19 years of experience in working with government clients throughout the US, Canada, South America, Europe, and Asia to foster innovative and efficient operations through technology. He specializes in tax/revenue, healthcare, motor vehicle, and fraud/improper payments domains. Mr. Barry earned a B.A. in American Studies from the University of Notre Dame, and a Master of Public Policy degree from Duke University.

Timothy Blevins – Mr. Blevins is the Chief Technology Officer with CGI's Tax, Revenue, and Collections Center of Excellence and is from Mayetta, KS. He is responsible for providing expertise to clients to enhance their tax operations and collections management systems. Mr. Blevins has over 30 years of experience in the implementation, management, and modernization efforts of government information technology solutions with the State of Kansas. He was CIO for Kansas SRS for five years and the Kansas Department of Revenue for 11 years. He earned a B.A. in Management Information Systems from Washburn University and is a former Co-Chair of the Federation of Tax Administrators-Internal Revenue Service Tactical Advisory Group (FTA-IRS TAG).

Sean J Brennan - Mr. Brennan of West Chester, Pennsylvania is President and owner of Brennan & Associates and Brennan and Company, CPA, PC. Mr. Brennan has been e-filing, since 1997, individual and business tax returns for clients in Southeastern Pennsylvania. He has taught numerous college courses, for the previous 15 years, as an adjunct faculty member. Mr. Brennan earned a BS in Accounting from St. Joseph's University in Philadelphia, Pennsylvania and a MBA in Economics and Finance from West Chester University located in West Chester, Pennsylvania. Mr. Brennan is a member of the National Association of Tax Professionals (NATP)and the American Institute of Certified Public Accountants (AICPA) and a representative for the Pennsylvania IRS/Practitioner Liaison Committee.

Alice Burnett – Ms. Burnett is the owner and president of Burnett and Associates, LLC from Lawrenceville, GA. Her company offers support to both public and private sector clients, primarily covering programs that contain a financial component. Prior to starting her own practice, Ms. Burnett held a senior manager level position within a major financial institution for over 20 years, and she was a manager for the implementation and operation of the Electronic Federal Tax Payment System (EFTPS). Certifications include Project Management Professional (PMP), BAI Certified Risk Professional in Operations, Certified Supplier Manager, and Six Sigma Green Belt. Ms. Burnett is a member of the Project Management Institute (PMI), American Management Association (AMA), and American Society for Quality (ASQ).

Mark Castro – Mr. Castro, CPA, is the Government/ Industry Liaison for Petz Enterprises, Inc. from Woodinville WA. He is responsible for working with the State tax agencies and IRS to help improve electronic filing and gather the most up-to-date state and federal tax information for the company. Mr. Castro while working in the tax software industry has been involved in all areas of electronic filing including development, testing and customer support. Mr. Castro earned a BS in Business Administration (Accounting) from California State University, Northridge. He also serves on the board of the Council of Electronic Revenue Communication Advancement

(CERCA) and as the Electronic Filing Committee Chairperson of the National Association of Computerized Tax Processors (NACTP).

Cyrus Daftary – **Mr. Daftary** is a partner with Burt, Staples & Maner, LLP from Newton, MA. He is responsible for consulting with multi-national corporations and financial institutions on their compliance in the IRS tax withholding and information return reporting rules. Mr. Daftary assists clients in obtaining a Memoranda of Understanding from the IRS for the electronic W-8 software application. His experience includes developing and implementing tax software solutions for withholding and information return reporting and authoring a three series treaty on E-Commerce.

Edward (Ned) Drinker – Mr. Drinker is the tax manager of Oberthur Technologies of America Corporation and is from Conshohocken, PA. He is responsible for all US tax matters including preparation and e-filing of the federal income tax return as well as the preparation and filing of all state income/franchise tax returns. He manages federal and state audits, information reporting, tax depreciation and sales and use tax compliance. He has implemented sales tax software for diverse businesses. Mr. Drinker earned a B.A. in Economics from Hamilton College, an MBA in Econometrics from Temple University, and a Master of Taxation from Villanova University School of Law. He is a member of Tax Executives Institute and chairs the Philadelphia Chapter's IRS Administrative Affairs Committee.

Steve Lewis – Mr. Lewis, EA, is the director of Online Tax Preparation and Interactive & Social Media for Jackson Hewitt Tax Services from Sarasota, FL. He has over 15 years of experience in the tax industry and is responsible for the overall delivery of online tax solutions. Mr. Lewis oversees the development of the public website, mobile applications, and online tax software. He establishes processes and procedures for operational implementation of interactive and social media. Mr. Lewis earned his BS in Accounting and his MBA in Finance both from Northeastern University. He is a member of the National Association of Enrolled Agents (NAEA) and the National Association of Tax Professionals (NATP).

Yasmine (Mimi) Nolan – Ms. Nolan is the director, Tax Forms Management with H&R Block from Parkville, MO. She oversees the centralized process of procurement, distribution, and interpretation of all tax regulatory changes, as well as tests tax law changes for regulatory accuracy across products. She is responsible for a team that procures tax documents, monitors and analyzes changes to the federal and state income tax forms, publications, instructions, and tax notices. Ms. Nolan has directed system, product design and implementation of digital tax preparation solutions. Her experience also includes electronic filing and tax software development, tax forms management, quality assurance in systems development, and tax preparation. Ms. Nolan earned a B.S. in Computer Based Information Systems from Park University and an MBA from University of Missouri-Kansas City. She is a member representative to National Association of Computerized Tax Processors (NATCP), and serves as Chairperson of the Government Liaison Committee.

Douglas Simon – Mr. Simon of Lincolnshire, IL, is president and founder of HS&A Payroll Services, Inc. He is responsible for a suite of tax compliance, payroll, and retirement plan solutions. Mr. Simon works with a wide range of companies and oversees both tax filing and compliance operations. Mr. Simon earned a BS in Electrical Engineering from Northwestern University and a MBA from DePaul Kellstadt Graduate School of Business. He is a member of the American Payroll Association (APA) and the Independent Payroll Association Providers.

David Sullivan – Mr. Sullivan of East Greenwich, RI, is the Tax Administrator for the Rhode Island Division of Taxation. He is responsible for creating the E-government Unit to assist in enhancing and improving their interaction with customers using new technologies. He earned a BS in Accounting and Business Management from Lebanon Valley College and a MS in Taxation from Widener University. Prior memberships include Treasurer and President of the Northeastern State Tax Officials Association and Federation of Tax Administrators - Internal Revenue Service Tactical Advisory Group (FTA-IRS TAG).

Timur Taluy – Mr**.** Taluy of Oxnard, CA, is the chief executive officer of FileYourTaxes.com. He is responsible for the development of the user interface, the secure external interface, and tax intelligence platform. Taluy manages the development and enforcement of internal policies and controls regarding safeguarding and development of tax return data processing systems. He also oversees the process contributing to the accuracy of the final tax product. He is a member of Council for Electronic Revenue Communication Advancement.

TJ Turner–Mr. Turner of Cape Coral, FL, is a senior principal business system architect for Vertex Inc. He is responsible for leading software development of Vertex's enterprise corporate tax application product suite. Products include tax data warehouse, compliance, and tax accounting solutions across several tax domains. He has worked in the corporate tax technology industry for over 12 years, including roles consulting corporate taxpayers to adapt legislative and technology changes and leading research professionals responsible for creating and updating tax content for several tax applications. Mr. Turner earned a BA in Business Administration from Baldwin-Wallace College and has a JSM in International Tax and Finance from the Thomas Jefferson School of Law.

Blair Whitworth – Mr. Whitworth is the president of PRO-TAX, the Tax University, and Tax Business Management from Charlottesville, VA. His companies provide tax preparation services in the Mid-Atlantic and Southeast, online tax training, and management software for independent tax businesses. Along with his leadership roles Mr. Whitworth is responsible for business development and technology strategy. He earned a BA from the University of North Carolina, a MA from the University of Virginia, and a MBA from the College of William & Mary.

Harris Widmer – Mr. Widmer of Fargo, ND, is a CPA and partner in Widmer Roel PC. He provides tax, consulting, audit, and financial planning services to a wide variety of businesses and individual clients. Mr. Widmer earned a BA from Jamestown College. He is a member of the North Dakota Society of Certified Public Accountants, American Institute of Certified Public Accountants (AICPA), and National Association of State Oversight Boards of Accountancy.

APPENDIX B: EFI ANALYTICAL METHODOLOGY

This Appendix explains ETAAC's methodology for analyzing and projecting the Electronic Filing Index (EFI).

PART 1. ESTIMATING THE ELECTRONIC FILING RATE

The Electronic Filing Index

ETAAC identified several different measures used over the years to report and measure the electronic filing rate. To create a consistent measure of this goal, to standardize cross-year comparisons, and to facilitate analysis, ETAAC developed the electronic filing index (Index) for use in its Annual Report to Congress. The Index aggregates and assesses the electronic filing rates of a defined set of major tax returns and includes a methodology for projecting e-file rates based on "season to date" information about the main driver of electronic filing rates – the individual tax return. The Index computes both a specific electronic filing rate for each specified return family, as well as an overall composite rate representing the overall electronic filing rate for all major return families in the Index. Importantly, because certain information in IRS Publication 6186 is estimated, ETAAC's Index may shift slightly from year to year as IRS updates its estimates with actual filing season results.

Return Families

The Index is computed using IRS Publication 6186's reported information for designated forms in 6 major return families:

Individual Income Tax	**Employment Returns**	**Corporation Income Tax**
Forms 1040, 1040-A, and 1040-EZ	Forms 940, 940-EZ and 940-PR	Forms 1120 and 1120-A Total
	Forms 941, 941-PR/SS	Form 1120-S
Partnership	**Exempt Organizations**	**Fiduciary**
Forms 1065/1065-B	Form 990	Form 1041
	Form 990-EZ	

Projected Electronic Filing Index

As noted above, the current year filing season data contained in IRS Publication 6186 is estimated. However, based on actual filing season results, we can utilize real-time data. Therefore ETAAC has modeled a projection methodology to forecast the current year Index based on two components.

First, ETAAC relies on IRS' estimates from IRS Publication 6186 all major return families other than individual returns. Second, ETAAC projects total filing season individual return e-file rates by extrapolating current filing season "year-to-date" information into "full year" estimates based on historical IRS trend data for the May-October period. Part 2 (below) reflects, at least for the past two years, the e-file rate for individual returns has decreased by about 3% between April and October because a larger percentage of returns filed in the extension period are on paper.

Based on this methodology, ETAAC estimated the individual return e-filing rate will be approximately 82.32% for the entire filing season 2013, translating to an overall Index for all major return types in filing season 2013 of 72.81%.

PART 2. PROJECTING THE FULL YEAR ELECTRONIC FILING INDEX FOR INDIVIDUAL RETURNS

ETAAC has a four-step process for projecting the full year electronic filing rate for individual returns.

Step 1: Estimate the Actual Current "Year-To-Date" E-File Rate

Determine the current "year-to-date" e-file rate for individual returns based on actual return filing information through 3/22/2013.

Table 8: Individual Income Tax Returns – Actual Through 4/26/2013

Individual Income Tax Returns	2012 thorugh 4/26/13 Number of Returns
Total	132,601,000
Efile	113,067,000
E-File %	**85.27%**

Source: http://www.irs.gov/newsroom/article/0,,id=257083,00.html

Step 2: Estimate the Prior Year E-File Rate Degradation

Compare the year-to-date actual e-file rate through approximately 4/26 with the actual e-file rate for the complete tax filing season for both 2011 and 2012. In both instances the final e-file rate decreased approximately 3% during the extension period between the April and October filing deadlines (see Table 13). The degradation rate during this period remains relatively the same year to year. ETAAC will need to monitor the degradation rate as it could change year to year.

Table 9: Historical Partial Season vs. Full Season Data

Individual Income Tax Returns	2011			2012			2012 vs. 2011
	4/30/2011	12/31/2011	Change	4/29/2012	12/31/2012	Change	Change
Total Receipts	130,692,000	145,320,000	11.19%	133,460,000	148,390,000	11.19%	-0.01%
E-File Receipts	104,936,000	112,203,000	6.93%	111,325,000	119,589,000	7.42%	0.50%
E-File Rate	80.29%	77.21%	-3.08%	83.41%	80.59%	-2.82%	0.26%

Source: http://www.irs.gov/newsroom/article/0,,id=239250,00.html: http://www.irs.gov/newsroom/article/0,,id=257083,00.html

Step 3: Project the Full Year E-File Rate for Individual Returns

Subtract the e-file rate degradation from the actual current year-to-date e-file rate. Using a 3/22/2013 cutoff, the projected full year e-file rate for the individual tax return family is 87.11%.

Table 10: 2013 Individual Electronic Filing Rate Projection

Individual (Forms 1040, 1040-A, and 1040-EZ)	Through 04/26/2013		
	Current	Projection Rate	2012 Projection
Total Receipts	132,601,000		
E-File Receipts	113,067,000		
E-File Rate	85.27%	-2.95%	82.32%

Source: http://www.irs.gov/newsroom/article/0,,id=257083,00.html

Step 4: Project the Full Year E-File Volume for Individual Returns

Multiply the projected e-file rate times the IRS' projected 2013 total individual return volume presented in IRS Publication 6186 – that is, 82.32% times 147,598,300 returns. Then, use this projected return volume to calculate the overall Index rate for all major return types.

APPENDIX C – PRIVACY SURVEY DETAIL

ETAAC 2013 - INDUSTRY SURVEY OF PRIVACY CONTROLS AND INFORMATION PROTECTION

What percent of these active files, in question 4, are maintained onsite versus offsite or third party(ONSITE means the files are physically maintained on the Company premises regardless of the format, OFFSITE refers to files that are still in possession of the firm at a different location and THIRD PARTY means either physical or electronic storage is maintained by a vendor off premises)?	
Answer Options	**50%-100%**
% Maintained Onsite	83.5%
% Maintained Offsite	28.3%
% Maintained at Third Party	35.5%

Considering your answer in question 4, what percent of the inactive files are stored onsite versus offsite or third party (ONSITE means the files are physically maintained on the Company premises regardless of the format, OFFSITE refers to files that are still in possession of the firm at a different location and THIRD PARTY means either physical or electronic storage is maintained by a vendor off premises)?	
Answer Options	**50%-100%**
% Onsite Storage	75.8%
% Offsite Storage	34.8%
% Third Party Storage	39.2%

Considering your answer in question 4, what percent of the inactive client files are stored as a paper file? Stored as a computer file? Stored in BOTH formats?	
Answer Options	**50-100%**
% Stored as Paper File	48.6%
% Stored as Computer File	64.4%
% Stored as Both	56.1%

Considering your answer in question 4, what percent of these active client files are maintained as a paper file only? What percent of the active client files are maintained as a computer file only? What percent are maintained in BOTH formats? (In Questions 6-9 the total of your selections should equal 100%. Please round to the nearest percentage provided.)	
Answer Options	**50% -100%**
% Maintained as Paper File Only	26.1%
% Maintained as Computer File Only	59.4%
% Maintained as Both Formats	61.3%

ETAAC 2013 - INDUSTRY SURVEY OF PRIVACY CONTROLS AND INFORMATION PROTECTION

Does the firm allow employees to utilize a non-firm owned PC or a personal device to access the firm network and download/access client data files?								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total number of active client files and the total number of inactive client files (count as "1" those clients where multiple services are provided). – Number of Employees							
Answer Options	**0-50**	**51-100**	**101-250**	**250-500**	**500-1000**	**1001-2500**	**>2501**	**Total Yes/No**
Yes	18.5%	46.2%	37.5%	25.0%	27.3%	50.0%	48.3%	28.2%
No	81.5%	53.8%	62.5%	75.0%	72.7%	50.0%	51.7%	71.8%

Does the firm or office have a written policy for the appropriate destruction of client files?								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total number of active							
Answer Options	**0-50**	**51-100**	**101-250**	**250-500**	**500-1000**	**1001-2500**	**>2501**	**Total Yes/No**
Yes	52.3%	57.1%	70.0%	60.0%	57.1%	88.9%	93.1%	62.6%
No	47.7%	42.9%	10.0%	40.0%	42.9%	11.1%	6.9%	37.4%

Does the firm have a written privacy policy or privacy statement? Is the privacy statement posted online? Disseminated to all clients at least annually?								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total number of active							
Answer Options	**0-50**	**51-100**	**101-250**	**250-500**	**500-1000**	**1001-2500**	**>2500**	**Total Yes/No**
Written Statement								
Yes	76.7%	92.3%	100.0%	75.0%	81.8%	100.0%	89.7%	82.3%
No	23.3%	7.7%	0.0%	25.0%	18.2%	0.0%	10.3%	17.7%
Posted Online								
Yes	36.2%	66.7%	62.5%	75.0%	81.8%	85.7%	89.3%	55.5%
No	63.8%	33.3%	37.5%	25.0%	18.2%	14.3%	10.7%	44.5%
Disseminated Annually								
Yes	52.3%	61.5%	62.5%	50.0%	60.0%	66.7%	85.7%	59.5%
No	47.7%	38.5%	37.5%	50.0%	40.0%	33.3%	14.3%	40.5%

ETAAC 2013 - INDUSTRY SURVEY OF PRIVACY CONTROLS AND INFORMATION PROTECTION

Does your firm or office utilize employee background checks as a component of the hiring process?								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total number of active client files and the total number of inactive client files (count as "1" those clients where multiple services are provided). — Number of Employees							
Answer Options	0-50	51-100	101-250	250-500	500-1000	1001-2500	>2501	Tota Yes/No
Yes	62.8%	85.7%	100.0%	100.0%	100.0%	87.5%	96.6%	76.5%
No	37.2%	14.3%	0.0%	0.0%	0.0%	12.5%	3.4%	23.5%

What do you estimate would be the cost to your firm or office of having to contend with a security breach and a subsequent loss of client data (assuming no insurance coverage)?								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total number of							
Answer	**0-50**	**51-100**	**101-250**	**250-500**	**500-1000**	**1001-2500**	**>2501**	**Total**
0-$2,500	20.30%	0.0%	33.3%	0.0%	10.0%	8.3%	0.0%	14.4%
2,501-5,000	12.40%	15.4%	0.0%	11.1%	10.0%	16.7%	0.0%	10.6%
5,001-10,000	11.20%	15.4%	0.0%	11.1%	0.0%	25.0%	0.0%	10.0%
10,001-25,000	15.70%	23.0%	0.0%	22.2%	0.0%	0.0%	5.0%	12.5%
25,000-50,000	10.10%	0.0%	0.0%	33.4%	10.0%	0.0%	5.0%	8.8%
>$50,000	30.30%	46.2%	66.7%	22.2%	70.0%	50.0%	90.0%	43.8%

Please estimate how much your firm spends annually on privacy related control costs (such as administering								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total number of							
Answer	**0-50**	**51-100**	**101-250**	**250-500**	**500-1000**	**1001-2500**	**>2501**	**Total**
$0	22.3%	0.0%	16.7%	22.2%	0.0%	0.0%	10.0%	16.4%
No more than $1,	44.7%	46.2%	0.0%	0.0%	10.0%	16.7%	5.0%	31.5%
From $1,001 to $5	24.5%	15.3%	33.3%	11.2%	60.0%	33.3%	0.0%	23.0%
From 5,001-$10,0	3.2%	7.7%	33.3%	22.2%	0.0%	16.7%	5.0%	6.7%
From $10,001 to $	4.3%	0.0%	16.7%	22.2%	10.0%	0.0%	0.0%	4.8%
From $25,001 to $	1.0%	23.1%	0.0%	0.0%	10.0%	0.0%	0.0%	13.0%
> $50,000	0.0%	7.7%	0.0%	22.2%	10.0%	33.3%	80.0%	14.5%

ETAAC 2013 - INDUSTRY SURVEY OF PRIVACY CONTROLS AND INFORMATION PROTECTION

The Department of Health and Human Services (DHHS) is leading a public awareness effort called "Stop. Think. Connect". Are you aware of this privacy initiative? Do you think it worthwhile for accounting, tax and financial professional associations to create a "Privacy and Security Awareness Program", for promoting greater industry attention to this issue? If so, would you participate in the program if it were of no cost to you?								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total number of active client files and the total number of inactive client files (count as "1" those clients where multiple services are provided). — Number of Employees							
Answer Options	**0-50**	**51-100**	**101-250**	**250-500**	**500-1000**	**1001-2500**	**>2501**	**Total Yes/No**
Aware of DHHS Initiative								
Yes	14.4%	21.4%	50.0%	41.6%	9.1%	31.2%	41.4%	22.5%
No	85.6%	78.6%	50.0%	58.3%	90.9%	68.8%	58.6%	77.5%
Support Industry Awareness Program								
Yes	69.0%	78.6%	75.0%	90.9%	83.3%	87.5%	92.6%	76.6%
No	31.0%	21.4%	25.0%	9.1%	16.6%	12.5%	7.4%	23.4%
Would Participate in Industry Program								
Yes	67.9%	85.7%	62.5%	81.2%	70.0%	81.3%	69.2%	70.7%
No	32.1%	14.3%	37.5%	18.1%	30.0%	18.7%	30.8%	29.3%

Does your firm utilize Privacy Impact Assessments (PIA's)? PIA's, as stated, are used in understanding and documenting potential privacy-related issues arising from the use of new information systems or changes to existing information system protocols. If used, please describe usage in the "Other" section.								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total number of active client files and the total number of inactive client files (count as "1" those clients where multiple services are provided). — Number of Employees							
Answer Options	**0-50**	**51-100**	**101-250**	**250-500**	**500-1000**	**1001-2500**	**>2501**	**Total Yes/No**
Yes	11.9%	14.3%	14.3%	40.0%	20.0%	7.7%	36.4%	16.7%
No	88.1%	85.7%	85.7%	60.0%	80.0%	92.3%	63.6%	83.3%

ETAAC 2013 - INDUSTRY SURVEY OF PRIVACY CONTROLS AND INFORMATION PROTECTION

Would your firm want to receive sample Privacy Impact Assessments (PIA's), in addition to the template provided at the end of this survey, and general guidance on how to perform such an assessment?								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total number of active client files and the total number of inactive client files (count as "1" those clients where multiple services are provided). – Number of Employees							
Answer Options	**0-50**	**51-100**	**101-250**	**250-500**	**500-1000**	**1001-2500**	**>2501**	**Total Yes/No**
Receive Sample PIA								
Yes	67.6%	71.4%	14.3%	70.0%	40.0%	38.5%	59.1%	61.1%
No	32.4%	28.6%	85.7%	30.0%	60.0%	61.5%	40.9%	38.9%
Receive Sample Guidance								
Yes	67.0%	61.5%	14.3%	77.8%	40.0%	41.7%	59.1%	60.6%
No	33.0%	38.5%	85.7%	22.2%	60.0%	58.3%	40.9%	39.4%

If your firm was provided with a sample Privacy Impact Assessment and some guidance on its usage, how likely would your firm be to use PIA's in the								
	Please select the firm's total number of FTE (full-time equivalent) employees, the total							
Answer Options	**0-50**	**51-100**	**101-250**	**250-500**	**500-1000**	**1001-2500**	**>2501**	**Total**
New Computer Network System								
May or Will Definitely	53.2%	78.6%	57.1%	50.0%	60.0%	46.2%	59.1%	55.4%
Data Storage								
May or Will Definitely	55.7%	78.6%	57.1%	50.0%	60.0%	53.8%	63.6%	58.0%
Social Media								
May or Will Definitely	41.7%	42.9%	57.1%	40.0%	55.6%	46.2%	50.0%	44.1%
Cloud Computing								
May or Will Definitely	44.7%	61.5%	57.1%	20.0%	40.0%	53.8%	54.5%	46.4%
Data Exchanges								
May or Will Definitely	47.6%	57.1%	57.1%	30.0%	50.0%	50.0%	59.1%	49.2%

APPENDIX D – BACKGROUND INFORMATION ON DISCLOSURE

The primary disclosure laws affecting the Internal Revenue Service: the Freedom of Information Act ("FIOA") and the Privacy Act of 1974 and IRC Section 6103 represent efforts by the Congress to strike a balance between a citizen's expectation of privacy and an open and effective government.[52]

Enacted in 1966, the Freedom of Information Act (FOIA) is a disclosure statute that requires Federal Executive Branch agencies to make records available to the public.[53] The Privacy Act (1974) is a federal statute which establishes various controls over what personal information is collected by the federal government, how it is used and how it must be protected.[54] In 1976, Congress amended IRC Section 6103 as part of the Tax Reform Act amid increased congressional and public concern about the widespread use of tax information by government agencies for purposes unrelated to tax administration.[55]

The laws restricting tax information disclosure today are in place to settle two conflicting beliefs that have competed since the earliest days of the United States: 1) the tax return is a public record and 2) tax return information is confidential and not subject to disclosure. Proponents of the former maintained disclosure of tax return information is appropriate, serves the public interest, and assures more accurate reporting. Adherents of the latter view argued that accurate tax reporting depends on the good faith of those reporting, which, in part, requires confidentiality; "by filing a tax return, a record is created and also a trust".[56]

Typical of early tax return information disclosure was the posting of tax return information on courthouse doors during the Civil War. In addition, tax return information was published in newspapers to promote surveillance by neighbors.[57] More recently in 1974, one of the Articles of Impeachment alleged that Richard Nixon illegally obtained confidential information contained in tax returns.[58] In response to such abuses, Congress enacted the Privacy Act of 1974 and the Tax Reform Act of 1976, Section 6103, which delineated the basic statutory scheme that remains in place today in which tax returns and return information are confidential and not subject to disclosure except to the extent explicitly provided by the Internal Revenue Code.[59]

Section 6103 defines "tax return" and "tax return information" and enumerates all permissible recipients, or instances, of this disclosure of information – starting with state and local law enforcement agencies, 6103(d), and ending with the Blood Donor Locator Service, 6103(m). Section 6103(c) and Reg 301.6103(c)-1 cover the "Disclosure of Returns and Return Information to Designee of Taxpayer" are relevant to the current analysis. Since this particular disclosure is elective, rather than mandated, like most of the others in Section 6103, its adherence to the enunciated disclosure request of the taxpayer is particularly important. With this disclosure Congress

[52] Publication 4639, **Disclosure & Privacy Law,** (Rev. 10-2012), Department of the Treasury, www.IRS.gov p iii.
[53] Official Website of the US Social Security Administration, **The Privacy Act and the Freedom of Information Act,** last modified 10.3.2012.
[54] US Office of Government Ethics, 1201 New York Avenue,, Suite 500, Washington DC 20005, **The Privacy Act.**
[55] Publication 4639, **Disclosure & Privacy Law,** (Rev. 10-2012), Department of the Treasury, www.IRS.gov p 1-1.
[56] Publication 4639, **Disclosure & Privacy Law,** (Rev. 10-2012), Department of the Treasury, www.IRS.gov p 1-17.
[57] Publication 4639, **Disclosure & Privacy Law,** (Rev. 10-2012), Department of the Treasury, www.IRS.gov p 1-2.
[58] Publication 4639, **Disclosure & Privacy Law,** (Rev. 10-2012), Department of the Treasury, www.IRS.gov p 1-8.
[59] Publication 4639, **Disclosure & Privacy Law,** (Rev. 10-2012), Department of the Treasury, www.IRS.gov p 1-1.

enabled taxpayers to consent to the disclosure by the IRS of their tax information to designees of their choosing. A mechanism to accomplish this disclosure that was too cumbersome would defeat the objective of Section 6103(c). A mechanism that was too casual and permitted unwelcome disclosures would run afoul of the general rule of confidentiality enunciated in 6103(a).

To enable 6103(c) to operate and track the Regulations thereunder, for the purposes of tax filing, the IRS has mostly utilized four forms of disclosure:

- Form 8879, e-File signature authorization:

  the declaration document and signature authorization for an e-filed return filed by an electronic return originator (ERO);

- The "third party designee" check box on the tax form:

  allows the IRS to discuss the processing of your current tax return with the person designated. Limited to matters concerning this tax return with a standard one-year expiration date (irs.gov "Third Party Authorization");

- Form 8821, "Tax Information Authorization" (TIA):

  used to allow discussions with third parties and disclosure of information to third parties on matters other than the processing of a taxpayer's current tax return. Cannot be used to designate an individual to represent the payer before the IRS;

- Form 2848, "Power of Attorney and Declaration of Representative" (POA):

  allows the individual or individuals named to represent a payer before the IRS and to receive his tax information for the matter(s) and tax year(s)/period(s) specified on Form 2848.

This list of disclosures attempts to list them in an increasing magnitude of disclosure from the instant case, to the general case, to representation before the IRS. This tiered differentiation is effective in allowing disclosures, but, at the same time, controlling undesired disclosures because more authorization is required for greater levels of disclosure.

A similar "tiered" approach is used for controlling disclosures available through the IRS's e-Services portal. It is important to note the e-Services portal is for the use of tax professionals only. The tax professional has to meet certain requirements, each more involved than the last, to advance along the authorization route. The path is:

Registration

\/

Application

\/

Disclosure Authorization Forms 8821 and 2848

\/

Electronic Account Resolution (EAR)

Transcript Delivery System (TDS)

The Electronic Account Resolution and Transcript Delivery System are "incentive products," the payoff to tax professionals for having reached this point in the process. Circular 230 participants – attorneys, CPAs and enrolled agents - and e-file providers (EFIN holders) follow a similar, but shorter, path. The tiered approach is effective in allowing disclosure but safeguarding privacy because it mirrors the requirements detailed in the IRC 6103(c) and Regulation 301.6103(c)-1.

This page intentionally left blank.

Electronic Tax Administration Advisory Committee
Annual Report to Congress:
Innovating To Meet The Challenge

Publication 3415 (Rev 6-2013) Catalog Number 28110R Department of the Treasury **Internal Revenue Service** www.irs.gov