



## **REAL-TIME TAX SYSTEM INITIATIVE**

Public Meeting

December 8, 2011

The National Association of Tax Professionals (NATP) is pleased to provide commentary on Commissioner Shulman's vision for a "real-time" tax administration system that is pro-active in assisting taxpayers with matching information that better assures accuracy in the filing of their tax returns. NATP is a nonprofit professional association that is committed to the accurate administration and application of tax laws and regulations by providing education, research and information to all tax professionals. For over 30 years, NATP has existed to serve professionals who work in all areas of tax practice. NATP has the largest cross-section of all tax professionals whether CPAs, attorneys, EAs, accountants, financial planners, franchisees or other participants in the industry. NATP currently has over 22,500 members and 38 Chapters.

### **Impressions**

We have had the benefit of looking at a draft PowerPoint presentation for this program and we have reviewed the statistics and initial goals as portrayed. We will not restate here the Initiative concepts and the considerable benefits already outlined as they affect taxpayers, the government and the tax professional community. We do, however, want to encourage this undertaking and recognize it as a logical and practical step in more effective and proficient tax administration.

Technological advances today enable immediate feedback in so many businesses and practices, not to mention what's now available at the retail level to consumers. What were considered "bleeding edge toys" a year ago (read: Apple iPad) are necessary, smart and competent business tools today. The Commissioner and his staff are to be commended for looking forward and building budget-sensitive proposals such as this one. Here is an unsolicited comment from one of our Chapter leaders sent in an email just last week:

*"I'm sure you guys know about this. I read Commissioner Shulman's remarks from a couple recent events where he was talking about this idea of getting better "real-time" info available to process tax returns. I'm pretty excited about the prospect of such a thing*

*happening. Imagine if they could match the documents when filing instead of months later. It would save thousands of audits and CP2000 letters. IRS will undoubtedly lose out on a lot of their much-loved penalty and interest charges, however they will probably also increase compliance and thereby increase tax revenues with such a system.”*

## **Challenges**

This vision is worthy of aggressive pursuit. Having said that, however, realism requires that we look at the facts as they exist today and consider what strides can be made to move as quickly as possible toward “real-time” systems. Because of shortcomings in terms of infrastructure, timing of the receipt of information and funding, we cannot make this happen today. But competition, innovation and technology are already driving us there.

It is easy to be overwhelmed by the eventual scope of this undertaking unless it is refined into a “big picture” concept that can be focused upon and chipped away. The Commissioner is basically talking about the shortening of information cycles until they conform to providing immediate access as information becomes available. These cycles take place in at least four different “communities:” the consumer or taxpayer community; the vendor or information reporting community; the government community; and the tax professional community. They all depend on and interact with each other at various levels and with variant states of efficiency.

Real-time availability of information and return processing are driven by the following factors which affect one or more of these communities:

- The complexity of the taxpaying entity’s income situation and the extent of the tax law that applies;
- The size of the entity and its sophistication of information-gathering and reporting systems;
- Dependency on third parties and their systems to provide information both accurately and timely;
- Deadlines and timing issues to include business cycles vs. information gathering and reporting cycles;
- Resources, financial, technical and logistical; and
- Congressional action, the complexity and timing of it.

Boiling all of this down to what can be controlled may appear daunting, especially in light of the considerable backlog of regulatory pressures about to be made upon the Internal Revenue Service such as:

- The implementation and complexity of overseeing the myriad provisions of the *Patient Protection and Affordable Care Act*.
- The onset of information reporting from the merchant card providers and third party networks.

On the other hand, such pressures also make a compelling argument for the undertaking of real-time reporting systems as soon as possible.

### **Initial Ideas**

Given the various communities involved in making this work, the IRS should focus first on its internal systems, procedures and deadline requirements and the way they interact with and affect the other communities. An immediate step would be the examination of what can be done in the short term, and what more intermediate and longer term courses of action are.

It would seem that accelerating what we do today would, at a minimum, help “chip away” at the greater challenges noted above. Moving toward real-time should mean that the information necessary to prepare an accurate income tax return is made available the moment the information return is filed with the government. As the Commissioner noted, this can enable the taxpayer and/or tax preparer to log into the IRS website and immediately view a transcript of the information and documents the IRS has on file. This will not only help eliminate errors or omissions, but reduce or eliminate the need to issue a notice to the taxpayer.

One of the short-term steps might be to reconsider the filing deadlines and processing cycles that are currently in place. Some of the real challenges that need addressing include:

- Improving the timeliness and quality of information returns.
- Addressing the cycle of closing out records to accurately reflect financial income for the tax year for corporations; partnerships; proprietors and other entities.
- Addressing the accuracy of government systems, such as the AUR.
- Addressing the processing time cycle for matching information within the government.

Under the current system, W-2s are not due to the employee until January 31 and Copy A is not required to be filed with the Social Security Administration (SSA) until February 29, 2012, unless the employer e-files. Then the due date is automatically extended until April 2, 2012. The actual matching of the W-2 with that obtained by the SSA doesn't occur until much later in the year. Generally, Form 1099 is required to be furnished to the taxpayer by January 31 and in some cases not until February 15. The deadlines are later for filing with the IRS. Most taxpayers who are due a refund prefer to file their tax return as early as possible. They will not want to wait upon any matching process.

Now that electronic filing is a reality, government should look at the possibility of requiring electronic filing of information returns from all payors/information return filers. That initiative, particularly regarding 1099s, has been delayed because of burden considerations and pushback from the small business community. It may be, however, that larger organizations and/or software providers could innovate to provide that

service for smaller businesses. The technology is available and in use. The challenge is to require it at all levels and then provide economical/feasible alternatives or incentives for smaller, less sophisticated and more resource-challenged businesses. That may be another short-term step.

The IRS will need to be more “flexible” in this transition. The Service should be willing and interested to get as much information as it has available on transcripts that all tax preparers, regardless of which credential they hold, can readily access as they work with taxpayers to file accurate and timely returns. The Commissioner has stated that this matching process will give taxpayers and/or their preparers the opportunity to correct discrepancies on returns before they’re filed. What of the many instances where information does not match and the taxpayer disagrees with the information the IRS has on the transcript? Such instances should not impede or prevent the filing of the return by the taxpayer. The IRS will need some process for provisionally accepting the return under these circumstances and for resolving the objections to a mismatch.

Another idea may be to undertake an attempt at real-time processing for that 21% of returns (according to 2009 data) from taxpayers that only get W-2s, 1099Gs and 1098s. It may be that a pilot process at such a base level would reveal how the challenges that represent the more complex body of returns could be effectively addressed.

NATP recommends that the government seeks ways to better leverage the available technology and existing systems currently utilized by other industries. For example:

- Study how banking systems obtain real-time information on credit cards and debit cards.
- Study how smart phone developers and application developers get real-time information to consumers instantly.
- Cease trying to develop proprietary systems internally.
- Follow best practices that are available for security.

Other developers of software are addressing the needs of government and taxpayers in areas like the real-time need for cost basis reporting of securities sold that exceed the ability of what brokerage firms are prepared to deliver, and other such needs. Surveys and studies of “what’s already out there” will reveal and produce solutions that are more short term than “re-inventing the wheel” or developing internal government systems.

The Congress has a major part to play in making this a reality as well. We must look to the Congress to take appropriate and responsible action in budgeting and funding this initiative in the near, intermediate and long term. The Internal Revenue Service will need a rational plan and dependable resources to move this forward in a manner reflective of the best business practices. All of the above-mentioned communities will come to depend and rely on the implementation of this system. The Congress will also need to consider proposed legislation and its timing on the continued effectiveness of a real-time tax administration system.

## **Importance of the Tax Professional**

One of the keys to the success of this initiative is the tax professional. They must be brought along as participants in this process if improved timeliness, coupled with quality of information on returns, is to be achieved. Tax professionals assist with all phases of tax administration, including:

- Assisting with the compilation of financial information.
- Helping taxpayers understand compliance.
- Assisting with accurate information reporting.
- Assisting with tax return preparation.
- Responding to notices and information requests.
- Representing taxpayers in disputes.

There must also be an equal playing field for all taxpayers to have fair representation. We cannot discount the need or the right for all taxpayers to seek counsel and advice from their tax preparer when dealing with adjustments to their tax returns.

## **Conclusion**

The Commissioner's vision is contagious and reachable. We are excited at the prospect and practical achievability of attaining real-time information for more accurate tax return processing in tax administration. The statistics gathered by the IRS and shared in the draft slides indicate that it is possible. The information also reveals that a one-size fits all approach is currently not possible. Movement toward that goal is likely to depend upon the Congress. Tax code simplification remains at the core of any process that is intended to ease taxpayer burden, improve compliance and streamline IRS processes.

NATP wishes to thank the Internal Revenue Service for the opportunity to present its views and suggest ideas for ways to move the real-time initiative forward.