

## Application for Memorandum of Agreement Debt Indicator

<b>Name:</b>
<b>DBA Name:</b>
<b>Address:</b>
<b>Authorized Representative:</b> <b>Phone Number:</b> <b>Fax Number:</b>
<b>ETIN(s):</b>
<b>EFIN(s) Covered By This Proposal:</b> (attach separate sheet if necessary)

<b>IRS Authorized Representative: Lisa Johnson</b> <b>Phone Number: (202) 283-0980</b> <b>Fax Number: (202) 283-4786</b> <b>Email: <a href="mailto:LJJOHN00@irs.gov">LJJOHN00@irs.gov</a></b>
<b>Address: IRS</b> <b>Attn: Lisa Johnson, OP:ETA:O:C</b> <b>5000 Ellin Road</b> <b>Lanham, MD 20706</b>

### 1. INTRODUCTION

(A) The Internal Revenue Service (IRS) faces the challenge of eliminating barriers by providing incentives and using competitive market forces to make progress towards its goal to electronically transact 80% of IRS business by the year 2007 and the interim goal that, to the extent practicable, all returns prepared electronically should be filed electronically by the year 2002. One of these incentives was the issuance of the Debt Indicator Pilot Request For Agreement (RFA) that was issued on June 22, 1999. This RFA provided the opportunity for electronic return originators (EROs), transmitters and On-line service providers to obtain a Debt Indicator in exchange for screening the returns they transmit for potential abuse. Authorized *e-file* providers and

financial institutions that did not submit proposals under this RFA or are not covered under one of the announced agreements may still apply to obtain the DI for the upcoming filing season through this Memorandum of Agreement (MOA).

- (B) The Electronic Tax Administration (ETA) MOA between the Internal Revenue Service (IRS) and the Participant sets forth the complete agreement of the parties with regard to participation in the Debt Indicator Pilot for electronically filed individual (1040 series) federal income tax returns during the 2000 filing season which covers the 1999 tax year. The parties agree that, except as provided below, the participant will be treated as an ERO, On-line service provider, transmitter, software developer or financial institution for the 2000 IRS *e-file* program as those terms are defined in Revenue Procedures 98-50 and 98-51. Also, except as provided below, the parties agree to comply with all relevant statutory, regulatory, and administrative requirements relating to the electronic filing program.
- (C) The IRS is looking for creative and innovative abuse and fraud detection beyond what is required in Revenue Procedures 98-50 and 98-51 in addition to creative and innovative ways to perform the due diligence required by these Revenue Procedures. Partnered proposals offer greater opportunities for more comprehensive screening of returns and return information and have a greater chance of being accepted by the IRS.
- (D) There is no deadline for filing this Agreement.

## **2. AUTHORITY**

This Agreement is entered into pursuant to (1) the authority vested in the Commissioner of the IRS by Treasury Order 150-10 to administer and enforce the internal revenue laws and revenue procedures for electronic filing and (2) the authority vested in the Secretary of the Treasury by the IRS Restructuring and Reform Act of 1998, implemented in Section 6011 of the Internal Revenue Code, to promote the benefits of and encourage the use of ETA programs.

## **3. BACKGROUND AND PURPOSE**

In exchange for due diligence in screening returns for possible abuse, the IRS will provide to the taxpayer through the selected Participant, a debt indicator for taxpayers who have entered into an agreement with a financial institution. This indicator may show the reason that the refund changed was because of a debt owed to either the IRS or Financial Management Service (FMS) or both.

The return software must also be modified to include a mandatory consent to disclose when the RAL indicator field is significant. This authorizes the Service to provide the debt indicator when financial agreements have been made with the taxpayer.

#### **4. DEFINITIONS**

- (A) “Days” as used herein means calendar days unless otherwise stated.
- (B) A “fraudulent return” is a return in which the individual is attempting to file using someone else’s name or SSN on the return or where the taxpayer is presenting documents or information that have no basis in fact. NOTE: Fraudulent returns should not be filed with the Service.
- (C) A “potentially abusive return” is a return (1) that is not a fraudulent return; (2) that the taxpayer is required to file; (3) but that may contain inaccurate information that is subject to reporting under subparagraph 8(F) and that may lead to an understatement of a liability or an overstatement of a credit resulting in production of a refund to which the taxpayer may not be entitled. NOTE: The decision not to provide a RAL or other bank product does not necessarily make it an abusive return.
- (D) Refund offset is the reduction of the taxpayer’s claimed refund in whole or in part for unpaid IRS tax debt or past-due debts submitted to FMS’ Treasury Offset Program for child support arrearages, Federal agency non-tax debt, or state income tax.
- (E) Refund delay is the suspension of the refund process resulting from systemic reviews.
- (F) Sub-Participant is an ERO, On-line service provider, Transmitter, or Financial Institution other than the Participant who has entered into an Agreement with the Participant to perform some of the duties and responsibilities of the Participant.

#### **5. DUTIES AND RESPONSIBILITIES OF THE PARTICIPANT**

- (A) The Participant will perform all the screening activities included in the checklist submitted with, and incorporate by reference into, this agreement.
- (B) The Participant will provide the Service with a report for each abusive return it receives where the taxpayer requests a RAL, the preparer offers a RAL to this taxpayer or the taxpayer signs a RAL Application. The Participant may also provide this information for other than the returns where the taxpayer requests a RAL, the preparer offers a RAL or the taxpayer signs a RAL Application. Such reports shall be submitted weekly, no later than the Wednesday after the previous week ending on Friday. The reports shall be submitted in the format specified by the IRS below and delivered via electronic mail to the IRS contact at: [HQ-ORF@ci.irs.gov](mailto:HQ-ORF@ci.irs.gov). Blank reports are not required.

<u>Field Name</u>	<u>Field Length</u>	<u>Format</u>
Filer EFIN	6	Alpha/Numeric
Primary SSN	9	Alpha/Numeric
W2	1	Alpha (Y or blank)
Dependents	1	Alpha (Y or blank)
Schedule C	1	Alpha (Y or blank)
Filing Status Change	1	Alpha (Y or blank)
Telephone # Invalid	1	Alpha (Y or blank)
Duplicate SSN	1	Alpha (Y or blank)
Invalid SSN	1	Alpha (Y or blank)
Duplicate Address	1	Alpha (Y or blank)
Other	1	Alpha (Y or blank)
Return Filed	1	Alpha (Y or blank)
Explanation of Other	250	Alpha

**Filer EFIN** – Electronic Filer Identification Number of the ERO processing the return.

**Primary SSN** – Primary SSN on the return, which is suspected of abuse/fraud.

**W2** - the W2 was the reason for suspecting abuse/fraud.

**Dependents** – questions about the dependents was the reason for suspecting fraud (i.e. last name of dependent is different from taxpayer).

**Schedule C** – no substantiation for the Schedule C.

**Filing Status Change** – questions about the filing status changes was the reason for suspecting abuse/fraud.

**Telephone # Invalid** – telephone numbers given by the taxpayer were found to be either invalid, disconnected, or that the taxpayer was not known by the person answering the telephone.

**Duplicate SSN** – a duplicate primary, secondary, dependent or EIC qualifying SSN is found within the ERO's own universe of returns.

**Invalid SSN** – the ERO determines that the primary, secondary, dependent or EIC qualifying SSN is invalid.

**Duplicate Address** – multiple returns filed for the same address for seemingly unrelated taxpayers found within the ERO's own universe of returns.

**Other** – any reason, not conforming to those previously listed, for which a return could be considered fraudulent.

**Return Filed** – the “Y” will indicate that the return was filed and blank will mean that the return was not filed.

If you have additional information, provide it in a flat file format, comma delimited (e.g., SSN information on returns that were not processed).

(C) The Participant will provide the Service with a Final Pilot Finding report. This report will be sent to the Authorized IRS Representative via email no later than May 31, 2000. The report shall include information on each of the following items:

- Number of RALs applied for and 1999 vs. 2000 comparison
- Average amount of RAL and 1999 vs. 2000 comparison
- Distribution of RAL applicants with respect to adjusted gross income (AGI)
- Range of fees charged for RALs
- Comparison of fees prior to DI pilot
- Breakdown of e-filers between RAL applicants and non-RAL applicants and 1999 vs. 2000 comparison

## **6. LIABILITY**

The IRS shall not be liable for any injury to the Participant’s personnel or damage to the Participant’s property unless such injury or damage is due to negligence on the part of the Government and is recoverable under the Federal Tort Claims Act [28 U.S.C. 1346(b)], or pursuant to other statutory authority.

## **7. THIRD PARTY RIGHTS**

This Agreement does not alter, change, or eliminate any rights or responsibilities that taxpayers have under the Internal Revenue Code.

## **8. PERIOD OF PERFORMANCE AND TERMINATION**

- (A) This Agreement shall be in effect from the date of IRS’ signature for the 2000 filing season with an option to extend for the 2001 filing season subject to a modification of the agreement.
- (B) This Agreement may be terminated by either party upon 30 days after receipt of written notice signed by either of the signatories to this Agreement or by their successors or designees. The Participant understands that in the event the IRS terminates this Agreement, the Participant has no right to any claim against the Government, including a claim for termination costs.

## **9. MODIFICATION**

This Agreement may be modified by the IRS, and the Participant may submit requests for modifications to the IRS Authorized Representative. All modifications must be in writing and signed by both of the signatories to this Agreement or by their successors or designees.

## **10. INSPECTION**

- (A) The IRS has the right to inspect the work performed by the Participant or any Sub-Participant as stated below. If the duties and responsibilities of the Participant or any Sub-Participant are not being met, then the IRS may terminate this Agreement for default, and the Participant and any Sub-Participant may be suspended from the IRS *e-file* program.
- (B) The IRS may inspect the work performed by the Participant upon reasonable notice to the Participant's Authorized Representative and in a manner that will not interfere with the Participant's performance of this Agreement. The Participant shall provide access for this purpose to the IRS' Authorized Representative(s) to the location where the work is being performed. The IRS shall also have the right to inspect the Participant's Report(s) of the work performed as a result of this Agreement. The IRS's Authorized Representative shall provide the results of any inspections to the Participant's Authorized Representative for any necessary resolution.

## **11. RELEASE OF INFORMATION**

The Participant shall provide written notice to the IRS and obtain consent in advance of releasing any national press releases for the purposes of performing the work described in this Agreement or publicizing this partnership with the IRS. The text and purpose of the intended release shall be provided to the IRS's Authorized Representative for this Agreement. The Service may monitor advertising standards as authorized in Section 12 of Revenue Procedure 98-50.

## **12. REMEDIES**

There are no remedies other than the termination rights described in 11(B) and (C) of this Agreement unless provided in a modification to this Agreement. The Contract Disputes Act does not apply.

## **13. ORDER OF PRECEDENCE**

In the event the terms of this Agreement are inconsistent with the terms of the checklist, the Agreement shall take precedence.

#### **14. GOVERNING LAW**

This Agreement is subject to and governed by the laws of the United States of America, that is, by Federal law, and not by the laws of any State. The terms of this Agreement are not intended to alter, modify, or rescind any current Agreement or provision of Federal law now in effect. Any provision of this Agreement that conflicts with Federal law will be null and void.

#### **SIGNATURES**

\_\_\_\_\_  
Participant

\_\_\_\_\_  
JoAnn N. Blank  
National Director, Individual  
Electronic Filing Division

## INSTRUCTIONS

The IRS is encouraging the formation of partnerships among EROs, transmitters, software developers and financial institutions to meet the requirements of this agreement more efficiently and to cover more participants. These partnerships may apply as a group and the privileges obtained through successful applications will be extended to all member partners.

Software developers, transmitters and financial institutions are encouraged to initiate these partnership applications on behalf of their customers – EROs, direct transmitters, small banks – to ensure that their entire customer bases have access to the Debt Indicator. Partnered proposals offer greater opportunities for more comprehensive screening of returns and return information and have a greater chance of being accepted by the IRS.

Individual EROs that apply will need to negotiate changes with their software company before they can participate.

In order to receive this indicator for you and/or your clients, use the application and sample checklist (Attachment 2) as resources to formulate your submission. Include all screening procedures currently employed by all members of the partnership. This could include crosschecks of all data received from EROs that could identify improbable information; software checks that can identify abusive scenarios within ERO practices and fraudulent or abusive situations; transmitter databases that can identify duplicated information as well as facilitating the reporting process; and fraud screening services and other checks.



## SAMPLE CHECKLIST

	Current Check	Willing to Do for 2000
<b>ERO</b>		
<b>-Identification</b>		
Require two forms of valid identification (one must be a photo ID)	<input type="checkbox"/>	<input type="checkbox"/>
Verify telephone numbers	<input type="checkbox"/>	<input type="checkbox"/>
Verify residence	<input type="checkbox"/>	<input type="checkbox"/>
 <b>-Social Security Card</b>		
Require a valid SSN card for all SSNs on return	<input type="checkbox"/>	<input type="checkbox"/>
 <b>-Maintain Previous Client Database</b>		
Document change in filing status	<input type="checkbox"/>	<input type="checkbox"/>
Document change in number or names of dependents	<input type="checkbox"/>	<input type="checkbox"/>
Document multiple returns to same address in prior year	<input type="checkbox"/>	<input type="checkbox"/>
 <b>INCOME VERIFICATION</b>		
<b>- Questionable W-2s</b>		
Verification of W-2s when one of the following exist:	<input type="checkbox"/>	<input type="checkbox"/>
<ul style="list-style-type: none"> <li>• Typed, handwritten or altered forms</li> <li>• W-2's with all copies attached</li> <li>• Unknown companies (out of area)</li> <li>• W-2s that differ from other forms issued from the same company</li> </ul>		

### - Schedule C or Other Income Reporting Forms

- Documentation of income
- Validation and recording of expenses

### - EITC and Filing Status Verification

- Complete Due Diligence worksheet
- Document lack of child care expenses where potential exists
- Utilize tax package and requirements to ensure:
  - A child can be claimed as a dependent
  - The taxpayer can qualify as Head of Household
  - A child can be considered as a qualifying child for EITC purposes

### - Return Verification

- Document Schedule A deductions

### Software Developer

- Validate SSNs are within valid ranges
- Check for Duplicate SSNs
- Check for Multiple Head of Household Returns at the same address
- Check for improbable Federal withholding amounts
- Check for incorrect Social Security or Medicare Withholding
- Verify math computations are correct
- Verify format is correct

### Transmitter

- Verify ERO suitability
- Maintain databases for the following:
  - Duplicate SSNs
  - Addresses and phone numbers for jails, drug treatment centers, health/welfare agencies, hotels, etc.
  - SSNs of deceased persons
  - Credit card fraud

**Bank**

Contract with a fraud screening service  
for bank products connected to tax returns  
Request Credit Reports for loan customers

**Other**

Feel free to add any additional screens you currently employ. Attach additional pages as necessary.


Use this space to further describe any of the above screens. Attach additional pages as necessary.
