

Statement of J. Matthew Yuskewich CPA

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That old saying my profession uses with clients; be aware when they say “Hi, I am from the IRS and I am here to help you” might still invoke some humor if a taxpayer could actually see or talk to an IRS representative timely. I am thankful to Congressman Renacci and Nina for inviting me to participate in tonight’s Forum. I will address three main areas including IRS correspondence, IRS Examinations and Adjustments and various IRS forms from both the perspective of a CPA representing small business clients and individual taxpayers and as a small business owner myself.

Let me begin with a discussion of **IRS correspondence**. Everyone is apprehensive when they receive a letter from the IRS. Correspondence can take many forms including an adjustment to a return, notice of an audit, a payment request or questions concerning a return filing to name a few. Normally the letter is not a thank you note. These notices require some action on the part of the taxpayer including perhaps a payment or a response. Therein lies the problem. If a taxpayer needs more information before making a payment, wants to object to the assessment of a penalty or believes the notice is incorrect he or she must either try to phone the IRS, send a letter or engage professional help. What the taxpayer does not usually know is failure to respond in some fashion and have that response acted upon in thirty days will result in an additional notice. Recent reports from the Treasury Inspector General for Tax Administration cite the significant problems and delays the IRS has in handling correspondence. These delays however do not stop the cycle time of notices being issued and as a result taxpayers receive second and third notices before any action has been taken on the response to the first notice. These additional notices normally do not have any information other than a balance forward from a previous notice and the addition of more interest and penalty. This is disconcerting to the taxpayer who may have responded with a letter or phone call that should have resolved the matter. Currently, if the taxpayer or his or her

representative attempts to call the number on the notice they can experience wait times in excess of one hour and once connected no ownership of the issue by the IRS to try and resolve the problem. In one case a taxpayer was told they were late with a 941 deposit but only interest and penalty were on the notice. After three certified letters numerous phone calls nearly one year and finally the efforts of the local taxpayer advocate information was provided to help determine payments had been misapplied and a penalty assessment of over \$16K was actually only \$2K. These types of situations occur regularly. There are several steps the IRS should consider to improve the processing of correspondence with taxpayers including:

- Put a name and phone number of an individual or group that can respond to inquiry regarding the notice. Consider segregating by type of tax or notice type
- Improve the notice format to provide more information about future notices, standard response options such as, I need more time to respond, I need additional information, correspondence is enclosed, attach the following documents
- Consider bar coding a response sheet the taxpayer complete to track the information
- Provide an email address for responses only that can accept a response and attachments

Many notices generated involve some issue regarding payments. Specifically in Ohio a lot of returns utilize the married filing separate status and all estimated payments are credited to the first social security number on the return. As a result one person normally gets a refund and the second person a notice with a balance due. The ability to reconcile payments and apply them to the correct account or tax period could eliminate significant correspondence and time. Taxpayers or representatives in Ohio can verify local tax payments through an automated telephone system. Nearly all States including Ohio have some form of on-line ability to not only file but to verify filing and payments. The EFTPS System can be used to make payments and review a record of those payments but does not allow for verification of

forms filed. Most of the systems utilized by states allow access by authorized representatives who are granted permission by the taxpayer. In order to improve customer service and provide for an improved experience for taxpayers interacting with the IRS as well as reducing costs in the long run the IRS should adopt some of leading industry's best practices which have proved secure, reliable and efficient for handling customer inquiry, problem resolution, bill payment and adjustment processes.

Let me now briefly discuss the **audit function** that fortunately only a small percentage of all taxpayers' experience. Those small businesses and sole proprietors that have been the subject of an IRS field audit/examination understand how intrusive and time consuming the process can be. The audit usually begins with an information document request (IDR) that spells out the items the auditor wants available. Normally this list is exhaustive in spite of the few items the audit has targeted. In my profession, audits focus on risk areas and planning the exam. Recent experiences suggest adopting best practices from industry could result in better, more timely and efficient audits and a better experience for the taxpayer. If the audit is focused on a risk area then documentation requests should involve only that area and not routinely include a reconciliation of all deposits and payroll. Questionnaires should be delivered to the taxpayer ahead of the appointment targeted to the issues along with a budgeted time for the field work with completion dates should be included. This streamlining would allow for more audit coverage and perhaps better results. One additional form of examination is the document matching program (CP 2000 notices). These notices presently list 1099 and W-2 information the IRS has received and in a second column the information they could locate on the taxpayer return. Any differences are automatically included as income and the taxpayer is requested to pay. The burden shifts to the taxpayer to timely provide the IRS by way of correspondence explanations for the differences without instruction as to the documents required or form of response. Additionally, when responses are made frequently no additional response is received by the taxpayer indicating it was accepted and no further action is required. This process could easily lend itself to electronic reconciliation and reporting and avoid

cumbersome time consuming correspondence. In order for representatives to respond to the examination or correspondence some acknowledgement from the taxpayer is required either by signature on a notice response or submission of a Power of Attorney form. The Third Party Designee authorization provided on a tax form is currently only valid for one year and is frequently not recognized when interacting with the IRS. The validation period for this authorization should be extended to the statute of limitations period and on-line filing of Powers of Attorney should be considered and could be matched against a PTIN file for authentication.

Finally, I would like to address several **form** issues. We thank the Congressman for being instrumental in legislation to address certain 1099 filing requirements. Small business owners as well as large business spend considerable time each January preparing 1099 forms. These include payments for medical services and legal fees regardless of the recipient's form of business. For many 1099 MISC payments to corporations are excluded but LLC's and other forms of business are not. The penalties for not preparing and filing these forms are now considerable. We would suggest a review be undertaken to determine the actual use and benefit of the legal and medical forms by the IRS and if LLC recipients should be excluded similar to corporations.

Thank you for the opportunity to express some concerns of the preparer community tonight.