2003 TAX HINTS

Practitioner's Guide to the Filing Season

WELCOME TO TAX HINTS

In this edition of **TAX HINTS,** you will find information about changes that will help you and your clients during the 2003 filing season. You'll find information about the IRS structure, points of contact, useful telephone numbers, explanations of changes and improvements for the 2003 filing season and hints about making it a smooth one.

We hope this information will make your job easier and that your experiences with the IRS this filing season will be pleasant and helpful to you and your clients.

TAX HINTS was produced jointly by the IRS operating and functional divisions and National Public Liaison. Since it is only available on our Web site, feel free to download and reproduce it often. We cannot provide printed copies.

2002 tax law changes for individuals

There were a number of changes to the tax law for 2002 which will affect the 2003 filing season. What follows are highlights of these changes, but more detailed information can be found in Publication 17, *Your Federal Income Tax* and in Publication 553, *Highlights of 2002 Tax Changes*.

10 percent tax rate. The 10 percent tax rate is reflected in the tax tables and tax rate schedules. You do not have to make a separate computation or figure a credit to get the benefits of this rate.

Tax rates reduced. The 27.5 percent, 30.5 percent, 35.5 percent, and 39.1 percent tax rates are reduced to 27 percent, 30 percent, 35 percent and 38.6 percent, respectively.

Reporting interest and dividends. Previously, if you had interest or dividend income of more than $400, you had to file Schedule 1 (Form 1040A) or Schedule B (Form 1040) with your tax return. Also, you could not file Form 1040EZ if you had more than $400 of taxable interest income. Beginning with your 2002 tax return, the $400 threshold amount is increased to $1,500. This means, for example, you can file Form 1040EZ for 2002 if your taxable interest income is $1,500 or less and you meet all the other requirements.

Retirement savings plans:

- **New retirement savings contributions credit.** If you make eligible contributions to an employer-sponsored retirement plan or to an IRA, you may be able to take a tax credit.
- **Traditional IRA income limits.** Generally, if you have a traditional IRA and are covered by an employer retirement plan, the amount of income you can have and not be affected by the deduction phaseout is increased. The amounts vary depending on filing status.
- **Increased IRA contribution and deduction limit.** Your maximum contribution (and any allowable deduction) limit is increased. The limit depends on your age at the end of the year.
- **Rollovers of IRAs into qualified plans.** For distributions after 2001, you may be able to roll over tax-free a distribution from your IRA into a qualified plan.
- **Rollovers of distributions from employer plans.** For distributions after 2001, you can roll over both the taxable and nontaxable part of a distribution from a qualified plan into a traditional IRA.
- **Limit on elective deferrals.** The maximum amount of elective deferrals under a salary reduction agreement that can be contributed to a qualified plan is increased to $11,000 ($12,000 if you are age 50 or over). However, for SIMPLE plans, the amount is increased to $7,000 ($7,500 if you are age 50 or over). See Publication 590, *Individual Retirement Arrangements (IRAs)*, for more information.

Self-employed health insurance deduction. You can now claim 70 percent of your self-employed health

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insurance premiums as an adjustment to income.

Educator expenses. If you were an eligible educator, you can deduct as an adjustment to income up to $250 in unreimbursed qualified expenses you paid or incurred during 2002 for books, supplies (other than nonathletic supplies for courses of instruction in health or physical education), computer equipment and other equipment and materials used in the classroom. See the form instructions for more information.

Interest on student loans. Two changes apply to the deduction for student loan interest.

- The provision that limited your deduction to interest paid during the first 60 months that payments are required is repealed.
- The modified adjusted gross income phaseout amounts are increased. For more information on the deduction for student loan interest, see Publication 970, *Tax Benefits for Education.*

Tuition and fees deduction. You may be able to deduct as an adjustment to income up to $3,000 of qualified higher education tuition and related expenses you paid. The expenses can be for you, your spouse or your dependent. See Publication 970.

Coverdell education savings accounts (ESAs). Changes to Coverdell ESAs include the following.

- Contribution limit increased to $2,000 per beneficiary.
- The income phaseout increased for joint filers.
- Qualified education expenses include certain elementary and secondary school expenses.
- Age limits do not apply to special needs beneficiaries.
- Contributions may be made until April 15 of the following year.
- Tax free distributions can be used for special needs services.
- The definition of family member is expanded to include first cousins of the designated beneficiary. See Publication 970 for more information.

Employer-provided educational assistance. The exclusion from income of employer-provided educational assistance benefits for undergraduate-level courses has been extended through 2010. Beginning in 2002, the exclusion also applies to benefits for graduate-level courses.

Qualified tuition programs (QTPs). The qualified tuition program (formerly qualified state

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The IRS Mission

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

IRS
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tuition program) is expanded to include programs established and maintained by one or more eligible educational institutions. Other changes that affect this program include the following.

- A distribution from a QTP established and maintained by a state (or an agency or instrumentality of the state) can be excluded from your income if the amount distributed is not more than your qualified higher education expenses.
- Amounts in a QTP can be rolled over, tax free, to another QTP set up for the same beneficiary. However, such a rollover cannot apply to more than one transfer within any 12-month period.
- The definition of family member is expanded to include first cousins of the designated beneficiary.
- The definition of qualified higher education expenses is expanded to include expenses of a special needs beneficiary necessary for that person's enrollment or attendance at an eligible institution.
- You can make contributions to a Coverdell ESA and a QTP in the same year for the same beneficiary. See Publication 970 for more information.

Foreign earned income exclusion. The amount of foreign earned income that you can exclude increased to $80,000. See Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad.*

Benefits for public safety officer's survivors. A survivor annuity received by the spouse, former spouse or child of a public safety officer killed in the line of duty will generally be excluded from the recipient's income regardless of the date of the officer's death. The provision applies to a chaplain killed in the line of duty after Sept. 10, 2001. The chaplain must have been responding to a fire, rescue or emergency as a member or employee of a fire or police department.

Standard mileage rates. The standard mileage rate for the cost of operating your car increased to 36$^{1}/_{2}$ cents a mile for all business miles driven. The standard mileage rate allowed for use of your car for medical reasons increased to 13 cents a mile. The standard mileage rate for use of your car for determining moving expenses increased to 13 cents a mile.

Clean-Fuel Vehicle Deduction. A deduction of up to $2,000 is now available for certain hybrid gas-electric motor powered vehicles that have been certified by the IRS as meeting the provisions of the clean-fuel vehicle deduction section of the tax code. Prior to 2002, taxpayers who purchased such hybrid-motor vehicles were uncertain about the amount of the deduction and whether they qualified. Those who purchased such hybrid cars in past years may be eligible to claim the deduction in a prior year by filing an amended return.

Medical expenses. You can include as a medical expense the unreimbursed cost of participation in a weight-loss program as treatment for a specific disease (including obesity). However, the cost of purchasing reduced-calorie diet foods is not a medical expense if these foods substitute for food you

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TAX HINTS was produced with assistance from many sources, including IRS employees in the operating and functional divisions. Thanks to all who contributed and special thanks to the W&I Austin Communications staff who contributed to the development and production of this document.

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would normally consume to satisfy your nutritional requirements.

Education credits. You may be able to claim an education credit in the same year in which you take a tax-free withdrawal from a Coverdell education savings account or qualified tuition program. However, the qualified higher education expenses you pay with these funds cannot be the same expenses for which you claim an education credit. The amount of your education credit is reduced (phased out) if your modified adjusted gross income (MAGI) is more than $41,000 ($82,000 if you file a joint return). You cannot claim the credit if your MAGI is $51,000 or more ($102,000 or more if you file a joint return).

Tax benefits for adoption. The adoption credit and the exclusion from income of benefits under an adoption assistance program are made permanent. In addition, the maximum adoption credit and exclusion amounts increased to $10,000. The modified adjusted gross income (AGI) limit has also increased. See Publication 968, *Tax Benefits for Adoption.*

Earned Income Credit (EIC). Highlights of EIC changes include:.

- The maximum amount of income you can earn and still get the earned income credit increased.
- The maximum amount of investment income you can have and still be eligible for the credit increased.
- Earned income no longer includes nontaxable employee compensation.
- EIC is based, in part, on adjusted gross income (AGI), not modified AGI.
- New rules determine which person can claim a qualifying child when two or more persons may be able to claim the same child.
- An eligible foster child has to live with you for more than half of the year, instead of the whole year.
- EIC is not reduced by the amount of alternative minimum tax shown on your return.

Health insurance credit. If you are an eligible individual, you can claim a tax credit equal to 65 percent of the amount you pay for qualified health insurance coverage.

Standard deduction. The standard deduction for taxpayers who do not itemize deductions on Schedule A (Form 1040) is higher in 2002 than it was in 2001. The amount depends on your filing status.

Exemption amount. You are allowed a $3,000 deduction for each exemption to which you are entitled. However, your exemption amount could be phased out if you have high income.

Limit on itemized deductions. Some of your itemized deductions may be limited if your adjusted gross income is more than $137,300 ($68,650 if you are married filing separately).

Social Security and Medicare taxes. The maximum wages subject to Social Security tax (6.2 percent) is increased to $84,900. All wages are subject to Medicare tax (1.45 percent).

Meal expenses when subject to *hours of service* limits. If you are subject to the Department of Transportation's hours of service limits, the percentage of your business-related meal expenses that you can deduct has increased. For 2002 and 2003, you can deduct 65 percent if the meals take place during or incident to the period subject to those limits.

Important tax law changes for 2003

There are some important changes which take affect in 2003 that could affect your estimated tax payments for 2003. More information on these and other changes can be found in Publication 553.

Standard mileage rates. For tax years beginning in 2003, the standard mileage rate for the cost of operating your car decreases to:

- 36 cents a mile for all business miles driven,
- 12 cents a mile for the use of your car for medical reasons, and
- 12 cents a mile for the use of your car for determining moving expenses.

Lifetime learning credit. Beginning in 2003, the amount of qualified tuition and related expenses you may take into account in figuring your lifetime learning credit increases from $5,000 to $10,000. The credit will equal 20 percent of these qualified expenses, with the maximum credit being $2,000.

Student loan interest deduction. Beginning in 2003, the modified adjusted gross income ranges for phasing out the student loan interest deduction may be adjusted annually for inflation.

Estimated tax safe harbor for higher income individuals. For estimated tax payments for tax years beginning in 2003, the estimated tax safe harbor for higher income individuals (other than farmers and fishermen) has been modified. If

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your 2002 adjusted gross income is more than $150,000 ($75,000 if you are married filing a separate return for 2003), you must have deposited the smaller of 90 percent of your expected tax for 2003 or 110 percent of the tax shown on your 2002 return to avoid an estimated tax penalty.

Child and dependent care credit. Significant changes to the child and dependent care credit take effect in 2003.

- The credit amount can be as much as 35 percent (previously 30 percent) of your qualifying expanses.
- The maximum adjusted gross income amount that qualifies for the highest rate increases to $15,000 (previously $10,000).
- The limit on the amount of qualifying expenses increases to $3,000 for one qualifying individual and $6,000 for two or more qualifying individuals.
- The amount of income that is treated as having been earned by a spouse who is either a full-time student or not able to care for himself or herself increases. This amount increases to $250 a month if there is one qualifying individual and $500 a month if there are two or more qualifying individuals.

Tax benefits for adoption. Beginning in 2003, the adoption credit and the exclusion from income of benefits under an adoption assis-

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tance program for the adoption of a child with special needs is $10,160 regardless of the amount of qualified adoption expenses. The modified adjusted gross income limit will be adjusted annually for inflation.

Retirement savings plans:

- **Traditional IRA income limits.** If you have a traditional IRA and are covered by a retirement plan at work, the amount of income you can have and not be affected by the deduction phaseout increases. The amounts vary depending on filing status.
- **Deemed IRAs.** For plan years beginning after 2002, a qualified employer plan (retirement plan) can maintain a separate account or annuity under the plan (a deemed IRA) to receive voluntary employee contributions. An employee's account can be treated as a traditional IRA or a Roth IRA.
  - **Limit on elective deferrals.** The maximum amount of elective deferrals under a salary reduction agreement that can be contributed to a qualified plan increases to $12,000 ($14,000 If you are age 50 or over). However, for SIMPLE plans, the amount increases to $8,000 ($9,000 if you are age 50 or over).
- **Simplified rules for required minimum distributions.** There are new rules for determining the amount of a required minimum distribution for a year beginning after 2002. The new rules, including new life expectancy tables, are in Publication 590, *Individual Retirement Arrangements (IRAs).*
- **Self-employed health insurance deduction.** You can deduct 100 percent of your self-employed health insurance premiums as an adjustment to income.

IRS announces new initiatives for Taxpayer Assistance Centers

IRS Taxpayer Assistance Centers are implementing several initiatives to enhance customer convenience:

- Increasing resources for customer account issues;
- Extending filing season service hours and locations within available resources and high traffic offices; and
- Providing taxpayers national practitioner referral numbers for return preparation assistance.

Taxpayer Assistance Centers are practitioners' sole source for face-to-face help with clients' account-related issues such as inquiries, adjustments, payment plans, liens and levies and problem resolution. With the addition of more resources, this essential service is more readily available to practitioners and their clients this year.

Practitioners can get help with clients' tax concerns every business day in every Taxpayer Assistance Center through IRS' *Everyday Tax Solutions.* This service helps practitioners resolve client issues at the earliest stage, which minimizes penalties, interest, and aggravation.

Practitioners can call ahead for convenient appointments or to hear a recorded message with office hours and location. Local phone numbers are posted at **www.irs.gov** under *Contact My Local Office.*

2002 tax changes for small businesses

The following are some of the tax changes for 2002 that apply to small businesses. For information on other changes, see Publication 553, *Highlights of 2002 Tax Changes*.

Self-employment tax. The maximum net self-employment earnings subject to the Social Security part (12.4 percent) of the self-employment tax increased to $84,900 for 2002.

Standard mileage rate. The standard mileage rate for the cost of operating your car, van, pickup, or panel truck in 2002 is 36 1/2 cents a mile for all business miles.

Credit for employer-provided child care facilities and services. You can receive a tax credit of 25 percent of the qualified expenses you paid for employee child care and 10 percent of qualified expenses you paid for child care resource and referral services. This credit is limited to $150,000 each year. For more information, see Form 8882, *Credit for Employer-Provided Child Care Facilities and Services*.

Credit for small business pension plan startup costs. If you begin a new qualified defined benefit or defined contribution plan (including a 401(k) plan), SIMPLE plan or simplified employee pension, you can receive a tax credit of 50 percent of the first $1,000 of qualified startup costs. For more information, see Form 8881, *Credit for Small Employer Pension Plan Startup Costs.*

New credit for New York Liberty Zone business employee. The New York Liberty Zone business employee credit is the result of expanding the work opportunity credit to include a new targeted group of employees in the Liberty Zone. You can claim the credit if you pay or incur *qualified wages* to a *Liberty Zone business employee*. The credit is for wages paid or incurred to new and existing employees for work performed during 2002 or 2003. For more information, see Form 8884 and Publication 954, *Tax Incentives for Empowerment Zones and Other Distressed Communities.*

Special depreciation allowance. You can take a special depreciation allowance (or Liberty Zone depreciation allowance) for qualified property (or Liberty Zone property) you place in service during 2002. The allowance is an additional deduction of 30 percent of the property's depreciable basis. For more information, see Publication 946, *How To Depreciate Property.*

Increased section 179 deduction for enterprise zone businesses. If you placed section 179 property in service in an empowerment zone during 2002, you may be able to increase your section 179 deduction by as much as $35,000 (up from $20,000). For information on empowerment zones and enterprise communities, see Publication 954.

Increased section 179 deduction for businesses in the Liberty Zone. If you placed section 179 property in service in the New York Liberty Zone during 2002, you may be able to increase your section 179 deduction by as much as $35,000. For more nformation, see Publication 946.

Health insurance deduction for the self-employed. For 2002, this deduction is 70 percent of the amount you paid for medical insurance for yourself and your family.

Tax shelter disclosure statement. You must file a disclosure statement for each reportable tax shelter transaction in which you participated, directly or indirectly, if your federal income tax liability was affected by the transaction. For more information, see the tax shelter disclosure statement discussion in the Schedule C (1040) instructions.

Important changes for 2003

The following are some of the tax changes for small business that take effect in 2003 and could affect your estimated tax payments for 2003.

Health insurance deduction for the self-employed. For 2003, this deduction is 100 percent of the amount you paid for medical insurance for yourself and your family.

Self-employment tax. The maximum net self-employment earnings subject to the Social Security part of the self-employment tax increases to $87,000 for 2003.

Section 179 deduction. For 2003, the total cost you can elect to deduct under section 179 of the Code is increased to $25,000.

Standard mileage rate. The standard mileage rate for the cost of operating your car, van, pickup or panel truck in 2003 is 36 cents a mile for all business miles.

Reportable transactions. New disclosure rules require you to file Form 8886, *Reportable Transaction Disclosure Statement*, to report certain transactions entered into after 2002. Reportable transactions include (1) transactions the same as or substantially similar to tax avoidance transactions identified by the IRS, (2) transactions offered to you under conditions of confidentiality, (3) transactions for which you have contractual protection against disallowance of the tax benefits, (4)

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Important changes for 2003

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transactions that result in losses of at least $2 million in any single year or $4 million in any combination of years, (5) transactions resulting in book-tax differences of more than $10 million and (6) transactions with asset holding periods of less than 45 days and that result in tax credits exceeding $250,000. For more information, see the Instructions for Form 8886.

Fewer tax forms for small businesses to file

Starting with the 2002 tax year, companies with less than $250,000 of total receipts and less than $250,000 in assets no longer have to complete Schedules L, M-1 and M-2 of Form 1120; Parts III and IV of Form 1120-A; and Schedules L and M-1 of Form 1120S.

Small businesses will be able to use recordkeeping based on their checkbook or cash receipts and disbursements journal instead of creating additional records just for tax purposes. The companies must still maintain records detailing assets, liabilities, equity accounts and adjustments used to arrive at taxable income.

Five-year carryback of net operating losses

Taxpayers with net operating losses (NOLs) for tax years ending in 2001 or 2002 will generally carry them back five years rather than two (three, for certain casualty, theft and disaster-related losses). However, they may choose to use the two- or three-year period instead or to carry the entire NOL forward for up to 20 years. Taxpayers waiving the five-year rule must do so by their filing deadline (including extensions).

Electric and clean-fuel vehicles

The maximum amounts for the clean-fuel vehicle deduction and the electric vehicle credit, which were scheduled to begin dropping by 25 percent per year in 2002, will remain unchanged until 2004, when the three-year phaseout will begin.

Welfare-to-Work and Work Opportunity Credits

These credits, which were scheduled to end in 2001, have been extended to cover qualified wages paid to individuals who begin work before 2004.

DECEDENT RETURNS

Delays in processing returns filed for deceased taxpayers can be reduced or eliminated by writing the decedent's name, the word ***deceased*** and the date of death in the top left margin of page 1, Form 1040. Also include a completed Form 1310 if required. See Publication 559, *Tax Information for Survivors, Executors and Administrators,* for additional information. Including all of the required information will eliminate delays caused by corresponding for missing or incomplete information.

Publication 17 — your one stop for tax help

Facing a lot of different tax questions this year? IRS experts have pulled together an overview of common tax issues in one convenient place — Publication 17, *Your Federal Income Tax.* This updated publication, available on the IRS Web, contains a vast array of helpful information in one guide.

From stock sales to student loans, people can get many of their questions answered in this 280-page publication. A sampling of the items covered in 38 chapters include:

- Need help deciphering the mysteries of the Roth IRA? Try Chapter 18 for retirement accounts.
- Do you have a new child in the house? See Chapter 35 for the Child Tax Credit.
- Are you selling stock for the first time? Check Chapter 17 for capital gains. If you're unloading losers, capital losses are there, too.
- Do you need to report the profit on your home sale? See Chapter 16 for some good news. Generally, you only need to report the sale of your home if your gain is more than $250,000 ($500,000 if married filing a joint return).

And the best part about Publication 17? It's free. To get a copy, visit the IRS Web site at **www.irs.gov** under the *Forms & Pubs* section. Or, you can order a copy by calling **1.800.TAXFORM (1.800.829.3676).**

ELECTRONIC SIGNATURES

Electronic Signature PIN Methods

For Processing Year 2003 (Tax Year 2002), the IRS offers two electronic signature PIN methods for individual taxpayers to sign *e-filed* tax returns — the Self-Select PIN method and the Practitioner PIN method. Both methods eliminate the requirement for Form 8453, *U.S. Individual Income Tax Declaration for an IRS e-file Return*, by providing a totally paperless e-filed return.

The Self-Select PIN method has been expanded for Processing Year 2003 to the following taxpayers:

- Primary taxpayers under age 16 with prior filing history.
- Secondary taxpayers (spouse) under age 16 who filed in the previous year.
- Those filing on behalf of deceased taxpayers.

Beginning in Processing Year 2003, the Practitioner PIN method will be open to all EROs. The Practitioner PIN method is an additional electronic signature option for taxpayers who use an Authorized IRS *e-file* Provider to *e-file* their tax returns. Taxpayers are required to select any five numbers except all zeros to use as their electronic signature. Taxpayers who choose to use the Practitioner PIN method must complete Form 8879, *IRS e-file Signature Authorization.* The Date of Birth and the Adjusted Gross Income are not required for returns filed under the Practitioner PIN method.

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IRS Office of the Privacy Advocate: a crucial role at a critical time

As the IRS continues to modernize its information systems and dramatically expand its electronic services to taxpayers and practitioners, the role of the IRS Privacy Advocate continues to increase in importance.

The Office of the Privacy Advocate was created in 1993 due to increasing concerns regarding the privacy of taxpayer information in a rapidly changing electronic environment. That electronic environment has dramatically changed since then and so have the robust privacy initiatives of the IRS.

The Office is responsible for developing, promoting and supporting privacy programs and awareness throughout the IRS and ensuring that IRS employees are aware of potential privacy issues and policies to make certain that the privacy rights of taxpayers are protected.

In addition to a host of federal laws that protect the confidentiality of taxpayer information and stringent computer security procedures, the Office goes a step further to protect your privacy and the privacy of your clients. The Office created the Privacy Impact Assessment (PIA), a tool designed to help business owners and systems developers identify and evaluate privacy risks in new and substantially modified IRS information systems. The PIA, which was voted a *Best Practice* by the Chief Information Officers Council, has been adopted as a model privacy tool by other government agencies, private industry and foreign governments.

Privacy initiatives, such as the PIA process, have resulted in the elimination of Social Security Numbers on IRS mailing labels as well as the use of open window envelopes. The Office has also reduced the amount of information collected by a number of IRS systems and expanded privacy protections to third parties during compliance initiatives.

The Office also reviews IRS privacy notices to alert visitors to the IRS Web site **(www.irs.gov)** about the type of information that will be collected as a result of their visit. The IRS will not collect identifiable personal information as a result of your visit to irs.gov. The Office has participated significantly in all areas of IRS modernization and *e-file* programs, such as the free *e-filing* agreement signed by the IRS commissioner and a consortium of tax practitioners.

Whether taxpayers choose to file a return electronically or on paper, the Office of the Privacy Advocate seeks to ensure that:

- No personal information will be collected which is not necessary for tax administration or other legally authorized purposes;
- Information will be used only for the purpose for which it was collected or as specifically authorized by law; and
- Information will be collected, to the greatest extent practicable, directly from the individual to whom it relates. Information which is collected from third parties will be verified for accuracy with the subject whenever possible before final action is taken.

The Office will continue to work to build public trust by protecting the privacy rights of taxpayers. For questions, concerns or comments about IRS privacy practices or the way personal information is collected, maintained and used, please contact the Office at **Privacy.advocate@irs.gov** or write to **1111 Constitution Avenue, N.W. Washington, D.C. 20224**

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The following taxpayers are eligible to use this method:

- Taxpayers who are eligible to file Forms 1040, 1040A, 1040EZ or Telefile
- Taxpayers of all ages (there is no age limitation)
- Those filing on behalf of deceased taxpayers.

EROs using the Practitioner PIN method must retain Form 8879 for three years from the return due date or IRS received date, whichever is later.

PIN Presence Indicator

The PIN Presence Indicator is present on all ACK Files regardless of whether a PIN was used or not. Every transmission will be acknowledged by the return of an Acknowledgment File Key Record (ACK File) to the transmitter. The ACK File will contain the following on accepted and rejected returns:

0 = No PIN (Form 8453 or 8453OL required)
1= Practitioner PIN
2 = Self-Select PIN by Practitioner Used
3 = Self-Select PIN On-Line Used
Blank = Return Rejected with a PIN

We encourage a thorough and attentive review of the ACK File to ensure the proper PIN used was received successfully.

Internal Revenue Service Advisory Council

The Internal Revenue Service Advisory Council (IRSAC) is a national policy/issue advisory committee established by the Department of the Treasury and the Internal Revenue Service in 1953. Originally designated the Advisory Group to the Commissioner (CAG), the group was renamed in 1998 to reflect the scope of its focus as an advisory body to the entire IRS.

The IRSAC conveys the public's perception of IRS activities to the Service. It provides an organized public forum for IRS officials and representatives of the public to discuss relevant tax administration issues. It suggests operational improvements, offers constructive observations regarding current or proposed IRS policies, programs and procedures, and advises the commissioner on particular issues that affect federal tax administration. The group addresses broad tax administration topics or organizational issues rather than narrow technical issues. Discussions focus on solutions as well as observations. Meetings provide an opportunity for the IRSAC to offer collective advice on strategic IRS issues.

The IRSAC is comprised of individuals with a wide breadth of experience who bring diverse backgrounds to bear on the Council's activities. Periodically, solicitations for new IRSAC members are announced on **irs.gov** in the *Tax Professional's* section.

Information Reporting Program Advisory Committee

Established in 1991 by the Omnibus Budget Reconciliation Act of 1989, the Information Reporting Program Advisory Committee (IRPAC) is an external federal advisory committee created to advise the Internal Revenue Service on information reporting issues.

The primary purpose of the IRPAC is to provide an organized public forum for IRS officials and private sector representatives of the information reporting community to discuss relevant information reporting issues. The IRPAC also provides the IRS with valuable insight into the public's perception of IRS activities with respect to specific information reporting administration issues and offers constructive observations regarding current or proposed information reporting policies, programs and procedures. The IRPAC advises the IRS on information reporting issues of mutual concern to the private sector and the federal government. The committee works with the commissioner of Internal Revenue, operating division commissioners and other IRS executives to provide information and recommendations on a wide range of information reporting administration issues. The committee's advice assists the IRS in executing the objectives of the Information Reporting Program, while ensuring fairness to all taxpayers.

The IRPAC is a diverse group of not more than 25 individuals, who bring exceptional skills and a breadth of experience and represent various

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DAILY TAX TIPS FOR 2003

The Internal Revenue Service will again offer a daily series of Tax Tips for the 2003 federal tax filing season.

IRS Tax Tips will offer concise, useful information on topics affecting millions of taxpayers. These easy-to-read tips will cover a wide range of topics, from child credits and higher education benefits to Individual Retirement Accounts and Social Security issues. Sample topics include:

- Common errors to avoid when preparing your taxes.
- Free tax help from the IRS.
- *e- file* helps refunds, payments.
- Charitable contributions
- Capital gains and losses.
- Don't overlook home mortgage points.
- When are Social Security benefits taxable?
- What to do if you can't pay your tax.
- Amended returns

More than 70 Tax Tips will be available, a new one for each business day until the April 15 tax deadline.

The Tax Tips will be available at the IRS Web site at **www.irs.gov** under *The Newsroom.*

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segments of the information reporting community — from major national professional and trade associations to colleges, universities and state tax agencies.

Periodically, solicitations for new IRPAC members are announced on **irs.gov** in the *Tax Professional's* section.

The Office of National Public Liaison (NPL) is responsible for administering IRSAC and IRPAC under the direction of the chief of Communications and Liaison. For additional information, visit the *Tax Professional's* section of **irs.gov**/.

National Research Program

The National Research Program (NRP) is a comprehensive effort by the IRS to measure payment, filing and reporting compliance for different types of taxes and various sets of taxpayers. The first stages will focus on individual income taxes, while future stages will measure other taxes and other types of taxpayers.

The innovative program will be far less intrusive and burdensome on taxpayers than previous compliance studies. And it will help the IRS build better compliance programs to more effectively catch tax cheating and help ensure everyone pays a fair share.

Administering a tax system that serves America's taxpayers by promoting fairness and operating efficiently and effectively is dependent on the agency's ability to measure and distinguish between the many factors that impact compliance with the tax laws.

Without reliable measures, the IRS faces major challenges in improving its ability to detect noncompliance, improving overall compliance and developing methods for allocating resources more effectively.

NRP will measure the different types of compliance as follows

- Filing compliance will be measured using sample data from the Census Bureau.
- Payment compliance will be measured using information the IRS has available.
- Reporting compliance will be measured by analyzing a sample of tax returns.

For individual income tax audits, the no-change rate is going up. This means the IRS is devoting resources to auditing compliant taxpayers, which increases taxpayer burden and does not help improve overall compliance. NRP data will be used to update the formulas used for selecting returns for audit. (These current formulas are based on data from the late 1980s.)

The new NRP data will help reduce the burden of unnecessary IRS contacts on compliant taxpayers. An increasing number of taxpayers will be unnecessarily audited each year unless formulas for selecting audits can be updated.

Reporting compliance results will be collected to help the IRS identify some of the problems taxpayers have in complying with the tax laws. This will allow the IRS to address noncompliance by redesigning forms, suggesting law changes, improving communications with taxpayers and tax preparers, and focusing enforcement on intentionally non-compliant taxpayers.

The IRS will use existing resources in its audit program to implement NRP, and the NRP sample will account for only about 1.1 percent of the total audit-related contacts planned for the year. The IRS will rigorously test the methodology prior to implementation and

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National Research Program

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ongoing reviews throughout the process will ensure that the data collected are high quality.

The NRP process will limit the burden on taxpayers selected to be in the NRP sample by making maximum use of data the IRS already has collected:

- Through extensive case-building, well-trained NRP examiners will be able to determine that some taxpayers have plausibly met their reporting responsibility without resorting to an intrusive audit.
- Other taxpayers will receive correspondence from NRP examiners to support items that cannot be otherwise verified.
- Other taxpayers will have complicated tax returns with significant items that NRP examiners can verify only with a face-to-face audit. However, these audits will generally be no more burdensome than ordinary operational audits, due to the case-building activities that NRP examiners will have done in advance of the audit. This case-building will allow examiners to focus more attention on questionable items and should improve examiner productivity.

In the most cost-effective and least burdensome manner possible, NRP intends to provide the IRS with current, reliable data on filing, payment and reporting compliance. These data will support the IRS's commitment to apply its limited resources where they are of most value in reducing noncompliance while ensuring fairness, observing taxpayer rights and reducing the need to burden honest taxpayers.

Schedule K-1 matching

In 2002, the IRS initiated the first matching program of Schedule K-1 forms from Partnerships, S Corporations and Trusts to individual returns. The first phase of this initiative has been completed. Based on preliminary stakeholder feedback and IRS evaluation, there may be enhancements made to the program to further reduce taxpayer burden and to improve compliance. The IRS will continue to work with stakeholders, especially tax practitioners, to refine the initiative. The IRS remains committed to improving compliance on information reporting on K-1s and therefore ensuring fairness to all taxpayers, while imposing the least possible burden on taxpayers who are covered by K-1s.

As a result of discussions with external stakeholders, the IRS ceased issuing notices on Aug. 1, 2002, to taxpayers for tax year 2000 on Schedule K-1 matching issues. The notices issued prior to Aug. 1 are legally valid and will be processed as usual. Therefore, taxpayers and practitioners receiving these notices should respond as indicated in the notice.

By the end of 2002, the IRS expected to have sufficient data from closed cases to begin determining possible enhancements to the program. The IRS plans a review of various aspects of the program, including the accuracy of the screen-out process and the level of no-change rates. The IRS will be working closely with external stakeholders once the data gathering and analysis are completed to develop future policy and procedures for the K-1 matching program. The matching of tax year 2001 returns will continue as scheduled, with anticipated refinements to be incorporated into the process. K-1 information will still be used in the following applications to enhance compliance:

1. Including K-1 information in the Substitute for Return program used to address non-filers
2. Adding K-1 information to the information reviewed by our Lead Development Center, which identifies abusive scheme promoters and users
3. Enhancing classification and selection of business and individual returns for examination through a more complete understanding of related flow-through entities

To fulfill this vision, the modifications being made to the Schedule K-1 matching program are essential. It may be helpful to remember the following suggestions when preparing tax returns:

- Adequately identify *amended* K-1 forms. The flow-through entity issuing the K-1 should clearly mark these as amended. Individuals are not required to attach the K-1 to their return. Therefore, the only way an individual can inform the IRS that an amended K-1 has been received is to attach a schedule or explanation.
- Adequately identify *estimated* K-1 forms.
- Avoid netting information unless adequate schedules or explanations are attached.
- Properly treat and report related expenses.
- Avoid netting flow-through related expenses against any K-1 income item.
- Additionally, passive activity loss or other loss carryovers that have been netted against ordinary flow-thru income (loss) should be explained on a schedule such as the Form 8582, *Passive Activity Loss Limitation.*

LMSB At-a-Glance

Mission:

The Large & Mid-Size Business Operating Division is a world class organization responsive to the needs of customers in a global environment, while applying innovative approaches to customer service and compliance. It will apply the tax law with integrity and fairness through a highly skilled workforce, and will foster an environment of inclusion where each employee can make a maximum contribution to the mission of the team.

Strategic Priorities:

- Globalization – Build a tax administration to effectively deal with the global economy.
- Issue Management – Develop a strategy to resolve disputes sooner with taxpayer(s) or eliminate controversy sooner in the process.
- Employee Skills and Satisfaction – Recruit and retain a highly qualified, skilled, and satisfied workforce.
- Abusive Corporate Tax Shelters – Strengthen our ability to deal with corporate tax shelters.
- Assess Compliance Risk – Gauge compliance risk within LMSB return populations

Management Team:

Larry R. Langdon
Commissioner

Deborah M. Nolan
Deputy Commissioner

Mint Building
801 9th St. NW, 4th Floor
Washington, DC 20220

LMSB Headquarters Office:

Carol Dunahoo
Director, International

Kelly Cables
Director, Performance, Quality & Innovation

Frank Ng
Director, Pre-Filing and Technical Guidance

Dick Teed
Deputy Director, Strategy, Research, and Program Planning

Susan Linden
Director, Communications & Liaison

Jim O'Malley
Director, Management and Finance

Jim Gaul
Division Information Officer

Dave Bass
Director, Business Systems Planning

JoAnne Johnson-Shaw
Director, EEO & Diversity

Linda Burke
Division Counsel

Industry Operations:

Retailers, Food, Pharmaceutical and Healthcare

Robert E. Brazzil, Director
Downers Grove, IL

Vacant
Director, Field Operations
Downers Grove, IL

Vacant
Director, Field Operations
Laguna Niguel, CA

Natural Resources and Construction

Bobby L. Scott
Director, Field Operations
Houston, TX

Paul Cordova
Director, Field Operations
Houston, TX

Mary Tapley
Director, Field Operations
Laguna Niguel, CA

Financial Services

John Petrella
Director
New York, NY

Paul DeNard
Director, Field Operations
New York, NY

Vacant
Director, Field Operations
New York, NY

Heavy Manufacturing and Transportation

Thomas J. Smith
Director
Iselin, NJ

Karen Ammons
Director, Field Operations
Iselin, NJ

Jack Schroeder
Director, Field Operations
Detroit MI

Communications, Technology and Media

Thomas Wilson
Director
Oakland, CA

Joann Bank
Director, Field Operations
Oakland, CA

Walter Harris
Director, Field Operations
New York, NY

Field Specialists

Keith Jones
Director
Washington, DC

Taxpayer Profile:

- Corporations, Subchapter S corporations, and partnerships with more than $10 million in assets.
- The largest business taxpayers interact with the IRS on an on-going basis.
- Most have in-house tax divisions.

Major issues are tax law interpretation, accounting and regulatory

TE/GE At-a-Glance

Tax Exempt and Government Entities (TE/GE) and its specialized divisions of Employee Plans (EP), Exempt Organizations (EO) and Government Entities (GE) serve and assist customers who fall under those three very distinct segments. Customers range from small local community organizations and municipalities to major universities, pension funds, state governments and complex tax-exempt bond deals. TE/GE offers support and customer assistance on the following unique topics:

- EP: retirement plans such as 401(k), 403(b), 457, SEP, SIMPLE, and defined benefit pension plans;
- EO: charities, private foundations, other nonprofit organizations;
- GE: federal, state and local governments (FSLG), Indian tribal governments (ITG) and tax-exempt bonds (TEB) for the municipal finance community.

For direct technical assistance on any of these subjects, call TE/GE's Customer Account Services toll-free line at **877.829.5500,** Mon.–Fri. 8:00 a.m. to 6:30 p.m. ET.

You can also access the following Web sites for information on specialized education programs and services, technical guidance, seminars, workshops, forms and publications and more:

- EP: **www.irs.gov/ep**
- EO: **www.irs.gov/eo**
- FSLG: **www.irs.gov/govts**
- ITG: **www.irs.gov/tribes**
- TEB: **www.irs.gov/bonds**

Leadership Team:

Evelyn A. Petschek
Commissioner

Richard J. Morgante
Deputy Commissioner

Carol D. Gold
Director, Employee Plans

Steven T. Miller
Director, Exempt Organizations

Chuck Peterson
Director, Government Entities

John Ricketts
Director, Customer Account Services

W&I At-a-Glance

Mission:
Wage and Investment Operating Division (W&I) will educate and assist our customers in understanding and satisfying their tax responsibilities. We will provide this service in a high quality, fair and equitable manner through partnership between management, employees and stakeholders.

Strategic Priorities:

- Meeting demands for assistance by providing better and more specialized services to individual taxpayers and emphasis on customer segment needs.
- Resolving accounts earlier and more accurately through integrated case processing and use of linkages within the service.
- Implementing appropriate compliance processes.
- Improving electronic filing and communications services.
- Providing the W&I workforce with the necessary tools for serving taxpayers and administering the tax code and enhancing employee skills through training.

Headquarters: Atlanta, Georgia

Management Team:

John Dalrymple
Commissioner

John Duder
Deputy Commissioner

Frank Spiegelberg
Senior Operations Advisor

Ty Ayers
Director, Customer Assistance, Relationships and Education

Ronny Rhodes
Director, Customer Account Services

Linda Stiff
Director, Compliance

Terry Lutes
Director, Electronic Tax Administration

Area Headquarters Offices:

- Hartford
- Indianapolis
- St. Louis
- Greensboro
- New Orleans
- San Francisco Bay area.

Taxpayer Profile:

- Some 94 million filers, representing 120 million customers, including those who file jointly.
- Most pay taxes through withholdings and interact with the IRS once a year.
- More than 75 percent prepare their own returns and receive refunds.

SB/SE At-a-Glance

Mission:
The mission of the Small Business/ Self-Employed (SB/SE) Operating Division is to provide SB/SE customers top-quality service by educating and informing them of their tax obligations, developing educational products and services, and helping them understand and comply with applicable laws, and to protect the public interest by applying the tax law with integrity and fairness to all.

Strategic Priorities:
- Meet the public's expectations by always being responsive and always performing with integrity when dealing with customers.
- Recognize the need for continuous training, skills enhancement and open communications between employees and management.
- Encourage compliance by partnering with the taxpayer from the *start-up* business phase and throughout the business life cycle.
- Stabilize and improve business results.

Headquarters:
New Carrollton, Maryland

Management Team:

Joseph Kehoe
Commissioner

Dale Hart
Deputy Commissioner

Bobby Hunt
Director, Taxpayer Education and Communication

John Crawford
Director, Customer Account Services

Brien Downing
Deputy Director, Customer Account Services

Martha Sullivan
Director, Field Compliance

Tom Hull
Deputy Director, Compliance

Joe Brimacombe
Deputy Director, Compliance Policy

Tommy DeWeese
Director, Business Systems Planning

Christina T. Mollett
Director, EEO and Diversity

Beth Tucker
Director, Communications and Liaison

Kevin Brown
Division Counsel (SB/SE)

John E. Binnion II
Director, Management & Support

Brady R. Bennett
Director, Strategy & Finance

Pamela J. Larue
Director, Strategy, Research and Performance Management

Charles P. Pautler, Jr.
Director, Research

Area Headquarters Offices:
Baltimore, Dallas, Jacksonville, Nashville, Seattle, Boston, Denver, Laguna Niguel, Philadelphia, St. Paul, Chicago, Detroit, Manhattan, San Francisco Bay area, Los Angeles, Washington, International area office in Puerto Rico, Field Offices throughout the nation.

Taxpayer Profile:
- Approximately 45 million taxpayers.
- About 33 million full or partially self-employed.
- About 7 million small businesses with assets of $10 million or less.
- Have some of the most complex issues due to tax law requirements and the number of forms and schedules required.
- Have 4-60 routine transactions with the IRS per year.

The SB/SE Operating Division will serve this taxpayer segment through three organizations:
- *Taxpayer Education and Communication (TEC):* a customer-focused organization that will continuously research and analyze taxpayer trends to ensure that products and services are tailored to meet the needs of SB/SE taxpayers.
- *Customer Account Services (CAS):* focus on processing returns timely and accurately, assisting taxpayers with account specific questions and adjusting accounts when necessary.
- *Compliance:* focus on problem prevention and early intervention to increase overall compliance and fairness by providing educational guidance and outreach programs focusing on small business needs.

Practitioner Priority Service—your first point of contact

Our Practitioner Priority Service is a professional support line (**1.866.860.4259**) staffed by IRS customer service representatives specially trained to handle practitioners' questions. Practitioner Priority Service is a toll-free, accounts-related service for all tax practitioners, nationwide. It is the practitioners' first point of contact for assistance regarding taxpayers' account-related issues. The hours of service are 7:30 a.m. until 5:30 p.m. local time (with the exception of Alaska and Hawaii, which will be Pacific Time), weekdays. It operates out of five campus sites: Brookhaven, N.Y., Cincinnati, Ohio, Memphis, Tenn., Ogden, Utah, and Philadelphia, Penn. These calls are routed to a designated campus site based on the practitioner's geographic location, and each campus site handles both individual and business inquiries. The same organizational team handles inquiries for individual practitioners and any issues outside the scope of the employees' authority are priority routed to other IRS functions.

IRS offers on-line Pub 1045

Publication 1045, T*ax Professionals Guide to 2002 Federal Tax Products,* is now available along with the Form 3975, *Tax Professional Annual Mailing List Application and Order Blank,* on the IRS Web site at **www.irs.gov.**

Tax professionals who are interested in a compilation of the most frequently requested business and individual forms and instructions can order Package X electronically at **www.irs.gov/bus_info/tax_pro/tprax**. Only current participants can use this method by entering their account number shown on the mailing label of previous Publications 1045. New participants in the program should use the Form 3975. Once they are fully enrolled, they too will be able to register on-line. The instructions for mailing Form 3975 can be found in Publication 1045. For ordering products on-line, the addresses are:

- Package X — **www.irs.gov/bus_info/tax_pro/tprax;**
- Publication 1796, I*RS Federal Tax Products CD-ROM* — **www.irs.gov/cdorders**;
- Other tax products — **http://bookstore.gpo.gov/irs**

To find out the status of an order, call **1.800.829.3676** and ask for the Tax Practitioner Gate, allowing 7 to 10 workdays for an order to be processed. The printed version of Publication 1045 was mailed in October. Package X, Volume 1 will be available in mid-December and Volume 2 in mid-January.

Donating vehicles to charity

Across the nation, an increasing number of charities have turned to car-donation programs in recent years as an effective way to raise money. Many of these charities run sound programs. But IRS and state officials are concerned that as taxpayers finalize their charitable donations, many may not know enough about the state and federal recordkeeping and filing requirements.

When done correctly, donating a used car to a charity can help both the charity and the taxpayer. Taxpayers just need to take a few simple steps to avoid possible problems and to make sure they get the proper tax deduction for their donation.

For a taxpayer, the appeal of a car donation is simple: unload an old car, help a worthy cause and take advantage of tax provisions designed to support the generosity of Americans. Taxpayers who itemize deductions on their tax return can deduct, within limits, the fair market value of their contributions to qualified charities. The proliferation of car donation programs, however, has taken place without taxpayers always understanding what they must do to take advantage of the deduction. This confusion has been heightened by claims of some of the private fund-raisers who operate car donation programs on behalf of qualified charities.

The IRS and the National Association of State Charity Officials recommend that people who want to donate their vehicle take the following steps:

- **Check that the organization is qualified** –Taxpayers must make certain that they contribute their car to an eligible organization; otherwise,

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SECONDARY SSN VALIDATION

The names and Social Security Numbers (SSNs) of everyone claimed on a tax return — primary, secondary and all dependent SSNs — must exactly match the names on their Social Security cards. The IRS does not accept electronic returns with any name/number mismatch, whether for the taxpayer, the spouse or a dependent. It also reduces tax benefits claimed on paper returns when there is a name/number mismatch for either spouse listed on a joint return or for any dependent.

People who change their surnames for any reason - such as marriage — should get updated identification cards, unless they intend to use the former name for legal purposes. Form SS-5, *Application for a Social Security Card*, is available from the SSA Web site at **www.ssa.gov,** or by calling (toll free) **1.800.772.1213**.

REMINDER

Refund checks will be returned to the IRS if the address on the check is not current. Advise your clients to file Form 8822, *Change of Address,* when they move.

Donating vehicles to charity

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their donation will not be tax deductible. Taxpayers can use the IRS Web site to check that an organization is qualified by searching Publication 78 available at **www.irs.gov.**

- **Examine state filings for more information** – Taxpayers can also review the organization's state registration and financial filings. These documents are commonly filed with a state charity regulator such as the state attorney general's Office or the secretary of state's office.
- **Ask questions about how the donated vehicle will be used** – Many donors also want to make sure their contribution is used for the charitable purpose they intend.
- **Itemize in order to benefit** – Many taxpayers can't take a deduction for car donations because they don't itemize deductions on their personal tax return.
- **Deduct only the car's fair market value** – Some car donation program operators have mistakenly claimed that donors can take the full *Blue Book* value of their car for a deduction. The IRS, however, will only allow a deduction for the fair market value of the car.
- **Calculate the fair market value** – The donor must take many factors into consideration to establish the value of the car. Many used-car buying guides contain step-by-step instructions so that readers can make adjustments to the value of a car for accessories, mileage and other indicators of its general condition. Both IRS Publication 526, *Charitable Deductions,* and IRS Publication 561, *Determining the Value of Donated Property,* provide detailed instructions.
- **Document the charitable contribution deduction** – For vehicle donations, taxpayers must document the car donation and its fair market value. Publication 526 details requirements for the types of receipts taxpayers must obtain and the forms they must file.
- **Follow state law regarding car title and license plates** – Generally, state officials ask the donor to transfer the car title to the charity's name and make a copy of the title transfer, when possible.
- **Contact state charity and IRS officials when in doubt** – Donors with questions about whether a contribution is deductible should call the IRS at **1.800.829.1040** (TTY/TDD) **1.800.829.4059**. Donors concerned that contributions are being solicited for fraudulent purposes should contact the appropriate state charity official, who is often located in the state attorney general's office. A list of state charity official offices can be found on-line at **www.nasconet.org**, and a list of state attorneys general can be found at **www.naag.org.**

IRS announces new home sale exclusion rules

In late December 2002, the IRS issued guidance in the form of both final and temporary regulations related to excluding gain on the sale of a principal residence. A 1997 law substituted an exclusion of up to $250,000 ($500,000 for a married couple filing jointly) for the old *replacement residence* rules. Unlike a previous once-in-a-lifetime exclusion for senior citizens, the new exclusion may be claimed repeatedly but usually only once every two years.

The final regulations cover such topics as:

- how to determine if a home is a principal residence;
- when gain from the sale of vacant land that was used as part of the residence may be excluded;
- when and how to allocate the gain between residential and business use of the property;
- how the exclusion applies to joint owners who are not married; and
- how to fulfill the requirement that the taxpayer own and use the home as a principal residence for two of the five years before the sale.

For taxpayers with multiple homes, the regulations list several factors relevant to determining which home is the principal residence. Among these are amount of time used; place of employment; where other family members live; the address used for tax returns, driver's license, car and voter registration, bills and correspondence; and the location of the taxpayer's banks, religious organizations or recreational clubs.

The home sale exclusion may include gain from the sale of vacant land that has been used as part of the residence, if the land sale occurs within two years before or after the sale of the residence.

Taxpayers need not allocate gain between business and residential use if the business use occurred within the same dwelling unit as the residential use. They must pay tax on the gain equal to the total depreciation they took after May 5, 1997, but may exclude any additional gain on the residence, up to the maximum amount. If the business use property was separate from the dwelling unit, they would allocate the gain and be able to exclude only the gain on the residential unit.

For joint owners who are not married, up to $250,000 of gain is tax-free for each qualifying owner.

To exclude gain, a taxpayer must both own and use the home as a principal residence for two of the five years before the sale. The ownership and use periods need not be concurrent. The two years may consist of 24 full months or 730 days. Short absences, such as for a summer vacation, count as periods of use, but longer breaks, such as a one-year sabbatical, do not. The taxpayer also must not have excluded gain on another home sold during the two years before the current sale.

The IRS made these final regulations available for public comment in October 2000. Several changes resulted from the comments received, including the treatment of gain on property used for both business and residential purposes.

In late 2002, the IRS invited comments on new temporary regulations on the subject of excluding gain but with a reduced maximum amount, when the seller does not satisfy one of the time rules. The tax law provides an exception to the two-year rules for use, ownership and claimed exclusion when the primary reason for the sale is health, change in place of employment, or, to the extent provided in IRS regulations, *unforeseen circumstances.*

Taxpayers may establish by the facts and circumstances of their situations that their home sales were for one of these reasons. To make things easier, the IRS has identified various *safe harbors* that will automatically establish that the sale is for one of these reasons.

The temporary regulations provide that a home sale will be considered related to a change in employment if a qualified person's new place of work is at least 50 miles farther from the old home than the old workplace was from that home. This is the same distance rule that applies for the moving expense deduction. The employment change must occur during the taxpayer's ownership and use of the home as a residence. A qualified person is the taxpayer, the taxpayer's spouse, a co-owner of the home or a member of the taxpayer's household.

A sale will be considered because of health if the primary reason is related to a disease, illness or injury of a qualified person. If a physician recommends a change in residence for health reasons, that will suffice. In addition to the persons listed above, a qualified person for health reasons includes certain close relatives, so that sales related to caring for sick family members will qualify.

A sale will be considered as occurring primarily because of *unforeseen circumstances* if any of these events occur during the taxpayer's period of use and owner-

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New home sale exclusion rules

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ship of the residence:

- death,
- divorce or legal separation,
- becoming eligible for unemployment compensation,
- a change in employment that leaves the taxpayer unable to pay the mortgage or reasonable basic living expenses,
- multiple births resulting from the same pregnancy,
- damage to the residence resulting from a natural or man-made disaster or an act of war or terrorism, and
- condemnation, seizure or other involuntary conversion of the property.

Any of the first five situations listed must involve the taxpayer, spouse, co-owner or a member of the taxpayer's household to qualify. The regulations also give the IRS commissioner the discretion to determine other circumstances as unforeseen.

For qualifying sellers, the maximum exclusion amount of $250,000 ($500,000 for a married couple filing jointly) is limited to the percentage of the two years that the person fulfilled the requirements. Thus, a qualifying seller who owns and occupies a home for one year (half of two years) — and who has not excluded gain on another home in that time — may exclude half the regular maximum amount or up to $125,000 of gain ($250,000 for most joint returns). The proportion may be figured in days or months.

A taxpayer who now qualifies for a reduced maximum exclusion and has already reported a gain from the sale of a residence on a prior year's tax return may use Form 1040X to file an amended return claiming the exclusion. Taxpayers may generally amend returns until three years from the original due date. The law did not require taxpayers to meet one of the exceptions before using the reduced maximum exclusion for homes owned on August 5, 1997, and sold within two years after that date. Thus, nearly all taxpayers qualifying under these regulations should be able to use them by amending a recent year's return.

Treasury Decision 9030, the final home sale regulations, and T.D. 9031, the temporary and proposed regulations on the reduced maximum exclusion, were published in the Federal Register on Dec. 24, 2002, and are available at **http://www.access.gpo.gov/su_docs/aces/aces140.html** and in the Internal Revenue Bulletin. The proposed regulations were also published for comment on the IRS Web site at **www.irs.gov**.

IRS electronic information services

As digital communication becomes more and more a part of our lives, the IRS continues to come up with new and improved ways to use new technology to make life easier for taxpayers and tax preparers.

The *Tax Professionals'* page **(www.irs.gov)** is designed to help practitioners find what they need on the IRS Web site. The site has fill in the blank forms as well as forms to download and print. There is also a *Withholding Calculator* to help taxpayers determine the number of exemptions to take.

2002 Tax Products CD-ROM (Publication 1796)

Publication 1796, *Federal Tax Products CD-ROM,* contains fill-in-the-blank tax forms, portions of the Internal Revenue Manual, market segment guides and tools for the tax professional.

Publication 1796 can be purchased from the National Technical Information Service (NTIS) for $22 through the IRS Web site at **www.irs.gov** or by calling **1.877.233.6767**.

Electronic payment options for individuals

Taxpayers can pay taxes electronically by authorizing an electronic funds withdrawal from a checking or savings account or by using a credit card. E-payments can be used to:

- pay taxes owed on a 2002 income tax return.
- pay projected tax due when requesting an automatic extension of time to file.
- pay estimated taxes for Tax Year 2003.
- make a credit card payment on an active Installment Agreement for past due tax owed for years 1999 and after.

The IRS has entered into partnerships with private industry, including credit card processors and tax preparation software developers, to make these electronic payment options available.

- More than 750,000 people paid their federal taxes by electronic funds withdrawal or credit card during 2002.

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e-news for practitioners

Join the IRS e-News for Tax Professionals mailing lists

The Internal Revenue Service is pleased to announce an electronic mail service designed to provide localized, targeted and immediate information for tax professionals specifically for your geographic area.

To subscribe to local mailing lists, go to the *Tax Professional's* page of **irs.gov** and click on the *Subscription Services* topic and then *e-News for Tax Professionals*. Use the sign-up form provided for your state. Additionally, we highly recommend you also subscribe to the *IRS Digital Dispatch,* our national list server. The *Digital Dispatch* provides national tax news and information about new developments on the IRS Web site.

CREDIT CARD PAYMENT OPTIONS

Taxpayers who charge payments made with automatic extensions of time to file or estimated tax payments on a credit card should not file paper Forms 4868 or 1040-ES.

IRS electronic information service

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Electronic funds withdrawal

Electronic funds withdrawal is free, and the taxpayer decides when the tax payment is withdrawn from the bank account. Electronic funds withdrawal is only available to those who *e-file*, either by computer or by phone. A taxpayer may file early and, at the same time, schedule the withdrawal as late as April 15, 2003. For returns filed after April 15, the payment is effective on the filing date.

A 2003 estimated tax payment can be made through electronic funds withdrawal only when filing a 2002 tax return via computer, whether or not there is a balance due on the return. The estimated tax payment may be the one due in April, June or September. Only one estimated tax payment can be made through electronic funds withdrawal. This payment cannot be made by phone.

In 2002, 455,278 taxpayers paid their taxes through electronic funds withdrawal, an increase of 31 percent over the prior year.

Credit card payments

Taxpayers can make credit card payments whether they file electronically or file a paper return. Credit card payments can be submitted via the tax software when filing electronically. Credit card payments can also be made over the telephone.

In 2002, 313,385 taxpayers paid by credit card, an increase of nine percent over 2001.

The IRS does not set or collect any fees for credit card payments, but the private sector companies the IRS has authorized to process these payments do impose convenience fees. The tax payment sent to the U. S. Treasury and the convenience fee are listed separately on the cardholder's credit card statement.

Some tax software developers offer integrated *e-file* and e-pay combinations for those who want to pay a balance due with a credit card. The software accepts both the electronic tax return and the credit card information. Subsequently, the tax return and tax payment data are forwarded to the IRS, and the credit card data is forwarded to the payment processor.

For the 2003 filing season, the IRS has awarded contracts to two companies to accept credit card charges from both electronic and paper filers. Each company has its own fee schedule, and each offers both phone and Internet payment services. The two companies are:

- Official Payments Corporation: **1.800 2PAY.TAX (1.800.272.9829) 1.877.754.4413** (Customer Service) **www.officialpayments.com**/, and
- Link2Gov Corporation: 1**.888.PAY.1040 (1.888.729.1040) 1.888.658 5465** (Customer Service) **www.PAY1040.com/.**

Anyone may use these services to charge taxes to an American Express Card, Discover Card, MasterCard or VISA account. VISA joined the IRS credit card program in March 2002.

The *e-file* section of the IRS Web site — **www.irs.gov** — has more information about IRS *e-file*, the self-select PIN, private sector partnerships and electronic payments — just click on the *e-file* logo.

Electronic payment options for businesses

These days, you probably rely on computer technology in one way or another to run your business and may have discovered the benefits of filing your taxes electronically. Why not take the next logical step and pay your taxes electronically? It's safe, easy, convenient and free. It is available from home or office 24 hours a day, 7 days a week.

The Electronic Federal Tax Payment System (EFTPS) allows business taxpayers to initiate all federal tax payments electronically, including employment, income, estimated and excise taxes, and it's free from the U.S. Department of Treasury. No special equipment is required to use EFTPS. Electronic payments can be made using the Internet, personal computer software or by telephone.

As an added convenience, EFTPS offers payment scheduling. Businesses may schedule payment instructions for up to 120 days in advance of the tax due date, and EFTPS will automatically make your payments on the due date you indicate. Payroll processors and tax professionals will find added convenience through two additional options:

- EFTPS Batch Provider can send up to 750 payments in one transmission.
- EFTPS Bulk Provider for frequent payments; up to 1,000 payment records associated with a single debit or Fedwire transaction.

Note: *If your business made depository tax payments of more than $200,000 in 2001, you must use EFTPS for all your federal business tax payments made after Jan. 1, 2003. This applies to any tax deposit obligations incurred on or after Jan. 1, 2003.*

To participate in EFTPS, you must first enroll. To enroll, visit our Web site at **www.eftps.gov** or call EFTPS Customer Service at **1.800.555.4477** or **1.800.945.8400;** or **1.800.945.8900** or **1.800.733.4829** (TDD); or **1.800.945.8600** or **1.800.244.4829** (Espanol) for an enrollment form or additional information. Some of the forms and publications available at **www.irs.gov** provide additional information about all available electronic payment options.

e-file for business means less paperwork

In the 21st Century, you can run your entire business electronically. So why not file your business taxes the same way? Now business taxpayers and tax preparers can file and pay by telephone, by Internet or by PC software. It's more economical with less paperwork. It's more efficient with increased accuracy. And it's more effective since you will spend less time filing tax returns and more time focused on your business.

You will find that most small business filing requirements can be submitted electronically for example:

- Self-Employed Income Tax Returns (Form 1040, Schedules C and F)
- Partnership Income Tax Returns (Form 1065 and most related forms)
- Employment Tax Returns (Forms 940/941)
- Certain Information Returns (e.g., Forms 1098, 1099, W2-G), using the Filing Information Returns Electronically (FIRE) system

Some advantages of going all electronic are:

- **Increased Accuracy:** IRS computers quickly and automatically check for errors or other missing information, making *e-file* returns more accurate and reducing the chance of getting an error letter from the IRS.
- **Quick Electronic Confirmation:** Computer e-filers receive an acknowledgment that the IRS has received their returns. Callers using TeleFile receive a confirmation number while they're still on the phone, letting them know that the TeleFile system has accepted their return.
- **Delete the Paperwork Through Electronic Signatures:** Taxpayers can create their own Personal Identification Number (PIN) and file a completely paperless return using their tax preparation software or tax professional. There is nothing to mail to the IRS.

IRS e-file for Business

If you are a business taxpayer, ask your tax preparer about *e-filing*. If you are a tax professional, ask your software developer about adjusting your programs to take advantage of electronic filing. And to find out more, visit **www.irs.gov,** and click on the *e-file* logo. You will also find a listing of Approved IRS *e-file* for Business Providers at **http://www.irs.gov/efile/index.html**

Federal Tax Deposit requirements for employment taxes

Do employment tax requirements confuse you? You're not alone. The rules are not one-size-fits-all, and can be difficult to navigate. This summary may help clear up some of the mystery for you.

Employers are required to file Form 941, *Employer's Quarterly Federal Tax Return,* and to make regular Federal tax deposits (FTDs) of employment taxes, which include employees' withheld federal income tax, Social Security tax, Medicare tax and the employer's share of Social Security and Medicare taxes. The deposit schedule may be either monthly or semi-weekly, depending on the amount owed during a four-quarter look-back period. The look-back period for calendar year 2002 covers the four calendar quarters from July 1, 2000, through June 30, 2001.

If total taxes reported in the lookback period were:	Then employer is a:
$50,000 or less	Monthly Schedule Depositor
More than $50,000	Semi-weekly Schedule Depositor

New employers who never filed Form 941 before follow the monthly schedule depositor's rules for the first calendar year of their business. If, however, a new employer accumulates a tax liability (reduced by any advance Earned Income Credit (EIC) payments) of $100,000 or more on any day during a deposit period, they must deposit the tax by the next banking day.

FTD payments are based on when wages are paid, not earned, and must be deposited as follows:

Monthly Schedule Depositors

- Deposit each month's taxes by the 15th day of the following month (e.g., taxes from payday(s) during August are deposited by Sept. 15).

Semi-weekly Schedule Depositors

- For wages paid Saturday, Sunday, Monday, or Tuesday, deposit by Friday of that week.
- For wages paid Wednesday, Thursday, or Friday, deposit by the following Wednesday.

If the due date for a deposit falls on a federal or state bank holiday or on a Saturday or Sunday, the deposit is considered timely if it is made by the close of the next banking day. **Note:** *No monthly or semi-weekly FTD payments are required if the total tax liability for the quarter is less than $2,500. Employers may mail in payments with their quarterly Form 941.*

If employers have a deposit requirement, they may choose one of two deposit methods:

- Make their payment electronically, using the safe, convenient, Electronic Federal Tax Payment System (EFTPS). To enroll in EFTPS, call **1-800.945.8400** or **1.800.555.4477** or visit **www.eftps.gov** on-line.
- Mail or deliver Form 8109, *Federal Tax Deposit Coupon,* with their payment to an authorized financial institution or Federal Reserve Bank or branch. Make the check or money order payable to the financial institution.

Paying reasonable compensation to S Corporation shareholders-employees

The IRS sends this reminder: An S Corporation must pay reasonable compensation (subject to employment taxes) to shareholders-employees in return for services the employee provides to the corporation, before a non-wage distribution may be made to that shareholder-employee. This issue has been identified as an area of noncompliance and will receive greater scrutiny in the foreseeable future.

Unlike a partnership, flow-through income from an S corporation is not subject to self-employment tax (Revenue Ruling 59-221, 1959-1C.B. 22). In direct contrast, a partnership's flow-through ordinary income is generally subject to self-employment tax. On the surface, this appears to be a clear tax advantage of an S corporation vs. a partnership. However, in terms of *shareholders-employees* of an S corporation, the analysis does not end here.

If a shareholder-employee of an S corporation provides services to that S corporation, then reasonable compensation (subject to employment taxes) generally needs to be paid in return before any non-wage distributions may be made to that shareholder-employee. Several court cases support the authority of the IRS to reclassify other forms of payments made to the shareholder-employee as a wage expense. [See Joly v Comm. 2000-1 USTC 50315 (6th Cir., 2000).] In addition, several court cases have reinforced and

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Ready to apply to participate in *e-file?*

- Submit Form 8633, *Application to Participate in the Electronic Filing Program.*
- Apply early. It takes up to 45 days to process applications, which are accepted from August 1 through May 31.
- Forms 8633 are processed at the Andover Submission Processing Center. For more information about *e-file* or the name and phone number of the *e-file* coordinator in your area, call **1.800.691.1894.**

For the latest information on *e-file*, check out the IRS Web site at **www.irs.gov/**

FORM 8453

Submission of Form 8453, *U. S. Individual Income Tax Declaration for an IRS e-file Return,* is required unless the return is signed using an electronic signature. Refer to the *PIN Presence Indicator* field in the Acknowledgment (ACK) File Record to confirm that IRS received a taxpayer PIN with the return.

This filing season, three submission processing centers will process Forms 8453. Andover will process forms for returns transmitted to Andover and Cincinnati. Austin will process forms for returns transmitted to Austin and Ogden. Memphis will process forms for returns transmitted to Memphis.

S Corporation shareholders-employees

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clarified the IRS position as to the employee status of S corporation shareholders who perform services for the S corporation. [See Veterinary Surgical Consultants, PC v. Commissioner, 117 T.C. 141 (2001) and Joseph M. Grey Public Accountant, P.C. vs. Commissioner, 119 T.C. No. 5, (Sept. 16, 2002).]

Provided an S corporation shareholder is an employee and has received an actual distribution, the only remaining area of question is what amount is considered *reasonable* for that particular shareholder-employee. Whether the amount paid for the services provided constitute *reasonable compensation* is based upon all the relevant facts and circumstances.

New ways to reach the IRS

Call the right number to get the right answer

The IRS is making it easier and more efficient to get the answers to federal tax questions by providing two new toll-free numbers. These new toll-free numbers represent a substantial difference in how you can contact the IRS.

For business or specialty tax questions, call the new Business and Specialty Tax Line **(1.800.829.4933).** Customers calling this number can apply for a new Employer Identification Number (EIN) and receive help on Employment Taxes, Partnership, Corporation, Estate, Gift, Trust and Excise Taxes or other small business issues. This new number will enable the IRS to provide better service for businesses — with a number dedicated just for them — and better service for individual income tax questions by reserving the traditional 1040 help line **(1.800.829.1040)** for them.

Access to IRS information will be quicker and easier with fewer topic choices to negotiate within the separate individual and business service lines. Separating the incoming calls by individual and business issues means you will reach a customer service representative who is trained in your topic more quickly and efficiently. You can continue to obtain assistance with any Form 1040 issue by calling **1.800.829.1040**.

For information about an individual income tax refund, the fastest way to get assistance is on-line through the *Where's My Refund?* automated self-service feature, available 24/7 at **http://**

www.irs.gov/ If information is not readily available via the Internet, please call the Refund Hotline at **1.800.829.1954,** which is the second new toll-free number the IRS has established to provide more efficient service to customers.

The Business and Individual Tax Lines are designed to handle general inquiries. As always, if you have received correspondence from the IRS directing you to call a different number, you should call that number to receive the quickest resolution of your specific issue. *(See page 24 for a listing of IRS toll-free numbers.)*

www.irs.gov

Visit the IRS Web site to:

- Download forms and publications.
- Ask tax-related questions.
- Read summaries of tax regulations in plain English.
- Read news releases
- Send your comments directly to the IRS on-line.
- Download statistics of income database.
- Learn about electronic services.
- Use the W-4 calculator to figure withholding allowances.
- Visit the Tax Professional's page.
- Subscribe to the *Digital Dispatch* – an e-mail newsletter – or *e-news for Tax Professionals.* To subscribe, go the ***Tax Professional's* page and click on *Subscription Services.***

IRS announces new Form 706 toll-free number

The IRS has established a new national toll-free number dedicated to answering case-related questions on Form 706, *United States Estate Tax Returns*. The number is **866.699.4083.**

The lines are open Mon—Fri. from 6 a.m. to 10 p.m. EST. More than 60 tax assistors are available to answer calls, which typically include inquiries about closing letters and the status of an amended return.

The new number is printed on notices generated from the Estate and Gift Tax Department at the Cincinnati IRS Center where all Form 706 are processed. The number is not designed to answer general tax law questions related to estate and gift filing requirements.

The IRS began processing all Forms 706 and related materials at the Cincinnati Campus in January 2002 as part of the IRS's overall campus realignment program. Over the next several years more programs will be centralized at one campus location.

Tax materials and assistance in Spanish (Ayuda en Español)

If you need federal tax information in Spanish, you can find it in the form of recorded tax topics, free tax publications and toll-free telephone assistance from the IRS.

TeleTax is a toll-free automated service, in English and Spanish, providing helpful tax topics and refund information. You can find a list of the 151 TeleTax topics in the instructions for Form 1040, 1040A or 1040EZ. TeleTax can also help you if it's been at least four weeks since you filed your return and you want to check on the status of your federal refund. Having a copy of the tax return handy will help you respond to the prompts on the automated system. Call TeleTax 24 hours a day, 7 days a week at **1.800.829.4477**.

Free Spanish publications are available by calling toll free **1.800.TAX.FORM (1.800.829.3676)** or at **www.irs.gov** under *Forms and Publications*. Some of the more popular ones are:

- Publication 1SP, *Derechos del Contribuyente (Your Rights as a Taxpayer)*
- Publication 579SP, *Como Preparar la Declaración de Impuesto,* which explains who has to file a federal tax return and other important topics such as which form to file, who are dependents, what income is taxable and nontaxable and what some of the more common tax credits are
- Publication 596SP, *Crédito por Ingreso del Trabajo,* which provides details on the Earned Income Tax Credit

You can also talk with a Spanish-speaking IRS representative by calling the toll-free customer service line at **1.800.829.1040.**

FIRSTGOV
Your First Click to the U.S. Government

FirstGov.gov is the only official U.S. Government portal to 47 million pages of government information, services, and on-line transactions. The Web site offers a powerful search engine that searches every word of every U.S. government document in a quarter of a second or less. **FirstGov.gov** also features a topical index, links to state and local government, options to contact your government and other tools to provide the public with easy, one-stop access to government resources.

IRS toll-free numbers

(Except where noted, all times are local. Alaska and Hawaii: Pacific Time.)

866.860.4259	*Practitioner Priority Service*	Practitoners' first point of contact for account-related issues.
800.829.1040	*IRS Tax Help Line for Individuals*	For filers who need procedural or tax law information or help to file their 1040-type individual returns.
800.829.4933	***New*** *Business and Specialty Tax Line*	For Small Businesses, Corporations, Partnerships and Trusts who need information and/or help related to their Business Returns or Business (BMF) Accounts. Services cover Employer Identification Numbers (EINs), 94x returns, 1041, 1065, 1120S, Excise Returns, Estate and Gift Returns, as well as issues related to Federal tax deposits.
800.829.1954	***New*** *Refund Hotline*	For 1040-type Individual and Joint Filers who need to check the status of their current year refund. Automated Refund Self-Service Interactive Applications are offered on this line **Note:** The *Where's my refund?* automated self-service feature is also available 24/7 at **www.irs.gov/** to obtain refund status information.
800.829.3676	*Forms and Publications*	For individuals, businesses and tax practitioners who need IRS tax forms, instructions and related materials and tax publications.
877.777.4778	*National Taxpayer Advocate's Help Line*	For taxpayers whose tax problems have not been resolved through normal channels. Taxpayer Advocate Service (TAS) provides an independent system to assure that tax problems are promptly and fairly handled. TAS operates independently of any other IRS office and reports directly to Congress through the National Taxpayer Advocate.
800.829.4059	*Telephone Device for the Deaf (TDD)*	For hearing-impaired taxpayers who need tax law and/or procedural information relating to filing their returns or who need information or assistance relating to their accounts.
888.912.1227	*Taxpayer Advocacy Panel*	For citizens who want to provide ideas and suggestions on how to improve IRS services or who want to make recommendations for improvement of IRS systems and procedures.
800.555.4477 or **800.945.8400**	*Electronic Federal Tax Payment System (EFTPS) Hotline*	For taxpayers who want to pay business or individual taxes through electronic funds transfer. The EFTPS Toll-Free numbers can provide callers with EFTPS enrollment forms, instructions and customer assistance.
877.829.5500	*Tax Exempt – Government Entity (TEGE) Help Line*	For taxpayers who need tax information or assistance relating to Tax Exempt or Government Entities, Tax Exempt Bonds, Employer / Employee Pension Plans or Indian Tribal Agreements.
800.829.4477	*Tele-Tax System*	For individuals who need to check the status of their current year refund or who want to listen to recorded tax information. Available 24 hours a day, seven days a week.
888.796.1074	*Extension to File Tele-File System*	For individual filers who want to submit an Extension to File for a 1040-series return via telephone.
866.699.4083	*Form 706*	For answers to questions concerning Form 706, *United States Estate Tax Returns.*

EINs easier to obtain with Tele-TIN and Fax-TIN

By simply calling a toll-free number **(1.866.816.2065),** which is answered in three IRS Service Centers, taxpayers can get an Employee Identification Number (EIN). Calls are answered Mon.–Fri. from 7:30 a.m. to 5:30 p.m. local time. (Pacific Time for Hawaii and Alaska.)

Taxpayers can also fax requests for an EIN 24 hours a day, seven days a week by dialing the fax number at the location accepting applications from their state.

Taxpayers can also mail Form SS-4 to get an EIN. Instructions on the form provide the correct address.

Remember, third parties can receive an EIN on a client's behalf by completing the new *Third Party Designee* section and obtaining the client's signature on Form SS-4. New versions of the form have specific instructions on where to mail or fax the form.

If your principal business, office or agency or legal residence, in the case of an individual, is located in:

Connecticut, Delaware, District of Columbia, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, write, call or fax:

Attn: IRS EIN Operation
Holtsville, NY 00501
Tele-TIN 866.816.2065
Fax-TIN 631.447.8960

Illinois, Indiana, Kentucky, Michigan: write, call or fax:

Attn: IRS EIN Operation
Cincinnati, OH 45999
Tele-TIN 866.816.2065
Fax-TIN 859.669.5760

Alabama, Alaska, Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, Puerto Rico, South Dakota, Tennessee, Texas, Utah, Washington, Wisconsin, Wyoming, write, call or fax:

Attn: IRS EIN Operation
Philadelphia, PA 19255
Tele-TIN 866.816.2065
Fax-TIN 215.516.3990

If you have no legal residence, principal place of business, or principal office or agency in any state (outside the U.S.), write, call or fax:

Attn: IRS EIN Operation
Philadelphia, PA 19255
Tele-TIN 215.516.6999
Fax-TIN 215.516.3990

Individual Taxpayer Identification Numbers (ITIN)

An IRS Individual Taxpayer Identification Number, or ITIN, is a tax processing number for certain resident and nonresident aliens, their spouses and their dependents. The ITIN is available for individuals who cannot get and do not qualify for a Social Security Number (SSN) issued by the Social Security Administration.

An ITIN is issued only for tax purposes. It is considered a permanent tax identification number and replaces the former IRS temporary number (IRSN). An individual must enter the ITIN in the space for the SSN/TIN when completing their tax return.

The issuance of an ITIN does not:

- Entitle the recipient to Social Security benefits or the Earned Income Tax Credit (EITC);
- Create an inference regarding the individual's immigration status; or
- Give the individual the right to work in the U.S.

Any person who must file a U.S. tax return or is listed on a tax return as a spouse or a dependent who does not have and cannot obtain a valid SSN, must apply for an ITIN. (See Publication 519, *U.S. Tax Guide for Aliens, for dependency/exemption issues* and Publication 501, *Exemptions, Standard Deduction and Filing Information,* to see who may qualify as a dependent under the five dependency tests.) A person who is eligible for an SSN should get one. Internal Revenue regulations require including a valid Tax Identification Number (SSN/ITIN) for each person listed on the tax return. The inclusion of the number will enhance the processing of the return and expedite the issuance of a refund. The IRS will no longer accept *SSA205c, applied for, NRA,* blanks or previously issued IRS temporary numbers on returns. A reason must be given for applying for the ITIN. Taxpayers eligible for ITINs include:

- Nonresident aliens required to obtain an ITIN to claim tax treaty benefit
- Nonresident aliens filing a U.S. tax return and not eligible for an SSN

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Small Business Resource Guide CD-ROM–2003

The Small Business Resource Guide on CD-ROM is a must for every small-business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions and publications to successfully manage a business. The CD also provides other helpful information, such as preparing a business plan, finding financing for your business and more. The CD-ROM includes a full-text and PDF search engine for easier navigation. To order your copy of the Guide (available mid-March 2003), call **1.800.TAX.FORM (1.800.829.3676)** or visit **http://www.irs.gov/businesses/small/index.html** and click on *Small Business Products.*

REMEMBER:

Treasury Department *Circular No. 230* contains the rules governing the practice of attorneys, CPAs, enrolled agents, enrolled actuaries, appraisers and other persons representing taxpayers before the IRS. It authorizes the Director of Practice to grant or deny enrollment and to institute disciplinary proceedings.

Individual Taxpayer Identification Numbers

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- U.S. residents (based on days present in the U.S.) filing a U.S. tax return and not eligible for an SSN
- Dependents or spouses of U.S. citizens/resident aliens
- Nonresident alien students, professors or researchers filing a U.S. tax return and not eligible for an SSN
- Dependents or spouses of nonresident visa holders

U.S. citizens and U.S. resident aliens who are eligible to receive SSNs are not eligible for ITINs.

To obtain an ITIN, applicants must complete Form W-7, *Application for IRS Individual Taxpayer Identification Number.* The Form W-7 requires supporting documentation that substantiates foreign/alien status and true identity for each individual. If an applicant's spouse and/or dependents also need ITINs, they must submit separate Forms W-7 with the appropriate supporting documentation. A Spanish version, Form W-7SP, is also available.

Forms W-7 may be submitted by several methods:

- By presenting the completed Form W-7 and supporting documentation at any IRS Taxpayer Assistance Center in the U.S. and abroad. An IRS reviewer will examine the material and return the documentation to the applicant. The Form W-7 is then certified by the reviewing office and forwarded to the Philadelphia Submissions Processing Center (PSPC) for processing. An ITIN notice containing the number is generated during processing and is mailed directly to the applicant.
- By mailing the completed Forms W-7 and supporting documentation directly to the PSPC. The applicant will then receive the ITINs directly from the PSPC through the mail.
- By using the services of an acceptance agent who is authorized to certify Forms W-7 for the IRS and review applicants' documentation. Acceptance agents are tax practitioners and other qualifying agents, such as educational institutions and government agencies, who file the certified Forms W-7 on behalf of the applicants, receive the assigned ITINs from the PSPC and notify their clients of the assigned ITINs.

Acceptable supporting documentation is defined as documentation that proves both identity and foreign status. The documentation must be original, certified original by the issuing agency, notarized by a U.S. notary or certified/notarized by foreign notaries authorized under the Hague Convention with an Apostille attached. The documentation cannot be expired. It must be current and at least one form of documentation must contain a photograph. In the case of a dependent child, medical, school, immunization, etc., records are acceptable and a photograph, if not available, is necessary. A single document that satisfies both the identity and foreign status requirements (such as a passport), is acceptable by itself. Otherwise, two types of documentation are required. Types of acceptable documentation include: passports, visas, national identity cards or drivers' licenses.

Original documentation received by the PSPC ITIN Unit is reviewed for acceptance or rejection within 14 days and returned to the applicant through the U.S. Postal Service. ***Note:*** *If the documentation is in a foreign language, a certified translation must accompany it.*

When required information is not provided by the applicant, the application will be suspended, and a notice will be generated requesting the missing or corrected information. For those applications that do not meet the requirements and are rejected, a notice will be issued that explains the rejection

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PTIN PROGRAM

The Preparer Tax Identification Number (PTIN) program began in 1999 to address concerns that a preparer's SSN could be used inappropriately by clients and others having access to a prepared return. Preparers may download Form W-7P, *Application for Preparer Tax Identification Number,* from the Tax Professional's Corner on the IRS Web site at **www.irs.gov** or by calling the IRS toll-free tax forms line at **1.800.829.3676.**

To ensure that the person assigned to and identified by a specific PTIN is the person applying for it, the application form asks for the preparer's name, home address, date of birth and SSN. The PTIN is the identifying number of only the individual requesting it and has no relation to firms employing tax return preparers. Preparers may continue to use their PTINs year after year without reapplying. Preparers must use either their SSN or a PTIN. Do not write PTIN applied for in the Paid Preparer's Use Only section of the return. (Preparers are advised to consult with their respective states regarding the use of a PTIN on state tax returns.) Mail or fax Forms W-7P to:

Philadelphia IRS Campus
PTIN Unit P.O. Box 447,
DP N-280
Bensalem, PA 19020

The PTIN customer service number is **215.516.4846.** The fax number is **215.516.1127.**

Individual Taxpayer Identification Numbers

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in detail and identifies the additional information required.

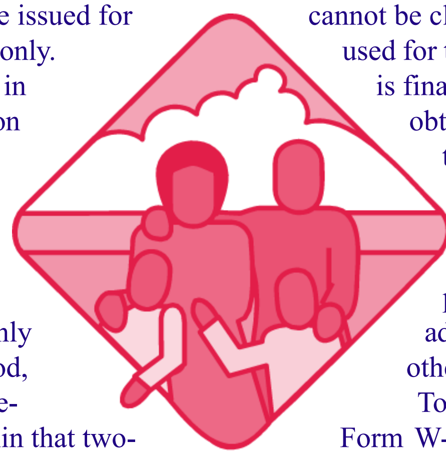
More information about ITINs can be obtained from Publication 1915, *Understanding Your Individual Taxpayer Identification Number.* For more information on the Acceptance Agent Program and how to apply for Acceptance Agent status, tax practitioners can contact the IRS Office of Pre-Filing and Technical Guidance at **1.202.874.1800.** Mail Forms W-7 and documentation to:

Philadelphia IRS Campus
ITIN Unit
PO Box 447, DP N280
Bensalem, PA 19020

The ITIN Unit Customer Service phone number is **215.516.4846.** The fax number is: **215.516.3270.** ***Note:*** *Processing Forms W-7 and issuance of the assigned ITINs may take four to six weeks from receipt.*

Adoption Identification Numbers

Adoption Identification Numbers (ATINs) are for taxpayers who are in the process of adopting a child and who meet the criteria for claiming dependent status for the adoptive child but are unable to apply for a SSN for the child, pending final adoption. ATINs are issued for domestic adoptions only. Taxpayers involved in international adoption must apply for an ITIN for the child.



ATINs are temporary numbers issued by the IRS and are valid only for a two-year period, or if the applicant receives an SSN within that two-year period for the adoptive child. If the adoption does not become final within the two-year period, it is necessary to apply for an extension to validate the ATIN past the two-year period. Many adopting parents often have custody of the child for a period of time pending the adoption and provide sufficient financial support during the year to claim the dependency exemption or child care credit on their returns. However, because of privacy issues, they do not have access to the child's existing SSN. Additionally, because the Social Security Administration (SSA) will issue an SSN only when the adoption is final, the parents are unable to provide an SSN when filing the return.

The Earned Income Credit (EIC) is not allowed without a valid SSN issued by the SSA; therefore, the EIC cannot be claimed when an ATIN is used for the child. After adoption is final and the taxpayer has obtained a valid SSN for the adoptive child, the parents may file an amended return to claim the EIC for the period of pending adoption, provided all other EIC criteria are met.

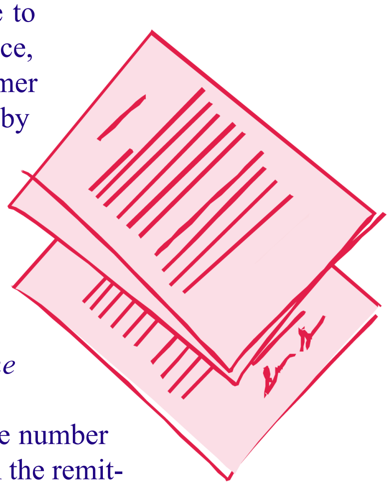
To apply for an ATIN, use Form W-7A, *Application for Taxpayer Identification Number for Pending U.S. Adoptions,* available at **www.irs.gov** or by calling the IRS toll-free tax forms line at **1.800.829.3676.** Applicants are required to provide supporting documentation with the application. Applicants may file Form W-7A at their local IRS office, where field personnel will verify the information and pre-screen the Form W-7A for accuracy and completeness. Applicants may also mail the Form W-7A and supporting documentation to the ITIN Unit at the address shown above.

ASSEMBLE FORMS IN PROPER ORDER

If returns are not assembled in attachment sequence, they must be pulled apart and reassembled. Although we take care to reattach all the pages, important documentation could get lost in the process.

Form 9465, *Installment Agreement Request,* and Form 911, *Application for Taxpayer Assistance Order to Relieve Hardship*, should be attached to the front of the return. Attach other forms and schedules at the end of the return in order of the Attachment Sequence Number that is shown below the year in the upper right corner of the form or schedule. Attachment Sequence Numbers are not in the same order as form numbers. For example, Form 8801 has Attachment Sequence No. 74 and Form 8814 has Attachment Sequence No. 40.

IRS forms and schedules without attachment sequence numbers follow next in numerical order. ***Attach separate statements at the end of the return — not between forms and schedules that are in sequence.*** If these relate to previous correspondence, refer to the IRS customer service representative by name, ID number and mail stop number, where possible.



Copies of approved extensions of time to file should be attached following the IRS forms.

(Ignore the sequence number on Form 2688.) Attach the remittance to the front of the return on top of Form W-2.

- Secure the return package with one staple in the top left corner. Use binder clips or large rubber bands for large documents. Do not use tape.
- Keep the upper right portion of the front page blank and free of staples. The Document Locator Number (DLN) is printed in that area. A staple can cause the DLN to be printed illegibly and can even damage the imprinting equipment. Some practitioners stamp or print a message such as "IRS File Copy" in that area in large letters which obscure the DLN.
- Do not use binders or plastic covers; these must be removed for processing and are discarded.

Tax information for donors and charities

Donors and charities should keep in mind tax laws that may affect them and their contributions:

- Taxpayers may claim a deduction for contributions to charitable organizations only if they itemize deductions on Schedule A of their Form 1040 individual income tax return.
- The public can find out whether a particular organization is qualified to receive tax-deductible contributions by calling the IRS Exempt Organizations' toll-free phone number for customer assistance, **1.877.829.5500,** or by checking the IRS Web site, **www.irs.gov.**
- Those who itemize deductions for contributions on their tax return must have evidence of a donation. Cancelled checks or credit card receipts offer the best evidence, but contemporaneous notes of small cash contributions are normally sufficient.
- For each single contribution of $250 or more to a charity, the donor must obtain a written statement acknowledging the contribution amount and a description of any goods or services provided in exchange for the contribution. Donors must have the statement when they file their return.
- When a charitable organization receives a payment of more than $75 that is partly a contribution and partly for goods and services, it generally must give the donor a written statement. The statement must say that only the amount that is more than the goods and services received is deductible, and must include a good faith estimate of their value.
- Contributions earmarked for specified individuals are not deductible. Persons who have evidence that contributions are being solicited for fraudulent purposes should contact their state charity official, who is often located in the attorney general's office. A list of state charity official offices can be found at www.nasconet.org and a list of state attorneys general can be found at www.naag.org.

Information about charitable contributions is available in IRS Publication 526, *Charitable Contributions,* on the IRS Web site, or by calling **1.800.829.3676.**

COMMON FAX-TIN PROBLEMS

- Taxpayer faxes Form SS-4 and then calls Tele-TIN to request an EIN. This could cause duplicate EINs to be issued.
- Form SS-4 is not completely filled out.
- Taxpayer is uncertain about the type of entity being established.
- Callers sometimes are unable to establish that they are authorized to request an EIN for the entity they represent. An EIN can be released only to duly authorized individuals.

CUT DOWN ON TAX PENALTIES WITH EFTPS

New research shows real benefits to using the Electronic Federal Tax Payment System (EFTPS). The study shows that non-EFTPS users are 31 times more likely to be assessed a penalty than EFTPS users. With EFTPS, taxpayers can schedule payments in advance to avoid penalties.

Extensions and Installment Agreements

Taxpayers who file extensions by April 15 but are unable to pay the full amount will not be penalized if they pay 90 percent of the total tax due at the time they request the extension. Regulations require that the tax liability reported on Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return,* be properly estimated based on available information. The extension may be disallowed and a late filing penalty assessed if the taxpayer does not properly estimate the tax due and attach it to the request. Form 4868 is in voucher form again this year and can be sent electronically. Balance due Forms 4868 should be sent to the appropriate lockbox. *(See pages 49-57.)*

If a client cannot pay the taxes owed at the time of filing of the return, you can file a Form 9465, *Installment Agreement Request,* with the tax return. This form allows the taxpayer to request a monthly payment plan specifying the monthly payments.

There is a processing fee of $43 for entering into an installment agreement and $24 for restructuring or reinstating an installment agreement. Do not send the $43 when you send the Installment Agreement Request. We will send you a notice for the fee once the agreement has been approved. Form 9465 can be transmitted electronically by itself or accompanying an electronically filed return.

Attach Form 9465 to the front of the return so it can be detached and processed separately. Attach Forms W-2, W2- G and 1099R separately so they will not be inadvertently detached from the Form 9465. If you have already filed the return, file Form 9465 by itself with the IRS service center where you filed your income tax return. If you are filing this form in response to a notice, send the form to the address on the notice.

New disclosure initiative on tax shelters

The IRS has implemented a new disclosure initiative aimed at encouraging taxpayers to disclose tax shelters and other questionable items reported on their tax returns. The disclosure initiative is another step the IRS and Treasury are taking to identify and shut down tax shelter activity. The IRS is taking this step because information obtained through disclosures helps the IRS more readily identify tax shelter promoters who have not registered and to find other taxpayers who have not disclosed their participation in a tax shelter.

The IRS hopes to encourage taxpayers to disclose tax shelters and other questionable items that may have resulted in an underpayment of tax by waiving certain accuracy-related penalties that might apply to the transactions. A taxpayer is not required to agree that the disclosed tax shelter or item resulted in an underpayment of taxes in order to avoid penalties.

Taxpayers making disclosures must, among other things, describe the material facts of the transaction, provide the names and addresses of the promoters who solicited the taxpayers' participation, provide upon request copies of materials and documents related to the transaction or item, and sign a penalties of perjury statement regarding the accuracy of the information provided. The IRS will waive the penalty for underpayment of taxes attributable to one or more of the following: (1) negligence; (2) substantial understatement of income tax; (3) certain substantial valuation misstatements; or (4) substantial overstatement of pension liabilities.

The disclosure initiative will not apply to taxpayers involved in fraud, criminal conduct, the concealment of a foreign

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The Earned Income Tax Credit (EITC)

The EITC is a tax break for people who work but do not earn high incomes. Those who qualify could pay less federal tax or no tax or even get a tax refund.

The EITC has no effect on certain welfare benefits. In most cases, any EITC payments your clients receive will not be used to determine whether they are eligible for Medicaid, supplemental security income (SSI), food stamps, low-income housing or most TANF (Temporary Assistance for Needy Families) payments.

To qualify, your clients must meet certain rules and file a tax return, even if they do not owe any tax or did not earn enough money to file a tax return. However, your clients whose EITC is later disallowed may have to file Form 8862, *Information To Claim Earned Income Credit After Disallowance,* if they want to claim the credit for another year. And, if they are subject to the two-year disallowance period because EITC errors were due to reckless or intentional disregard of the EITC rules or to the 10-year disallowance period because the error was due to fraud, they cannot claim the credit until that period is over.

Some of the EITC rules apply to everyone. There are, however, special rules for people who have children and for those who have no children.

Tax year 2002 Earned Income Tax Credit in a nutshell

Rules for everyone

- You must have a valid Social Security number.
- Your filing status cannot be *married filing separately.*
- You must be a U.S. citizen or resident alien all year.
- You cannot file Form 2555 or Form 2555-EZ (relating to foreign earned income).
- Your investment income must be $2,550 or less.
- You must have earned income.

Rules if you have a qualifying child

- Your child must meet the relationship, age and residency tests.
- Your qualifying child cannot be used by more than one person to claim the EITC.
- You cannot be a qualifying child of another person.

Rules if you do not have a qualifying child

- You must be at least age 25 but under age 65.
- You cannot be the dependent of another person.
- You must have lived in the United States more than half of the year.

Figuring earned income and adjusted gross income (AGI)

Your earned income and AGI for 2002 must be less than:

- $33,178 ($34,178, if married filing jointly) with more than one qualifying child;
- $29,201 ($30,201, if married filing jointly) with one qualifying child; or
- $11,060 ($12,060, if married filing jointly) without a qualifying child.

For additional information on EITC rules and examples, see IRS Publication 596, *Earned Income Credit.*

New tie-breaker rules for 2002

Sometimes a child meets the rules to be a qualifying child of more than one person. However, only one person can treat that child as a qualifying child and claim the EITC using that child.

If your client and someone else have the same qualifying child, your client and the other person(s) can decide who will claim the credit using that qualifying child. But if your client and the other person(s) cannot agree and more than one person claims the credit using the same child, the tie-breaker rule (explained in the next paragraph) applies. If the other person is your client's spouse and they file a joint return, this rule does not apply. Under the tie-breaker rule, the child is treated as a qualifying child only by:

1) The parents, if they file a joint return,
2) The parent, if only one of the persons is the child's parent,

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Disclosure of tax shelters

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financial account or foreign trust, or the treatment of personal expenses as deductible business expenses. Disclosure is critical to the IRS's ability to use its resources efficiently and judiciously to administer the tax laws. The IRS will waive the accuracy-related penalty for any underpayment of tax if the taxpayer discloses the item before it is raised during an examination or before April 23, 2002, whichever is earlier.

The IRS is also providing internal guidelines to employees for the consideration of accuracy-related penalties for potentially abusive tax shelters. Submit the disclosure information to the assigned IRS team manager or to:

IRS Office of Tax Shelter Analysis LM:PFTG:OTSA
1111 Constitution Ave, NW
Washington, DC 20224

Earned Income Credit

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3) The parent with whom the child lived the longest during the year, if two of the persons are the child's parent,
4) The parent with the highest AGI if the child lived with each parent for the same amount of time during the year, or
5) The person with the highest AGI, if none of the persons is the child's parent.

If your client does not claim the credit using a child, your client may be able to take the EITC using a different qualifying child, but your client cannot take the EITC for people who do not have a qualifying child. If your client does not have another qualifying child, your client cannot take the EITC. You will need to put *NO* beside line 64 (Form 1040) or line 41 (Form 1040A).

Your client cannot claim the EITC if he or she is the qualifying child of another person. In other words, if your client meets the qualifying child relationship, age and residency tests of another person, such as a parent, guardian or foster parent, your client cannot claim the EITC. This is true even if the person of whom your client is a qualifying child, does not claim the credit or meet all the rules to claim it (for example, having income that exceeds the limit).

What you will need to complete EITC returns

In most cases, all you will need to complete your client's EITC tax return are the appropriate tax forms and instructions for Form 1040, 1040A or 1040EZ. Included in the instructions for each form is the worksheet needed to figure the amount of the credit. If you are a paid preparer, you must also complete a Form 8867, *Paid Preparer's Earned Income Credit Checklist*, or otherwise record the same information for each EITC tax return in order to meet your due diligence requirements.

In some cases, you may need the information contained in Publication 596, *Earned Income Credit,* to complete your client's return. Publication 596 includes EIC Worksheets A and B, specifically designed for use by taxpayers who cannot use the worksheets in their tax packages. Anyone can use them. You will need to use Worksheet B for self-employed clients, statutory employees filing Schedule C or C-EZ or members of the clergy or church employees filing Schedule SE.

You must also complete and attach Schedule EIC, *Earned Income Credit, Qualifying Child Information,* to your client's return if the client is claiming the credit on the basis of a qualifying child. All the lines that apply for each child must be filled in. The correct Social Security number must be included.

EITC ON THE WEB

Go directly to Earned Income Tax Credit information at www.irs.gov/eitc

Important information about identification numbers

If your client claims the EITC, each of the following individuals must have a valid SSN: (1) your client, (2) your client's spouse (if they file a joint return) and (3) any qualifying child listed on Schedule EIC. If your client (or spouse if filing a joint return) does not have a valid SSN, he or she cannot claim the EITC. Similarly, your client cannot claim the EITC on the basis of a qualifying child who does not have a valid SSN.

A valid SSN is an SSN issued by the Social Security Administration (SSA). Most SSNs are issued to U.S. citizens and to persons who have permission from the Immigration and Naturalization Service (INS) to work in the United States. Persons who are not permitted to work in the United States but are entitled to receive an SSN receive a card with the legend not valid for employment. If a Social Security card contains this legend and the cardholder obtained the SSN to get a federally funded benefit, such as Medicaid, the SSN is not a valid SSN for EITC purposes.

If a client, spouse or qualifying child has an SSN issued for nonwork purposes and is now a U.S. citizen or permanent resident, the client or family member may be entitled to obtain a new Social Security card from the SSA. The new card will contain the same SSN but will not include the legend.

Other types of taxpayer identification numbers can prevent your clients from claiming the EITC. If, instead of an SSN, a client or spouse (if filing a joint return) has an individual taxpayer identification number (ITIN) issued by the IRS to noncitizens who cannot get an SSN, the client cannot claim the EITC. If a qualifying child has an ITIN or an adoption taxpayer identification number (ATIN), issued by the IRS for a child to adopting parents who cannot get an SSN for the child until the adoption is final, the taxpayer

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cannot get the credit on the basis of that child.

If your client (or spouse or qualifying child) has a card with the legend not valid for employment and his or her immigration status changes so that he or she is now a U.S. citizen or permanent resident, your client can ask the SSA for a new Social Security card without the legend. Your client can also file amended returns for open years for which he or she is eligible to claim the credit.

When the EITC is disallowed

Deficiency procedures

When completing your clients' EITC returns, you should ask if they have received any notices from the IRS. If you find that a client's EITC for a tax year after 1996 was denied or reduced by the IRS you may need to fill out Form 8862, *Information To Claim Earned Income Credit After Disallowance,* so the client can again claim the credit if now eligible.

You must complete Form 8862 and attach it to the returns of clients whose EITC was disallowed as a result of deficiency procedures (upon examination). However, do not file Form 8862 if 1) your client is claiming the EITC without a qualifying child for 2002, and 2) the client's EITC for 2001 was reduced or disallowed solely because the IRS determined that one or both of the children listed on the Schedule EIC were not the client's qualifying child(ren) for that year. In this situation, your client will attach Form 8862 to the first return he or she files claiming the EITC with one or more qualifying children.

The deficiency procedures are the rules the IRS must follow when examining an item claimed on a taxpayer's tax return, amended return or claim for refund using Form 843, Claim for Refund and Request for Abatement. The date on which the EITC is denied as a result of the deficiency procedures is the date of the assessment. The deficiency procedures do not apply to mathematical or clerical errors on the return.

Here's how the deficiency procedures work. Under these procedures, the IRS contacts the taxpayer in writing and asks for more information or documentation to support one or more items on the taxpayer's return. If the taxpayer does not provide all the necessary information, the IRS sends the taxpayer a report showing how the IRS proposes to adjust the return. If the taxpayer does not provide the remaining necessary information, the IRS sends a statutory notice of deficiency to the taxpayer by certified mail. This notice tells the taxpayer that the adjustment will be assessed unless the taxpayer files a petition in the Tax Court within 90 days. If the taxpayer does not file a petition within 90 days and does not otherwise reply to the IRS, the IRS makes the assessment and the EITC is denied.

Form 8862

Form 8862 contains a series of questions designed to assist the IRS in determining whether the taxpayer is eligible to claim the EITC in the later year. Attach it to the return indicated in the second paragraph under Deficiency Procedures (above). ***Note:*** *For 2002 returns, the 2002 revision of Form 8862 must be used.*

If your client's EITC was denied or reduced as a result of a mathematical or clerical error, do not attach Form 8862 to the return. For example, if the arithmetic is incorrect, the IRS can correct it and adjust the return. If an SSN is incorrect and the client claims the EITC, the IRS can deny the credit and adjust the return. These kinds of errors are called mathematical or clerical errors.

If you are required to attach the Form 8862 to your client's 2002 tax return, and you claim the EITC without attaching a completed Form 8862, an electronically filed return will be rejected. In the case of a paper return, the claim will be automatically denied under the mathematical or clerical procedures. Your client will not be permitted to claim the EITC without a completed Form 8862.

Prohibitions and penalties

If the IRS determines that your client recklessly or intentionally disregarded rules or regulations when claiming the credit, it may assert an accuracy-related penalty, impose a 2-year ban or both when it denies the credit. The accuracy-related penalty is 20 percent of the underpayment of tax. The ban would prohibit your client from claiming the credit for the next two years. If your client is found to have fraudulently claimed the credit, the IRS could assert a fraud penalty, prohibit your client from claiming the credit for the next 10 years, or both. The date on which your client's EITC was denied and the date on which the client files his or her 2002 return affect the years for which your client is prohibited from claiming the EITC.

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Tax preparers' due diligence requirements

The Taxpayer Relief Act of 1997 enacted a law concerning the EITC and preparers' due diligence in determining their clients' eligibility for the credit and the credit amount. Paid preparers who file EITC returns or claims for refunds for their clients must meet four due diligence requirements. Those who fail to do so can be assessed a $100 penalty for each failure. Section 6695(g) of the Internal Revenue Code governs the application.

Here are the four due diligence requirements you must meet:

1. You must complete Form 8867, Paid Preparer's Earned Income Credit Checklist, or your own form as long as it provides the same information.
2. You must complete the appropriate EIC worksheet found in the Form 1040, 1040A or 1040EZ instructions or in Publication 596, or your own worksheet as long as it provides the same information.
3. You must have no knowledge that any of the information used to determine the taxpayer's eligibility for the credit and the credit amount is incorrect.
4. You must keep Form 8867 and the EIC worksheet (or your own equivalents of each), and a record of how, when and from whom the information used to prepare the form and worksheet was obtained. You must keep these documents for three years from the June 30th following the date the return or claim for refund was presented to the taxpayer.

Section 6695(g) Penalty and Appeal Rights

The due diligence requirements and the section 6695(g) penalty of $100 are imposed on only those paid preparers who prepare the return claiming the EITC. In other words, you will not be assessed a $100 penalty based on one of your client's returns that you did not prepare or that you merely filed electronically as an electronic return originator (ERO).

If the IRS determines that you failed to meet the due diligence requirements with respect to a return, you may avoid the $100 penalty by demonstrating to the IRS that, considering all the facts and circumstances, your normal office procedures are reasonably designed and routinely followed to ensure compliance with the requirements, and the particular failure was isolated and inadvertent.

If the IRS determines that a preparer is subject to the section 6695(g) penalty, an expedited pre-assessment Appeals process is available to those preparers who have allowed the IRS examiner access to their client files. The preparer receives a letter stating the amount of the proposed penalty and advising the preparer to agree or file a protest. The letter contains complete instructions on filing the protest. Once the protest is filed, it will receive priority consideration by Appeals and a hearing will be scheduled with the practitioner. That means that before you are actually assessed the penalty, you may be able to protest it under this expedited Appeals process.

For more information

The IRS has brochures, posters and payroll stuffers (some in Spanish) to help publicize EITC to those who are eligible. Please order as many as you need. Call **1.800.829.3676** to place your order. Find more details about the credit in Publication 596, *Earned Income Credit,* and at **www.irs.gov/eitc.**

Tax Talk Today designed for tax professionals

Tax Talk Today has steadily gained popularity with tax professionals around the country who look to this Web cast program to provide up-to-date information about tax issues. More than 6,000 tax professionals have registered to view the monthly interactive program.

Tax Talk Today is a monthly program about current tax issues and policies sponsored in part by the IRS. It provides unbiased insight and information about current tax and business issues critical to tax professionals. The programs feature a panel discussion, questions and answers from viewers, current tax news stories and tax teasers. The format allows viewers to ask questions via e-mail, fax or phone

Continued professional education (CPE) viewers can earn one CPE credit for each program on a live Web or archived Web cast. All state boards that accept NASBA sponsors of continuing professional education accept credit for the live, taped or archived Web cast. The archived or taped Web cast qualifies as a non-interactive self-study program. Viewing an archived or taped program is not approved by some states requiring QAS (Florida, Tennessee). Oregon now accepts the archived or VHS programs for CPE credit. For more information and a state-by-state listing, visit the Web site at **http://www.taxtalktoday.tv/**.

Taxpayer Advocate Service

The Taxpayer Advocate Service is an IRS program that provides an independent system to assure that tax problems that have not been resolved through normal channels are promptly and fairly handled. The program is headed by the national taxpayer advocate. Each state and service center has at least one local taxpayer advocate, who is independent of the local IRS office and reports directly to the national taxpayer advocate.

The goals of the Taxpayer Advocate Service are to protect individual taxpayer rights and to reduce taxpayer burden. The taxpayer advocate independently represents your interests and concerns within the IRS. This is accomplished in two ways:

- Ensuring that taxpayer problems that have not been resolved through normal channels are promptly and fairly handled.
- Identifying issues that increase burden or create problems for taxpayers: bringing those issues to the attention of IRS management and making legislative proposals where necessary.

Who may use the Taxpayer Advocate Program?

If you have an ongoing issue with the IRS that has not been resolved through normal processes, or you have suffered, or are about to suffer, a significant hardship as a result of the application of the tax laws, contact the taxpayer advocate.

Generally, the taxpayer advocate can help if, as a result of the application of the tax laws, you:

- Are suffering, or are about to suffer, a significant hardship;
- Are facing an immediate threat of adverse action;
- Will incur significant cost (including fees for professional representation);
- Will suffer irreparable injury or long-term adverse impact;
- Have experienced a delay of more than 30 days to resolve the issue; or
- Have not received a response or resolution by the date promised.

Additionally, you may contact the taxpayer advocate if all established systems or procedures have failed to operate as intended to resolve the problem or dispute.

Hardship situations and other issues that are referred to the taxpayer advocate are reviewed on the individual merits of each case.

The Taxpayer Advocate Service is not a substitute for established IRS procedures or the formal Appeals process. The advocate cannot reverse legal or technical tax determinations.

How do I reach a Taxpayer Advocate?

- Call the telephone number listed for the office closest to you or the office with which you have been dealing. *(See next page.)*
- Call the Taxpayer Advocate's toll-free telephone number: **1.877.777.4778**
- Call the general IRS toll-free number **(1.800.829.1040)** and ask for Taxpayer Advocate assistance.
- Write the office nearest you or the one you have been dealing with. *(See next page for addresses.)*
- TTY/TTD help is available by calling: **1.800.829.4059.**
- Check the Taxpayer Advocate Web site at **www.irs.gov/ind_info/advocate.html**

or

- File Form 911, *Application for a Taxpayer Assistance Order,*
- Send a written request for assistance (if Form 911 is not available), or
- Request that an IRS employee complete a Form 911 on your behalf (in person or over the phone).

You may fax a Form 911 (or written request) to your local taxpayer advocate. Form 911 is available by calling the IRS forms-only number, **1.800.829.3676** or at the IRS Web page: **www.irs.gov.** *An Application for a Taxpayer Assistance Order* requires the advocate to determine if significant hardship exists and to review the case to determine what action should be taken to relieve the hardship. In certain situations, enforcement action may be suspended while a case is being reviewed.

The majority of cases are resolved administratively by the taxpayer advocate. Even when hardship is not a factor, the advocate is often able to help resolve the taxpayer's problem.

What can I expect from the Taxpayer Advocate?

The taxpayer advocate will listen to your point of view and will work with you to address your concerns. You can expect the advocate to provide you with:

- A *fresh look* at your problem,
- Timely acknowledgment,
- The name and phone number of the individual assigned to your case,
- Updates on progress,
- Time frames for action,
- Speedy resolution, and
- Courteous service.

Taxpayer Advocate Contacts

Do you want assistance from a taxpayer advocate? This assistance is not a substitute for established IRS procedures, formal Appeals processes, etc., but the taxpayer advocate can give your tax matter proper and prompt handling when you can't get a problem solved through normal channels. Call toll free **1.877.777.4778** or call the taxpayer advocate office nearest you listed below.

National Taxpayer Advocate
1111 Constitution Ave. NW
Rm. 3031, C:TA
Washington DC 20224
Phone: 202.622.4300
Fax: 202.622.6113

Deputy National Taxpayer Advocate
1111 Constitution Ave. NW
Rm. 3031, C:TA
Washington DC 20224
Phone: 202.622.4300
Fax: 202.622.6113

Executive Director, Systemic Advocacy
1111 Constitution Ave. NW
Rm. 3219, C:TA
Washington DC 20224
Phone: 202.622.7175
Fax: 202.622.3125

Congressional Affairs Liaisons
1111 Constitution Ave. NW
Rm. 1027.TA:CCL
Washington DC 20224
Phone: 202.622.4315 or 202.622.4321
Fax: 202.622.4318

Area Offices

Dallas
4050 Alpha Rd.
Stop 1005 MSRO, Rm. 1240A
Dallas, TX 75244
Phone: 972.308.7019
Fax: 972.308.7166

Southeast/International
7850 SW 6th Court, Rm. 285
Plantation, FL 33324
Phone: 954.423.7600
Fax: 954.423.7379

Manhattan
290 Broadway 14th floor
New York, NY 10007
Phone: 212.298.2015
Fax: 212.298.2016

Milwaukee
310 W. Wisconsin Ave.
Suite 1210 East Tower
Stop 1009 MIL
Milwaukee, WI 53203
Phone: 414.297.1646
Fax: 414.297.3485

Oakland
1301 Clay St. Suite 1030-N
Oakland, CA 94612
Phone: 510.637.2070
Fax: 510.637.3189

Richmond
400 N. 8th St. Rm. 328
Richmond, VA 23240
Phone: 804.916.3510
Fax: 804.916.3641

Seattle
915 2nd Ave. Stop W-404
Seattle, WA 98174
Phone: 206.220.4356
Fax: 206.220.4930

Small Business/Self-Employed Campuses
312 Elm Street, Suite 2250
Cincinnati, OH 45202
Phone: 859.669.5556
Fax: 869.669.5808

Wage & Investment Campuses
401 W. Peachtree St.
Stop 101.R Rm. 1970
Atlanta, GA 30308
Phone: 404.338.8710
Fax: 404 338.8709

Director, Business Advocacy
5000 Ellin Rd. Stop C5-355
Lanham, MD 20706
Phone: 202.622.7175
Fax: 202.283.1001

Director, Individual Advocacy
1111 Constitution Ave. NW
Rm. 3219, C:TA
Washington DC 20224
Phone: 202.622.7175
Fax: 202.622.3125

Campus Offices

Andover
310 Lowell St., Stop 121
Andover, MA 01812
Phone: 978.474.5549
Fax: 978.247.9034

Atlanta
4800 Buford Hwy
Stop 29-A
Chamblee, GA 30341
Phone: 770.936.4500
Fax: 770.234.4443

Austin
3651 S. Interregional Hwy
Stop 1005 AUSC
Austin, TX 78741
Phone: 512.460.8300
Fax: 512.460.8267

Brookhaven
1040 Waverly Ave.
Stop 102
Holtsville, NY 11742
Phone: 631.654.6686
Fax: 631.447.4879

Cincinnati
201 Rivercenter Blvd.
Stop 11-G
Covington, KY 41019
Phone: 859.669.5316
Fax: 859.669.5405

Fresno
5045 East Butler Ave.
Stop 13941
Fresno, CA 93888
Phone: 559.442.6400
Fax: 559.442.6507

Kansas City
2306 East Bannister Rd.
Stop 1005 ROE
Kansas City, MO 64131
Phone: 816.926.2493
Fax: 913.696.6390

Memphis
5333 Getwell Road
Stop 13-M
Memphis, TN 38118
Phone: 901.395.1900
Fax: 901.395.1925

Ogden
1973 N. Rulon White Blvd.
Stop 1005
Ogden, UT 84201
Phone: 801.620.7168
Fax: 801.620.3096

Philadelphia
11601 Roosevelt Blvd.
DP 820 SW
Philadelphia, PA 19154
Phone: 214.516.2499
Fax: 214.516.2677

Local Offices by State and Location

Alabama
801 Tom Martin Drive
Rm. 151.PR
Birmingham, AL 35211
Phone: 205.912.5631
Fax: 205.912.5156

Alaska
949 E 36th Ave., Stop A-405
Anchorage, AK 99508
Phone: 907.271.6877
Fax: 907.271.6157

Arizona
210 E. Earll Dr.
Stop 1005 PHX
Phoenix, AZ 85012-2623
Phone: 602.207.8240
Fax: 602.207.8250

Taxpayer Advocate Contacts

Arkansas
700 West Capitol Street
Stop 1005 LIT
Little Rock, AR 72201
Phone: 501.324.6269
Fax: 501.324.5183

California (Laguna Niguel)
24000 Avila Road
Stop 2000
Laguna Nigel, CA 92677
Phone: 949.389.4804
Fax: 949.389.5038

California (Los Angeles)
300 N. Los Angeles St.
Stop 6710 LA
Los Angeles, CA 90012
Phone: 213.576.3140
Fax: 213.576.3141

California (Oakland)
1301 Clay St., Suite 1540-S
Oakland, CA 94612
Phone: 510.637.2703
Fax: 510.637.2715

California (Sacramento)
4330 Watt Ave.
Stop SA5043
North Highlands, CA 95660
Phone: 916.974.5007
Fax: 916.974.5902

California (San Jose)
55 S. Market St.
Stop 0004
San Jose, CA 95113
Phone: 408.817.6850
Fax: 408.817.6851

Colorado
600 17th St.
Stop 1005 DEN
Denver, CO 80202.2490
Phone: 303.446.1012
Fax: 303.446.1011

Connecticut
135 High Street, Stop 219
Hartford, CT 06103
Phone: 860.756.4555
Fax: 860.756.4559

Delaware
409 Silverside Road
Wilmington, DE 19809
Phone: 302.791.4502
Fax: 302.791.5945

District of Columbia (Maryland)
31 Hopkins Plaza, Rm. 940
Baltimore, MD 21201
Phone: 410.962.2082
Fax: 410.962.9340

Florida (Ft. Lauderdale)
7850 SW 6th Court
Rm. 265
Plantation, FL 33324
Phone: 954.423.7677
Fax: 954.423.7680

Florida (Jacksonville)
841 Prudential Dr. Ste. 100
Jacksonville, FL 32207
Phone: 904.665.1000
Fax: 904.665.1817

Georgia
401 W. Peachtree St., NW
Summit Bldg., Rm. 510
Stop 202-D
Atlanta, GA 30308
Phone: 404.338.8099
Fax: 404.338.8096

Hawaii
300 Ala Moana Blvd., #50089
Stop H-405 / Rm. 1-214
Honolulu, HI 96850
Phone: 808.539.2870
Fax: 808.539.2859

Idaho
550 W. Fort St., Box 041
Boise, ID 83724
Phone: 208.334.1324
Fax: 208.334.1977

Illinois (Chicago)
230 S. Dearborn St.
Rm. 2855, Stop 1005 CHI
Chicago, IL 60604
Phone: 312.566.3800
Fax: 312.566.3803

Illinois (Springfield)
320 W. Washington St.
Rm. 611, Stop 1005 SPD
Springfield, IL 62701
Phone: 217.527.6382
Fax: 217.527.6373

Indiana
575 N. Pennsylvania St.
Rm. 581 Stop TA770
Indianapolis, IN 46204
Phone: 317.226.6332
Fax: 317.226.6222

Iowa
210 Walnut St.
Stop 1005 DSM, Rm. 483
Des Moines, IA 50309
Phone: 515.284.4780
Fax: 515.284.6645

Kansas
271 W. Third St. North
Stop 1005.WIC, Suite 2000
Wichita, KS 67202
Phone: 316.352.7506
Fax: 316.352.7212

Kentucky
600 Dr. Martin Luther King Jr. Place, Rm. 622
Louisville, KY 40202
Phone: 502.582.6030
Fax: 502.582.6463

Louisiana
600 South Maestri Place
Stop 2
New Orleans, LA 70130
Phone: 504.558.3001
Fax: 504.558.3348

Maine
68 Sewall Street, Rm. 313
Augusta, ME 04330
Phone: 207.622.8528
Fax: 207.622.8458

Maryland
31 Hopkins Plaza, Rm. 940
Baltimore, MD 21201
Phone: 410.962.2082
Fax: 410.962.9340

Massachusetts
25 New Sudbury Street, Rm. 775
Boston, MA 02203
Phone: 617.316.2690
Fax: 617.316.2700

Michigan
McNamara Federal Bldg.
477 Michigan Ave.
Rm. 1745 Stop 7
Detroit, MI 48226
Phone: 313.628.3670
Fax: 313.628.3669

Minnesota
316 North Robert St.
Stop 1005 STP, Rm. 383
St Paul, MN 55101
Phone: 651.312.7999
Fax: 651.312.7872

Mississippi
100 West Capitol Street
Stop JK31
Jackson, MS 39269
Phone: 601.292.4800
Fax: 601.292.4821

Missouri
1222 Spruce St.
Stop 1005 STL, Rm. 10.314
St Louis, MO 63103
Phone: 314.612.4610
Fax: 314.612.4628

Montana
10 West 15th St. Ste. 2319
Helena, MT 59626
Phone: 406.441.1022
Fax: 406.441.1045

Nebraska
1313 Farnam St.
Stop 1005 OMA, Rm. 208
Omaha, NE 68102
Phone: 402.221.4181
Fax: 402.221.3051

Nevada
4750 W. Oakey Blvd.
Stop 1005 LVG
Las Vegas, NV 89102
Phone: 702.455.1241
Fax: 702.455.1216

Taxpayer Advocate Contacts

New Hampshire
Thomas J. McIntyre
Federal Bldg.
80 Daniel Street, Rm. 403
Portsmouth, NH 03801
Phone: 603.433.0571
Fax: 603.430.7809

New Jersey
955 South Springfield Ave.
1st Floor
Springfield, NJ 07081
Phone: 973.921.4043
Fax: 973.921.4355

New Mexico
5338 Montgomery Blvd. NE
Stop 1005 ALB
Albuquerque, NM 87109
Phone: 505.837.5505
Fax: 505.837.5519

New York (Albany)
Leo O'Brien Federal Bldg.
1 Clinton Square, Rm. 354
Albany, NY 12207
Phone: 518.427.5413
Fax: 518.427.5494

New York (Brooklyn)
10 Metro Tech Center
625 Fulton Street
Brooklyn, NY 11201
Phone: 718.488.2080
Fax: 718.488.3100

New York (Buffalo)
201 Como Park Blvd
Buffalo, NY 14227.1416
Phone: 716.686.4850
Fax: 716.686.4851

New York (Manhattan)
290 Broadway 7th Floor
Manhattan, NY 10007
Phone: 212.436.1011
Fax: 212.436.1900

North Carolina
320 Federal Place, Rm. 125
Greensboro, NC 27401
Phone: 336.378.2180
Fax: 336.378.2495

North Dakota
657 Second Ave, North
Stop 1005 FAR, Rm. 244
Fargo, ND 58102
Phone: 701.239.5141
Fax: 701.239.5323

Ohio (Cincinnati)
550 Main St., Rm. 3530
Cincinnati, OH 45202
Phone: 513.263.3260
Fax: 513.263.3257

Ohio (Cleveland)
1240 E. 9th St., Rm. 423
Cleveland, OH 44199
Phone: 216.522.7134
Fax: 216.522.2947

Oklahoma
55 North Robinson
Stop 1005 OKC, Rm. 138
Oklahoma City, OK 73102
Phone: 405.297.4055
Fax: 405.297.4056

Oregon
1220 S.W. 3rd Ave.
Stop O-405
Portland, OR 97204
Phone: 503.326.2333
Fax: 503.326.5453

Pennsylvania (Philadelphia)
600 Arch Street, Rm. 7426
Philadelphia, PA 19106
Phone: 215.861.1304
Fax: 215.861.1613

Pennsylvania (Pittsburgh)
1000 Liberty Ave.
Rm. 1602
Pittsburgh, PA 15222
Phone: 412.395.5987
Fax: 412.395.4769

Rhode Island
380 Westminster Street
Providence, RI 02903
Phone: 401.525.4200
Fax: 401.525.4247

South Carolina
1835 Assembly Street
Rm. 466, MDP 03
Columbia, SC 29201
Phone: 803.253.3029
Fax: 803.253.3910

South Dakota
115 4th Ave, Southeast
Stop 1005 ABE, Rm. 114
Aberdeen, SD 57401
Phone: 605.226.7248
Fax: 605.226.7246

Tennessee
801 Broadway, Stop 22
Nashville, TN 37202
Phone: 615.250.5000
Fax: 615.250.5001

Texas (Austin)
300 E. 8th St.
Stop 1005.AUS, Rm. 136
Austin, TX 78701
Phone: 512.499.5875
Fax: 512.499.5687

Texas (Dallas)
1114 Commerce St.
MC 1005DAL, Rm. 1004
Dallas, TX 75242
Phone: 214.413.6500
Fax: 214.413.6594

Texas (Houston)
1919 Smith St.
Stop 1005 HOU,
Houston, TX 77002
Phone: 713.209.3660
Fax: 713.209.3708

Utah
50 South 200 East
Stop 1005 SLC
Salt Lake City, UT 84111
Phone: 801.799.6958
Fax: 801.779.6957

Vermont
Courthouse Plaza
199 Main Street
Burlington, VT 05401-8309
Phone: 802.860.2089
Fax: 802.860.2006

Virginia
400 N. 8th St., Rm. 916
Richmond, VA 23240
Phone: 804.916.3501
Fax: 804.916.3535

Washington
915 2nd Ave., Stop W-405
Seattle, WA98174
Phone: 206.220.6037
Fax: 206.220.4900

West Virginia
425 Julianna St., Rm. 3012
Parkersburg, WV 26101
Phone: 304.420 –6616
Fax: 304.420.6682

Wisconsin
310 W. Wisconsin Ave.
Suite 1298 West Tower
Stop 1005 MIL
Milwaukee, WI 53203
Phone: 414.297.3046
Fax: 414.297.3362

Wyoming
5353 Yellowstone Rd.
Rm. 206A / Stop 1005 CHE
Cheyenne, WY 82009
Phone: 307.633.0880
Fax: 307.633.0918

International-Puerto Rico
San Patricio Office Bldg
7 Tabonuco Street, Rm. 200
Guaynabo, PR 00966
Phone: 787.622.8930 (English)
Phone: 787.622.8940 (Spanish)
Fax: 787.622.8933

DIRECT DEPOSIT OF REFUNDS

Enter all the required information to insure the refund is credited to the correct bank account. If an incorrect bank account number and/or Routing Transit Number (RTN) is entered by the taxpayer, preparer or electronic return originator, the IRS does not have the authority to recover the refund from the account holder that receives the refund in error. *Taxpayers must contact their financial institution to resolve the erroneous deposit.*

Taxpayers will receive a paper refund check and a notice if:

- Required information is missing or incomplete.
- RTN does not match the master list of valid RTNs.
- RTN is for a foreign bank.
- Power of Attorney is on file and third party is authorized to receive refund.
- Return is a decedent return.
- Return is for a prior year.
- $10,000 or more in with-holding and zero tax is owed.
- Math error of more than $50.
- More than two direct deposits are requested for the same account.

Power of Attorney processing and CAF procedures

It's simpler, faster and more secure for taxpayers to authorize individu als to represent them, including receiving confidential tax information. The IRS will accept:

- *Power of Attorney,* Form 2848
- *Tax Information Authorization,* Form 8821
- *U.S. Estate Tax Return,* Form 706

New Power of Attorney requests should be directed to Memphis or Ogden. If your principal business, office or agency or legal residence in the case of an individual, is located in:

Alabama, Arkansas, Connecticut, Delaware, District Of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia or West Virginia,

write, call or fax :

Memphis IRS Center
5333 Getwell Road, Stop 8324
Memphis, TN 38118
Fax: 901.546.4115 Phone: 901.546.4176

If your principal business, office or agency or legal residence in the case of an individual, is located in:

Alaska, Arizona, California, Colorado, Hawaii, Idaho, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wisconsin or Wyoming,

write, call or fax:

Ogden IRS Center
PO Box 9941 Stop 6737
Ogden, UT 84409
Fax: 801.620.4249 Phone: 801.620.4254

International requests will continue to be processed at:

IRS Service Center
Philadelphia, PA 19255
Phone: 215.516.4779 Fax: 215.516.1017

We are processing faxed requests in 48 hours and paper requests in five business days. We now maintain authorization and representative records, along with taxpayer records, in a Centralized Authorization File. Also, in 2002, we:

- Eliminated the requirement to resubmit authorization requests on the same issue;
- Expanded the checkbox authority to business returns; and
- Provided for verbal taxpayer information authority.

When calling the toll-free number on notices :

- **Have POA (CAF identification number) information ready.**
- **Have all IRS-related documents ready, especially the latest notice.**
- **For quicker service, call on Wednesday, Thursday or Friday between 7:30 a.m. and 7:30 p.m.**

Third Party Authorizations

There are various methods by which 3rd parties may act on behalf of a Taxpayer. The chart below identifies the format most appropriate for addressing a Taxpayer's specific needs and the means of submitting an authorization to act on behalf of a Taxpayer. Any of the formats below allow the exchange of information with the IRS for purposes of resolving a tax issue.

	Power of Attorney	**Written Tax Information Authorization**	**Oral Tax Information Authorization**	**Oral Disclosure Consent**	**Checkbox**	**Reporting agents**
Purpose	Allows a 3rd party to represent a taxpayer before the IRS	Allows a 3rd party to inspect and/or receive taxpayer information, verbally or in writing	Same as written tax information authorization	Allows IRS to disclose information verbally, not written, to a 3rd party	Allows a 3rd party, which may include friends and family, to discuss return processing and refund and payment issues.	Allows a 3rd party representative or agent to sign and file Forms 941 and 940 and submit FTD info on magnetic tape or electronically (1)
Authority to represent a Taxpayer (e.g. Advocate facts or law, negotiate or sign on behalf of taxpayer	Yes	No	No	No	No	No
Who can exercise this authority	Attorneys, CPAs, enrolled agents and actuaries, immediate family members, full-time employee, general partner, officer, unenrolled return preparer who prepared tax return (limited to examinations) & certain others.	Anyone	Anyone	Anyone	Anyone	Companies (RAS, batch filers and bulk filers) who have been approved in accordance with Rev. Proc. 96-17 thru 18.
Can authority be granted to a firm so authority extends to firm's employees	No	Yes	No	No	No	Yes
How is authority granted	Form 2848 (Power of Attorney and Declaration of Representative), Form 706 (Estate Tax Return), or written equivalent	Form 8821 (tax information authorization) or written equivalent	Orally	Orally (2)	Designating on Form 1040 and 94x series, and forms 720, 1041, 1120, 2290 and CT-1. (3)	Form 8655, (Reporting Agent Authorization for Magnetic Tape/Electronic Filers)
Where authorization maintained/how retrieved	CAF and Master File / available on IDRS (CFINQ)	CAF and Master File / available on IDRS (CFINQ)	Same as written Tax Information Authorization	Master File / available on IDRS (TXMOD)	Master File / available on IDRS (IMFOLR or BMFOLRI)	RAF and Master File / available on IDRS (RFINQ)
Allowances granted by authorization	May represent, act or advocate on behalf of the TP, argue facts or law, receive copies of notices/ transcripts when specified	May receive copies of notices and transcripts of accounts	Same as written Tax Information Authorization	May discuss notice issues, receive verbal information only.	May discuss notice and return processing issues, receive verbal information only	May receive notices & info only re: Mag tape/ electr returns and FTDs transmitted by agent, not complete transcripts
Expiration of authority	By written request of taxpayer or representative. Also, a new Form 2848 revokes an existing 2848 unless line 8 is checked	By written request of taxpayer or representative. A new Form 8821 does not revoke an existing 8821	Same as written Tax Information Authorization	When new oral consent entered on account. May coexist with 2848 authority	April 15 of year following year the checkbox election was made or until the account is resolved.	Valid until superceded by new Form 8655. May coexist with 2848 authority
Third party must have CAF number (we can assign)	No, only if representative wishes to receive notices	No, only if representative wishes to receive notices	Yes	No	No	No
Processing timeframe	Fax 2 days/mail 5 days	Fax 2 days/mail 5 days	Within minutes	Within minutes	4-6 weeks	10-30 days

1. Form 8655 allows a reporting agent to file returns/make FTDs and submit return/FTD info electronically or on magnetic tape. Reporting Agents may receive duplicate copies of official notices, correspondence, transcripts or other info with respect to the returns filed or FTDs submitted electronically or on magnetic tape by the agent. 2. Others include trustee, receiver, guardian, personal representative, administrator or executor.

2003 TAX FORUMS

The 2003 IRS Nationwide Tax Forums offer the tax professional community the latest word directly from IRS officials and the ability to earn Continuing Professional Education (CPE) credits. Dates and locations for this year's IRS Tax Forums are:

July 8-10
Sheraton Atlantic City
Two Miss America Way
Atlantic City, NJ 08401
800.325.3535

July 22-24
The Peabody Orlando
9801 International Drive
Orlando, FL 32819
800.732.2639

August 5-7
Hyatt Regency Atlanta
265 Peachtree Street, NE
Atlanta, GA 30303
404.577.1234

Aug. 19-21
Adam's Mark St. Louis
Fourth and Chestnut St.
Louis, MO 63102
314.241.7400

Sept. 2-4
Marriott Rivercenter
101 Bowie at Commerce St.
San Antonio, TX 78205
800.228-9290

Sept. 16-18
Rio All Suites Hotel
3700 W. Flamingo
Las Vegas, NV 89103
888.746.6955

Be sure to make your hotel reservations early. Register for the 2003 IRS Nationwide Tax Forums on-line at **www.paintl.com** or call Public Affairs International at **301.593.0200.**

Facts about refund checks

A refund check will be returned to the IRS if the address on the check is not the most current. The refund will not be reissued until IRS is notified of the new address. Complete and return Form 8822, *Change of Address,* to notify the IRS. If a refund check is lost or stolen, a completed Form 3911, *Taxpayer Statement Regarding Refund,* or a detailed letter must be sent to the IRS.

Reminders:

- Allow for the normal processing time before you inquire about refunds:
  - Paper – 6 weeks
  - e-file/TeleFile – 3 weeks
  - 1040X – 8–12 weeks
  - Business Returns – 6 weeks
- If a check was issued for a joint return, both signatures must be present on the Form 3911.
- The IRS and Financial Management Service (FMS) determine if the check has been cashed. If the original check has not been cashed, a replacement check will be issued. If the check has been cashed, a photocopy of the check will be mailed to the taxpayer with a claim Form 1133. The completed form should be returned to FMS at the address provided. The investigation of lost or stolen refund checks that have been cashed is a time-consuming process. Taxpayers can expect a delay of three months to a year before another check is issued.
- Refund checks that are not cashed within one year of the issuance date are automatically cancelled.
- Refund checks will not be split because of a family dispute, even though a divorce decree or other civil action may so direct.
- Overpayments will offset federal tax debts and nontax debts such as child support before the refund is issued.

IRS establishes Office of Professional Responsibility

The IRS has established a new Office of Professional Responsibility as part of its ongoing modernization effort. Brien Downing has been appointed as director.

The Office of Professional Responsibility will be charged with enhancing the oversight of tax professionals. It replaces the office of the director of practice.

"The creation of the Office of Professional Responsibility and the appointment of a senior executive to lead the office are examples of our continuing commitment to ensuring the integrity of the American tax system and recognition of tax professionals as an integral part of effective tax administration," said Acting Commissioner Bob Wenzel.

The Office of Professional Responsibility is responsible for licensing *enrolled agents* and will investigate allegations of misconduct and negligence against agents, attorneys, accountants and other professionals representing taxpayers before the IRS. The Office will enforce the standards of practice for those who represent taxpayers before the IRS as detailed in Circular 230.

The Office will coordinate its efforts with the associations of tax professionals in dealing with representatives who fail to meet the standards of professional conduct. Tax professional organizations are close working partners with the IRS and understand the problems that result when members abuse the tax system. The creation of this office is a direct result of the concerns of the professional organizations.

IRS Publication 947, *Practice Before the IRS and Power of Attorney,* describes, in detail, who can represent taxpayers before the IRS and what rules apply to professionals representing taxpayers. Publication 947 is available on the IRS Web site at **www.irs.gov**.

Transcripts and photocopies of returns

What is a transcript?

A *Tax Return Transcript* is a printout of most lines from the original return. It is often used instead of a photocopy of a return. It is commonly used to amend a return, answer a notice from the IRS, meet information requirements for college grants, loans, federally funded mortgages, or social service agencies and to obtain alien clearance. A Tax Account Transcript also shows adjustments made to the account after the return was filed.

Getting transcripts is fast, easy, and free.

Dial **1.800.829.1040.**

- If you reach a customer service representative (CSR), tell the CSR you wish to order a transcript of a tax return or account.
- If you reach an automated voice message, you will hear a list of menu options. Listen for the option which says "... for questions about your personal tax records ..." Press the number for that option.
- Continue listening and enter the taxpayer's Social Security Number (SSN) when asked. (If the taxpayer filed a joint return, enter the first SSN entered on the return.) Continue providing requested information including the tax year and taxpayer address. The transcript should arrive in the mail to the taxpayer address of record within 10 to 15 days.

Too busy to call?

Mail us a form 4506, *Request for Transcript or Tax Form.* Form 4506 is available form the IRS Web site at **www.irs.gov** or by calling **1.800.829.3676.** The taxpayer signature is required. Mail the form to the address indicated in the instructions. The transcript should arrive in the mail within 10-15 days of IRS receipt of the request.

Need a photocopy instead?

Complete Form 4506, attach the $23 fee per return and mail to the address indicated in the instructions. Allow 60 days from date of IRS receipt to receive a photocopy.

Allow at least 6 weeks after the original return is filed before requesting a copy or other information. Information may not be available for returns filed more than 6 years ago. If you are seeking information about or copies of Forms W-2 and 1099, for any year, contact the employer first. Call the IRS at **1.800.829.1040** after Feb. 14 if you need help in obtaining current filing season forms. Previously filed Form W-2 information is available by July of the year following the year of earnings.

User fee proposed for certain Offer-in-Compromise requests

In late 2002, the IRS issued proposed regulations, which, if adopted, would require a $150 user fee for many Offers-in-Compromise (OIC). A taxpayer would normally be required to pay the user fee at the time the OIC request is submitted.

Low-income taxpayers — those whose incomes fall below the poverty line — would be exempt from the fee. For this purpose, the proposed regulations would authorize the IRS to use the poverty guidelines published by the Department of Health and Human Services or some other measure.

In addition, OICs based on doubt as to liability only (where doubt exists that the tax assessed is correct) would also be exempt from the user fee. The fee would be refunded in certain other situations, described in the proposed regulations.

An OIC is an agreement between a taxpayer and the IRS that resolves the taxpayer's tax liability. Under certain circumstances, the IRS has the authority to settle, or compromise, federal tax liabilities by accepting less than full payment.

The Office of Management and Budget encourages federal agencies to implement user fees to recover the cost of providing special services to some recipients that others do not use. Accordingly, the proposed fee is designed to recover part of the cost of processing OIC requests and evaluating the taxpayer's ability to pay. This user fee proposal was developed with input from tax professionals, Low-Income Taxpayer Clinics and the IRS Taxpayer Advocate.

Written or electronic comments on the proposed regulations must be received by Feb. 4, 2003. A public hearing on the proposed regulations will be held in Washington, D.C., on Feb. 13, 2003, at 10 a.m. at the IRS, 1111 Constitution Ave., N.W., Room 4718. Persons who wish to present oral comments at the hearing must submit comments and an outline of topics to be discussed by Jan. 23, 2003. Submissions should be addressed to: CC:ITA:RU (REG-103777-02), Room 5226, Internal Revenue Service, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. The proposed regulations are available at **www.irs.gov\regs**.

New, Improved Frequently Asked Questions

Get answers to all the most frequently asked questions about Tax Year 2002 at http://www.irs.gov/faqs/index.html

On the front page of irs.gov/, click on the appropriate page for Individuals, Businesses, Charities, etc. Then click on FAQs under Resources on the left side of that page.

Estate and Gift Tax Program

The Estate and Gift Tax Program has been centralized for filing purposes at the Cincinnati Service Center. The addresses are:

(for regular mail)

Internal Revenue Service Center
Cincinnati, OH 45999

(private delivery services)

Internal Revenue Service Center
201 W. Rivercenter Boulevard
Covington, KY 41011

Taxpayers can check the status of their filed returns on a new toll-free number: **866.699.4083.**

Go to **http://www.irs.gov/individuals/index.html** and click on *Trusts and Estates* under *Topics* in the left-hand corner for frequently asked questions or click on *Forms and Pubs* to access Form 950, *Introduction to Estate and Gift Taxes.*

Installment payments under IRC 6166 have new requirements. The IRS requires either that an estate furnish a surety bond as a prerequisite for granting the installment payment election or that the executor elects the special lien provisions of IRC 6324A. *(See page 9 of the Form 706 instructions for more information.)*

TOP ERRORS BY PAID PREPARERS ON 2001 1040s

Form 1040 (Paper only)

1. Rate reduction credit was not claimed. We computed it.
2. Rate reduction credit was not allowed. Received the maximum in 2001 or reported no taxable income.
3. Tax was figured or entered incorrectly.
4. Taxpayer identification numbers or names for dependents didn't match IRS or SSA records. We didn't allow the exemptions.
5. Taxable amount of social security benefits for page 1 was figured incorrectly.

Form 1040 EZ (Paper only)

1. Rate reduction credit was not claimed. We computed it.
2. For dependent on another's return, we computed tax using the 10 percent tax bracket.
3. Rate reduction credit was not allowed. Received the maximum in 2001 or reported no taxable income.
4. Rate reduction credit was figured or entered incorrectly.
5. Primary SSN was incorrect or illegible. We corrected it.

Form 1040 A (Paper only)

1. Rate reduction credit was not claimed. We computed it.
2. Rate reduction credit was not allowed. Received the maximum in 2001 or reported no taxable income.
3. Rate reduction credit was figured or entered incorrectly.
4. Taxpayer identification numbers or names for dependents didn't match IRS or SSA records. We didn't allow the exemptions
5. Dependent's last name had to be corrected.

REMEMBER:

Make checks payable to *United States Treasury* — not the IRS.

Minimum distribution rules for IRA owners over age 70

Retirement plans are primarily designed to supplement retirement income. Withdrawals from the retirement plan are to begin by a certain timeframe and not be postponed indefinitely. If you are $70^1/_2$ or an individual who has inherited an IRA or retirement plan from someone else, the IRS has established laws that require taxpayers to be paid distributions from their *tax deferred annuity program.* These laws are commonly referred to as Required Minimum Distribution Rules.

What are the rules

In order to obtain favorable tax treatment from the IRS, participants in a qualified plan must begin to receive distributions from the plan by April 1 following the year in which the participant attains age $70^1/_2$ or retires, whichever is later (the Required Beginning Date or RBD). If the participant is a 5 percent owner in the sponsor or participating employer of a qualified plan, then distributions must begin no later than April 1 following the year in which the participant attains age $70^1/_2$ (regardless of whether the participant has retired or not), which is the same timing required for required minimum distributions from an IRA. Subsequent distributions must be made annually by Dec. 31 of each year.

What happens if you fail to comply?

Failing to take the required minimum distribution may result in the assessment of a 50 percent excise tax on the difference between the Required Minimum Distribution amount and the actual amount distributed.

How do you calculate the Required Minimum Distribution?

The way of calculating the amount of each required minimum distribution has changed under the new regulation. Under the new regulations, the Uniform Table may be used by all IRA owners who have reached age $70^1/_2$ to determine their annual required minimum distributions for 2001 and later years. For each *Distribution Year* (i.e., a year for which a distribution is required), determine:

(a) the account balance as of the preceding calendar year end;
(b) the participant's age on their birthday in the Distribution Year; and
(c) the applicable divisor for that age from the Uniform Table.

(a) divided by (c) equals the minimum required distribution for the Distribution Year. In the age $71^1/_2$ Distribution Year, first reduce the (a) number by the amount of any required distribution for the age $70^1/_2$ year that had not been taken out by the end of that year. This table does not apply to beneficiaries of a deceased IRA owner or if the sole beneficiary of the IRA is the participant's spouse who is more than 10 years younger than the participant. This table may not be used for year 2000 distributions taken in 2000 or 2001.

If you need help figuring out your IRA or pension under the new rules, please contact your estate planning attorney.

What is the new Required Minimum Distribution Regulation effective date?

The new proposed regulations specify an effective date of Jan. 1, 2002. For distributions made in 2001, a qualified plan or IRA may rely on the new proposed regulations or may continue to apply the old rules. Participants in a qualified plan can only rely on the new proposed regulations if the plan is amended using an IRS model amendment to adopt these new rules before the end of its 2001 plan year. However, they can rely on the proposed regulations before the retroactive amendment is made. The amendment is a simple process which provides immediate advantage to participants facing required minimum distributions decisions. This information is general. For advice on how these rules apply to your specific situation, we suggest you contact your own legal counsel or tax advisor.

For more information in Pub. 590 or call Tele-Tax at **1.800.829.4477,** Topic 451.

IRS INTEGRITY HOTLINE

The IRS expects its employees to conform to the highest standards of integrity. If you have reason to believe that an IRS employee is engaging in misconduct, call 1.800.366.4484

Underreporter Program analyzes unreported income

The Automated Underreporter Program (AUR) reviews individual returns with potential underreported income. The returns are identified for a specific tax year and are computer matched with documents from the Information Returns Program (IRP), i.e., Forms W-2, W-2P, 1099, 1098, etc. For example, a W-2 for wages is compared to the wages reported on the return, and a 1099-INT for interest is compared to the interest reported on the return.

When amounts reported on the return do not match amounts on IRP documents, a potential Underreporter case is created on an automated database showing all income that the taxpayer reported to the IRS for the tax year in question. The database also includes a history of account transactions and is updated weekly. During the initial review, a tax examiner performs an in-depth analysis of the case. The examiner determines if all income in question can be identified satisfactorily on the tax return. If it can be found, the case is closed and the taxpayer is never contacted. If the income cannot be located anywhere on the return or cannot be readily identified, a CP-2501 or CP-2000, depending on the issues involved, is sent to the taxpayer.

The CP-2501 asks the taxpayer to explain where on the return the income is reported. This notice has no figures or proposed balance due amounts. If the discrepancy can be explained or supporting documentation is enclosed, the case is closed. The taxpayer is informed that all issues are resolved. If there is no response or the information from the taxpayer is not sufficient, a CP-2000 is issued.

The CP-2000 is a proposal to change the income, deductions, tax credits or payments reported on the return. It is not a demand for payment. The taxpayer is asked to respond within 30 days from the date of the notice. Many cases are closed agreed with a signed consent statement and/or full payment. There are also partially agreed cases, where the taxpayer agrees to some of the income inquired about and satisfactorily explains the remaining issue(s).

Many cases are closed with no change to the tax liability because the taxpayer provided sufficient documentation that the income is not taxable or the underreported amount is not sufficient to change the tax.

If, in the course of verifying income, the examiner finds that the taxpayer made an error on the return that calls for a refund, the IRS will issue one.

If the original notice comes back undelivered or a response is not received from the taxpayer, a 90-day Statutory Notice of Deficiency is issued. Before generating statutory notices, the account is reviewed for payments and new addresses. Notices are sent to the most current address on file with the IRS. If full payment is found, the case can be closed at that time. If there is no indication of a response or full payment, the Statutory Notice of Deficiency is mailed. If taxpayers disagree with the notice, they have 90 days to petition the U.S. Tax Court. Whether or not they petition the court, the taxpayer has appeal rights during all phases of the Underreporter process. Any information the taxpayer submits to resolve the disagreement is considered. If there is no response, or the certified statutory notice is unclaimed at the post office, the tax, interest and penalties are assessed by default after the 90-day deadline is past. A balance due notice is then sent to the taxpayer. The case goes to collection if no payment is received.

Even though the case is now in collection status, the taxpayer can still disagree with the assessment and send correcting statements, letters from banks, etc., for consideration to have the tax, penalties or interest reduced or abated. This process is also worked in the Underreporter area.

The IRS doesn't recommend that taxpayers file an amended return as a response to the statutory notice; however, if the taxpayer files a Form 1040X, it will be considered when the case is processed. The notice requests that taxpayers not file an amended return, because a Form 1040X can delay processing. The AUR examiner can take all necessary actions with the taxpayer's response.

Statute of Limitations

The Internal Revenue Code states that the IRS will assess tax, allow overpayments and collect taxes within a specific time period, known as the Statute of Limitations. When the Statute of Limitations expires for a tax return, the IRS can no longer allow the taxpayer's claim for overpayment or assess additional tax for that return.

Normally, the Assessment Statute Expiration Date (ASED) is three years from the tax period due date, or three years from the received date of the original return whichever is later. The Statute will not expire until the taxpayer files a return and three years have elapsed. Tax Forms 941, 943 and 945 are exceptions. The ASEDs for these tax returns are three years from April 15 of the year following their due date, or from the received date, whichever is later.

Generally, the Refund Statute Expiration Date (RSED) expires if a claim is not filed within three years from the time the original return was filed or within two years from the time the tax was paid, whichever is later. Exception: The IRS must receive an original delinquent return, claiming a refund/credit of prepaid credits (federal tax withheld, timely estimated tax payments, earned income tax credit, etc.) within three years of the Return Due Date (RDD), plus extensions, including the time of extension granted by a Presidentially Declared Disaster. To be timely, a claim for refund/credit must be filed within three years of the original return. While the claim may be timely for the decrease in tax, the refund/credit may be limited. Prepaid credits may not be refunded or offset unless claimed within three years of the due date or extended due date of the return. If the original return was filed late and the claim is being filed within three years of the original, the amount of refund/credit may be limited to the amount of tax paid within the three years immediately preceding the filing of the claim, plus any extensions of time for filing. If the original return was filed timely and the claim is being filed more than three years after the original, the amount of refund/credit is limited to the amount of the tax paid within the two years immediately preceding the filing of the claim. If no return was filed, the claim is allowable when filed within two years from the date the tax was paid.

The RRA '98, Section 3202, allows for the suspension of the statute on filing overpayment claims during periods of disability. Section 3202 suspends the running of the statute of limitations on refunds during the time the taxpayer is medically, physically, or emotionally unable to handle their financial affairs. The disability must be medically determinable and must continually last for not less than 12 months or result in the death of the taxpayer. It does not suspend the statute of limitations for taxpayers that have a spouse or other guardian to act for them during the periods of disability. Section 3202 does not apply to any claim for refund or credit that is barred as of the date of enactment, July 22, 1998.

The Collection Statute Expiration Date (CSED) is 10 years from the date of assessment of tax. If no return is filed for a tax period, the CSED cannot be computed and will not expire.

Estimated tax penalties

Individuals, trusts, and certain estates

If you expect to owe tax of $1,000 or more for the tax year, you must prepay the tax by having tax withheld or by making estimated tax payments. We charge a penalty when the total tax you pay during the year doesn't meet the requirements of the law. Generally, to meet the requirements of the law (and avoid the penalty), you must make estimated tax payments if you expect to owe at least $1,000 in tax for 2002 (after subtracting your withholding and credits) and you expect your withholding and credits to be less than the smaller of:

- 90 percent of the tax shown on your 2002 tax return, or
- The tax shown on your 2001 tax return (112 percent of that amount if you are not a farmer or fisherman and the adjusted gross income shown on that return is more than $150,000 or, if married filing separately for 2002, more than $75,000). *(**Note:** This item does not apply if you did not file a 2001 tax return or that return did not cover 12 months.)*

Exception: You do not have to make estimated tax payments if you had no tax liability for the full 12-month 2001 tax year. Also, an individual must be an U.S. citizen or resident alien for all of 2001.

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Due dates and additional information

For 2002, estimated tax payments for calendar year taxpayers are due April 15, June 16 and Sept. 15, 2002 and Jan. 15, 2003. You do not have to make the Jan. 15, 2003 payment if you file your 2002 tax return by Jan. 31 and pay the entire balance due with your return. For due dates for fiscal year taxpayers and additional information about estimated taxes and your 2002 tax liability, see Form 1040-ES, *Estimated Income Tax for Individuals,* or Form 1041-ES, *Estimated Income Tax for Estates and Trusts.*

For more information on when the estimated tax penalty may be reduced or removed, see the instructions for Form 2210, *Underpayment of Estimated Income Tax by Individuals and Fiduciaries.* Form 2210 is used to determine if an individual or fiduciary is subject to the penalty for underpayment of estimated tax and, if so, the amount of the penalty. You do not need to file Form 2210 in most cases. The IRS will figure any penalty you owe and send you a bill. File Form 2210 only if one or more of the boxes in Part I of Form 2210 apply to you. If you are not required to file Form 2210, you may use it to figure your penalty if you wish to do so. Enter the penalty on your return, but do not file Form 2210.

Corporations

A corporation with tax of $500 or more that fails to pay a correct installment of estimated tax in full by the due date may be subjected to an estimated tax penalty. The penalty rate applies to the period of underpayment for any installment. Compute the penalty at the rate of interest published quarterly by the IRS. For tax years beginning after December 31, 1993, the estimated tax payment required in installments is the lessor of:

1. 100 percent of the tax shown on the return for the preceding year, if that year was a 12 month tax year, and a return filed for that year showed a tax liability greater than zero.
2. 100 percent of the tax shown for the current year (the current year tax may be determined on the basis of actual income or annualized income).

Note: *The fact that your prior year's tax was zero does not exempt you from this penalty. In this case, you should annualize your income.*

Large Corporation — For purposes of payment of estimated tax, a large corporation is one with at least $1 million of taxable income in any of the last three years. A large corporation is prohibited from using their prior year's tax liability (method (1) above), except in determining the first installment of their tax year. Any reduction in a large corporation's first installment, as a result of using the prior year's tax, must be recaptured in the corporation's second installment. In applying the $1 million test, taxable income is computed without regard to net operating loss carryovers or capital loss carrybacks.

Form 2220, *Underpayment of Estimated Tax by Corporations,* is used to determine if the corporation is subject to the penalty for underpayment of estimated tax and, if so, the amount of the penalty. Generally, a corporation does not have to file this form because the IRS will figure the amount of the penalty and bill the corporation. A corporation should complete and attach this form to their return if:

- The annualized income installment method and/or the adjusted seasonal installment method is used, or
- The corporation is a large corporation, computing their first installment based on their prior year's tax. The corporation should attach their annualized income worksheet to Form 2220.

Abatement of penalties

Section 6651 of the Internal Revenue Code authorizes the abatement of penalties for failure to file tax returns and/or failure to pay tax, if that failure is due to reasonable cause and not willful neglect. Individuals requesting reasonable cause consideration for a penalty must submit a written support statement. You may request abatement of penalties for reasonable cause, but interest cannot be removed for reasonable cause.

The statement should be filed with the director of the service center where the tax return was required to be filed. The declaration must be made under penalties of perjury and must fully explain the facts related to the reasonable cause. Abatement requests for certain penalties may be made by telephone to a toll-free number shown on the penalty notice. ***Note:*** *The tax must be paid before the request can be considered.*

Forgiveness of penalties is decided on a case-by-case basis. Generally, if the taxpayer exercised ordinary business care and prudence, and was nevertheless unable to file the return timely, the delay is considered due to reasonable cause. A failure to pay may also be due to reasonable cause, if the taxpayer exercised ordinary business care and prudence but could not pay the tax liability. They must show reasonable

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INSTALLMENT AGREEMENT REDUCES PENALTIES

Taxpayers who don't pay their taxes when they are due may be subject to a failure-to-pay penalty of .50 percent of their unpaid taxes for each month or part of a month the tax is not paid. If they file their return on time and enter into an installment agreement with the IRS, this penalty will be reduced to .25 percent. Note: If the installment agreement defaults or is terminated, the normal failure to pay penalty charges will resume.

REMEMBER:

Using labels saves time and increases efficiency. None of the information on an IRS preprinted label affects whether taxpayers are audited.

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efforts to conserve sufficient assets in a marketable form in an attempt to pay the tax due before a failure to pay penalty will be abated.

If the IRS determines that failure to file was due to reasonable cause and not willful neglect, this penalty will not be assessed. The taxpayer would still be responsible for the tax owed plus interest due. Note: Late payment penalty and interest will be charged on any tax paid after the original return due date. Even if you are granted an extension to file, you still must pay all of your tax by the original return due date. You may be granted an extension to file, but not to pay. Extensions to pay are only granted to *United States Estate Tax Returns* (Form 706).

Penalty appeals procedures

If an abatement of a penalty has been denied and you want to receive further consideration by an Appeals officer, a brief written statement of the disputed issue must be submitted to the service center Appeals coordinator. Provide the following information:

- The name and SSN or EIN of the taxpayer.
- A statement that you want to appeal the findings to Appeals.
- A statement of facts supporting your position in any contested factual issues and
- Any documentation supporting why you filed/paid your taxes late.
- If available, include a statement outlining the law or other authority on which you relied.

The statement of facts should be detailed and complete, including specific dates, names, amounts, locations, etc. It must be declared true under penalties of perjury. You may do this by adding the following signed declaration to the protest: "Under penalties of perjury, I declare that the facts presented in my written protest, which are set out in the accompanying statement of facts, schedules, and other statements are, to the best of my knowledge and belief, true, correct and complete."

If an authorized representative sends the protest, the following declaration may be substituted: "That he or she prepared the protest and accompanying documents, and whether he or she knows personally that the protest and accompanying documents are true and correct."

Form 2848, *Attach Power of Attorney and Declaration of Representative,* or similar written authorization to your written statement. Send your request to:

Internal Revenue Service Center
Penalty Appeals Coordinator

The coordinator will review your additional information to determine whether the penalty should be reduced. If the request for appeal cannot be resolved immediately with the additional information, the coordinator will forward the written statement to the Appeals Office servicing your district.

Reasonable cause abates penalties

A taxpayer that requests relief from paying penalties must follow specific guidelines. Internal Revenue Code, Section 6651, authorizes the abatement of penalties for failure to file tax returns and for failure to pay tax if the failure is due to reasonable cause and not willful neglect. Individuals requesting reasonable cause consideration for penalty abatement normally must submit a written supporting statement to their service center. However, in the interest of fairness, IRS generally accepts oral requests for abatement of penalties up to $500.

CFR Section 301.6651 requires a written statement, signed by the taxpayer or representative with a Power

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PAYMENT TIPS

Help your clients ensure that their payments are properly credited by stressing the importance of writing the following information on their check or money order:

- **SSN or EIN.**
- **Tax period covered by the payment.**
- **Current mailing address.**
- **Correct name of the tax account.**
- **Type of tax form associated with the payment.**
- **Make the check or money out to United States Treasury — *not the IRS*.**

It is even more important to provide identifying information if you use a money order.

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of Attorney, under penalty of perjury, that explains the facts related to the reasonable cause. However, in the interest of fairness, the IRS accepts unsigned and oral requests (if the penalty is $500 or less) with the appropriate documentation by the employee handling the case when no reason exists to question the legitimacy of the request.

Reasonable cause determinations are based on the facts and circumstances of each case. Generally, if the taxpayer exercised ordinary business care and prudence and was still unable to file the return on time, the delay is considered due to reasonable cause. A failure to pay also may be due to reasonable cause if the taxpayer exercised ordinary business care and prudence, yet could not pay the tax liability in a timely manner. The tax due must be paid before a late payment penalty will be abated. If the IRS determines that failure to file was due to reasonable cause and not willful neglect, the penalty will be abated. The taxpayer is still responsible for the tax owed plus interest.

Refund Hold Program

The IRS now has an automated program freezing refunds of more than $2000 when a taxpayer has one or more unresolved tax delinquency investigations for the past five tax years.

The IRS sends letters to taxpayers requesting they file the delinquent return or explain why no return should be filed. If we don't receive a response, we may prepare a *substitute for return* on the missing periods. These cases involve refunds due to taxpayers who file only when they expect a refund.

To avoid delays, delinquent returns should be mailed to the office that sent the refund hold letter — not to a local office. There is no need to send another current year return; doing so may only complicate the process. The earliest the taxpayer could expect a current year refund is one full month after the delinquent return is processed. However, if the delinquent return shows a balance due, the held refund will be applied. Practitioners should provide the taxpayer's daytime phone number and the best hours to call. If there is a problem with the return, it can be resolved more quickly by calling the phone number listed on the notice rather than by correspondence.

LOCKBOX PROCESSING

Tax practitioners should mail all types of forms with a remittance to the lockbox. There are procedures in Package X for preparation and mailing of the 1040-V with lockbox mailing instructions and addresses. These procedures not only provide for expanding lockbox volumes but also provide consistent procedures for tax preparers.

Installment agreement payments and fees should also be mailed to the appropriate lockbox address. Not all individual tax packages contain lockbox mailing instructions.

Individual tax packages are limited in scope regarding which taxpayers will receive the lockbox two-label envelope. Other taxpayers will receive the usual address envelope. Regardless of the package received by your clients, mail your Form 1040-V remittance returns to the lockbox address. If your clients receive a preprinted Form 1040-V package, encourage them to use the preprinted Form 1040-V with their remittance returns. The preprinted voucher can be read through high-speed computer scanning equipment, eliminating the need for data entry, thus ensuring fast and accurate posting of the payment information.

Forms 4868, *Extension Requests,* with remittances are processed at the lockbox. *(See the list of lockbox addresses on the following pages.)*

Where to File 2002 Taxes

Beginning in January 2003, practitioners should mail returns and payments to the following addresses.

Forms 1040 (Practitioners)

Client lives in . . .	No payment enclosed	With payment enclosed
	(Note: the first line of the address should be Internal Revenue Service Center)	
Florida, Georgia, Mississippi, North Carolina, South Carolina, West Virginia	Atlanta, GA 39901-0002	P.O. Box 105093 Atlanta, GA 30348-5093
New York (New York City, and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501-0002	P.O. Box 1187 Newark, NJ 07101-1187
Massachusetts, Michigan, Rhode Island	Andover, MA 05501-0002	P.O. Box 37002 Hartford, CT 06176-0002
Maine, New Hampshire, New York, (all other counties), Vermont	Andover, MA 05501-0002	P.O. Box 1214 Charlotte, NC 28201-1214
Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Utah, Wisconsin	Kansas City, MO 64999-0002	P.O. Box 970011 St. Louis, MO 63197-0011
Connecticut, Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania	Philadelphia, PA 19255-0002	P.O. Box 80101 Cincinnati, OH 45280-0001
Colorado, Kentucky, Louisiana, Montana, New Mexico, Oklahoma, Texas, Wyoming	Austin, TX 73301-0002	P.O. Box 660308 Dallas, TX 75266-0308
Alaska, California, Hawaii, Nevada, Oregon	Fresno, CA 93888-0002	P.O. Box 7704 San Francisco, CA 94120-7704
Arizona, Idaho, Washington	Fresno, CA 93888-0002	P.O. Box 60840 Los Angeles, CA 90060-0840
Alabama, Arkansas, Ohio, Tennessee, Virginia	Memphis, TN 37501-0002	P.O. Box 105017 Atlanta, GA 30348-5017
All APO and FPO addresses, American Samoa, nonpermanent residents of Guam or the Virgin Islands*, Puerto Rico (*or if excluding foreign income under section 933*), a foreign country: U.S. citizens and those filing Form 2555, 2555-EZ, or 4563	Philadelphia, PA 19255-0215	P.O. Box 80111 Cincinnati, OH 45280-0011

* Permanent residents of Guam should use: Department of Revenue and Taxation, Government of Guam, P.O. Box 23607, GMF, GU 96921; permanent residents of the Virgin Islands should use: V.I. Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802

Forms 1040A (Practitioners)

Client lives in . . .	No payment enclosed	With payment enclosed
	(Note: the first line of the address should be Internal Revenue Service Center)	
Florida, Georgia, Mississippi, North Carolina, South Carolina, West Virginia	Atlanta, GA 39901-0015	P.O. Box 105093 Atlanta, GA 30348-5093
New York (New York City, and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501-0015	P.O. Box 1187 Newark, NJ 07101-1187
Massachusetts, Michigan, Rhode Island	Andover, MA 05501-0015	P.O. Box 37002 Hartford, CT 06176-0002
Maine, New Hampshire, New York (all other counties), Vermont	Andover, MA 05501-0015	P.O. Box 1214 Charlotte, NC 28201-1214
Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Utah, Wisconsin	Kansas City, MO 64999-0015	P.O. Box 970011 St. Louis, MO 63197-0011
Connecticut, Delaware, District of Columbia , Maryland, New Jersey, Pennsylvania	Philadelphia, PA 19255-0015	P.O. Box 80101 Cincinnati, OH 45280-0001
Colorado, Kentucky, Louisiana, Montana, New Mexico, Oklahoma, Texas, Wyoming	Austin, TX 73301-0015	P.O. Box 660308 Dallas, TX 75266-0308
Alaska, California, Hawaii, Nevada, Oregon	Fresno, CA 93888-0015	P.O. Box 7704 San Francisco, CA 94120-7704
Arizona, Idaho, Washington	Fresno, CA 93888- 0015	P.O. Box 60840 Los Angeles, CA 90060-0840
Alabama, Arkansas, Ohio, Tennessee, Virginia	Memphis, TN 37501-0015	P.O. Box 105017 Atlanta, GA 30348-5017
All APO and FPO addresses, American Samoa, nonpermanent residents of Guam or the Virgin Islands*, Puerto Rico (*or if excluding foreign income under section 933*), a foreign country: U.S. citizens and those filing Form 2555, 2555-EZ or 4563	Philadelphia, PA 19255-0215	P.O. Box 80111 Cincinnati, OH 45280-0011

* Permanent residents of Guam should use: Department of Revenue and Taxation, Government of Guam, P.O. Box 23607, GMF, GU 96921. Permanent residents of the Virgin Islands should use: V.I. Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802

Forms 1040EZ (Practitioners)

Client lives in . . .	No payment enclosed	With payment enclosed
	(Note: the first line of the address should be Internal Revenue Service Center)	
Florida, Georgia, Mississippi, North Carolina, South Carolina, West Virginia	Atlanta, GA 39901-0014	P.O. Box 105093 Atlanta, GA 30348-5093
New York (New York City, and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501-0014	P.O. Box 1187 Newark, NJ 07101-1187
Massachusetts, Michigan, Rhode Island	Andover, MA 05501-0014	P.O. Box 37002 Hartford, CT 06176-0002
Maine, New Hampshire, New York (all other counties), Vermont	Andover, MA 05501- 0014	P.O. Box 1214 Charlotte, NC 28201-1214
Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Utah, Wisconsin	Kansas City, MO 64999-0014	P.O. Box 970011 St. Louis, MO 63197-0011
Connecticut, Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania	Philadelphia, PA 19255- 0014	P.O. Box 80101 Cincinnati, OH 45280-0001
Colorado, Kentucky, Louisiana, Montana, New Mexico, Oklahoma, Texas, Wyoming	Austin, TX 73301-0014	P.O. Box 660308 Dallas, TX 75266-0308
Alaska, California (*all counties),* Hawaii, Nevada, Oregon	Fresno, CA 93888-0014	P.O. Box 7704 San Francisco, CA 94120-7704
Arizona, Idaho, Washington	Fresno, CA 93888-0014	P.O. Box 60840 Los Angeles, CA 90060-0840
Alabama, Arkansas, Ohio, Tennessee, Virginia	Memphis, TN 37501-0014	P.O. Box 105017 Atlanta, GA 30348-5017
All APO and FPO addresses, American Samoa, nonpermanent residents of Guam or the Virgin Islands*, Puerto Rico (*or if excluding foreign income under section 933*), a foreign country: U.S. citizens and those filing Form 2555, 2555-EZ, or 4563	Philadelphia, PA 19255-0215	P.O. Box 80111 Cincinnati, OH 45280-0011

*Permanent residents of Guam should use: Department of Revenue and Taxation, Government of Guam, P.O. Box 23607, GMF, GU 96921. Permanent residents of the Virgin Islands should use: V.I. Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802

Forms 1040-ES (Practitioners)

Client lives in . . .	(Note: the first line of the address should be Internal Revenue Service Center
Florida, Georgia, Mississippi, North Carolina, South Carolina, West Virginia	P.O. Box 105900 Atlanta, GA 30348-5900
New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	P.O. Box 162 Newark, NJ 07101-0162
Massachusetts, Michigan, Rhode Island	P.O. Box 37001 Hartford, CT 06176-0001
Maine, New Hampshire, New York (all other counties), Vermont	P.O. Box 1219 Charlotte, NC 28201-1219
Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Utah, Wisconsin	P.O. Box 970006 St. Louis, MO 63197-0006
Connecticut, Delaware, District of Columbia, Maryland, New Jersey, Pennsylvania	P.O. Box 80102 Cincinnati, OH 45280-0002
Colorado, Kentucky, Louisiana, Montana, New Mexico, Oklahoma, Texas, Wyoming	P.O. Box 660406 Dallas, TX 75266-0406
Alaska, California, Hawaii, Nevada, Oregon	P.O. Box 510000 San Francisco, CA 94151-5100
Arizona, Idaho, Washington	P.O. Box 54919 Los Angeles, CA 90054-0919
Alabama, Arkansas, Ohio, Tennessee, Virginia	P.O. Box 105225 Atlanta, GA 30348-5225
All APO and FPO addresses, American Samoa, the Commonwealth of the Northern Mariana Islands, nonpermanent residents of Guam or the Virgin Islands, Puerto Rico, (*or if excluding income under section 933*), or a foreign country (*U.S. citizens and those filing Form 2555, Form 2555-EZ or Form 4563*)	P.O. Box 80102 Cincinnati, OH 45280-0002
Permanent residents of Guam*	Department of Revenue and Taxation, Government of Guam, P.O. Box 23607, GMF, GU 96921
Permanent residents of the Virgin Islands*	V.I. Bureau of Internal Revenue, 9601 Estate Thomas, Charlotte Amalie, St. Thomas, VI 00802

* Permanent residents must prepare separate vouchers for estimated income tax and self-employment tax payments. Send the income tax vouchers to the address for permanent residents and the self-employment tax vouchers to the address for nonpermanent residents.

Forms 4868 (Practitioners)

Client lives in . . .	No payment enclosed	With payment enclosed
	(Note: the first line of the address should be Internal Revenue Service Center)	
Florida, Georgia, Mississippi, North Carolina, South Carolina, West Virginia	Atlanta, GA 39901	P.O. Box 105073 Atlanta, GA 30348-5073
New York (New York City, and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501	P.O. Box 22423 Newark, NJ 07101-2423
Massachusetts, Michigan, Rhode Island	Andover, MA 05501	P.O. Box 37003 Hartford, CT 06176-0003
Maine, New Hampshire, New York (all other counties), Vermont	Andover, MA 05501	P.O. 1236 Charlotte, NC 28201-1236
Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Utah, Wisconsin	Kansas City, MO 64999	P.O. Box 970028 St. Louis, MO 63197-0028
District of Columbia, Connecticut, Delaware, Maryland, New Jersey, Pennsylvania	Philadelphia, PA 19255	P.O. Box 80109 Cincinnati, OH 45280-0009
Colorado, Kentucky, Louisiana, Montana, New Mexico, Oklahoma, Texas, Wyoming	Austin, TX 73301	P.O. Box 660575 Dallas, TX 75266-0575
Alaska, California, Hawaii, Nevada, Oregon	Fresno, CA 93888	P.O. Box 7122 San Francisco, CA 94120-7122
Arizona, Idaho, Washington	Fresno, CA 93888	P.O. Box 30659 Los Angeles, CA 90060-0659
Alabama, Arkansas, Ohio, Tennessee, Virginia	Memphis, TN 37501	P.O. Box 105050 Atlanta, GA 30348-5050
American Samoa or Puerto Rico, (*or exclude income under section 933*); is a nonpermanent resident of Guam or the Virgin Islands; has an APO, FPO, or foreign address; is a dual-status alien; or files Form 2555, 2555-EZ, or 4563	Philadelphia, PA 19255-0215	P.O. Box 80109 Cincinnati, OH 45280-0009
Guam: Permanent resident	Send Form 4868 and payments to	Department of Revenue and Taxation Government of Guam P.O. Box 23607 GMF, GU 96921
Virgin Islands: Permanent resident:	Send Form 4868 and payments to	V.I. Bureau of Internal Revenue 9601 Estate Thomas Charlotte Amalie, St. Thomas, VI 00802

Form 940 (Practitioners)

Client lives in . . .	No payment enclosed	With payment enclosed
	(Note: the first line of the address should be Internal Revenue Service Center)	
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	Cincinnati, OH 45999-0046	P. O. Box 105887 Atlanta, GA 30348-5887
Alabama, Alaska, Arizona, Arkansas, California, Colorado Florida, Georgia, Hawaii, Idaho, Iowa Kansas, Louisiana, Minnesota, Mississippi Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	Ogden, UT 84201-0046	P.O. Box 660095 Dallas TX 75266-0095
Puerto Rico, U. S. Virgin Islands	Philadelphia, PA 19255-0046	P.O. Box 80105 Cincinnati, OH 45280-0005

Form 940EZ (Practitioners)

Client lives in . . .	No payment enclosed	With payment enclosed
	(Note: the first line of the address should be Internal Revenue Service Center)	
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	Cincinnati, OH 45999-0047	P. O. Box 105659 Atlanta, GA 30348-5659
Alabama, Alaska, Arizona, Arkansas, California, Colorado Florida, Georgia, Hawaii, Idaho, Iowa Kansas, Louisiana, Minnesota, Mississippi Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	Ogden, UT 84201-0047	P.O. Box 660351 Dallas TX 75266-0351
Puerto Rico, U. S. Virgin Islands	Philadelphia, Pa 19255-0047	P.O. Box 80105 Cincinnati, OH 45280-0005

Form 941 (Practitioners)

Client lives in . . .	No payment enclosed	With payment enclosed
	(Note: the first line of the address should be Internal Revenue Service Center)	
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	Cincinnati, OH 45999-0005	P. O .Box 105703 Atlanta, GA 30348-570
Alabama, Alaska, Arizona, Arkansas, California, Colorado Florida, Georgia, Hawaii, Idaho, Iowa Kansas, Louisiana, Minnesota, Mississippi Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	Ogden, UT 84201-0005	P.O. Box 660264 Dallas TX 75266-0264
No legal residence or principal place of business in any state	Philadelphia, PA 19255-0005	P. O. Box 80106 Cincinnati, OH 45280-0006

Form 943 (Practitioners)

Client lives in . . .	No payment enclosed	With payment enclosed
	(Note: the first line of the address should be Internal Revenue Service Center)	
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	Cincinnati, OH 45999-0008	P. O .Box 105094 Atlanta, GA 30348-5094
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Iowa Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	Ogden, UT 84201-0008	P.O. Box 660587 Dallas TX 75266-0587
No legal residence or principal place of business in any state	Philadelphia, Pa 19255-8526	P. O. Box 80107 Cincinnati, OH 45280-0007

Form 945 (Practitioners)

(Note: the first line of the address should be Internal Revenue Service Center)

Client lives in . . .	No payment enclosed	With payment enclosed
Connecticut, Delaware, District of Columbia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia, Wisconsin	Cincinnati, OH 45999-0042	P. O. Box 105092 Atlanta, GA 30348-5092
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Washington, Wyoming	Ogden, UT 84201-0042	P.O. Box 660443 Dallas TX 75266-0443
No legal residence or principal place or business In any state	Philadelphia, PA 19255-0042	P.O. Box 80108 Cincinnati, OH 45280-0008

Form 1041-ES (Practitioners)

(Note: the first line of the address should be Internal Revenue Service Center)

Client lives in . . .	With payment enclosed
All states, Canada and Mexico	P. O. Box 105401 Atlanta, GA 30348-5401

Form 2290 (Practitioners)

Note: the first line of the address should be Internal Revenue Service Center)

Client lives in . . .	No payment enclosed	With payment enclosed
All states, Canada and Mexico	Cincinnati, OH 45999-0031	P.O. Box 105421 Atlanta, GA 30348-5421

Safeguarding the IRS *e-file* Program from fraud and abuse

All authorized IRS *e-file* providers must be on the lookout for fraud and abuse in the IRS *e-file* Program. In addition to the toll-free number, **1.800.829.0433**, listed in Publication 1345 for reporting suspicious activity, the Service is adding fax numbers and an e-mail address as new ways to report fraud and abuse. In addition, we are providing some guidance on what to look for and how to report it.

The Service has identified questionable W-2s as a key indicator of potentially abusive or fraudulent returns. When examining W-2s that appear suspicious, ask for valid identification. If you believe that the W-2s are not genuine, provide the following information to the IRS:

Field	Source	Formatting
Acknowledgment Date	IRS Acknowledgment	MM/DD/YYYY
DCN	IRS Acknowledgment	14 numbers including leading zeroes
Primary SSN	Return	Like 123-12-1234
Primary Taxpayer Name	Return	Full name as spelled on return in 1 field
Taxpayer Address Line 1	Return	Full address shown on return
Taxpayer Address City	Return	City part of address shown on return
Taxpayer Address State	Return	State part of address shown on return
Taxpayer Address Zip	Return	Zip part of address shown on return
Employee SSN	Form W-2	Like 123-12-1234
Employee Name	Form W-2	Full name as spelled on Form W-2 in 1 field
Employer EIN	Form W-2	Like 12-1234567
Employer Name	Form W-2	Full name as spelled on Form W-2 in 1 field
Employer Contact Name	Person calling employer to verify Form W-2	Full name in 1 field
Employer Contact Phone	Person calling employer to verify Form W-2	Like 123-123-1234
Notes	Person submitting report	Multi-line note field

Other indicators of abusive or fraudulent returns are unsatisfactory responses to filing status questions, multiple returns with the same address, and missing or incomplete Schedules A and C income and expense documentation. If you identify indicators of fraud or abuse you should decide if the return is fraudulent or abusive. Here's how to do that and what your responsibilities are.

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.*

A *potentially abusive return* is a return that 1.) is not a fraudulent return; 2.) the taxpayer is required to file; 3.) but may contain inaccurate information and 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.

Any information discovered should be reported to the IRS by calling **1.800.829.0433**, e-mailing the information to **HQ-ORF@ci.irs.gov,** or faxing the information to the fraud detection center for your state.

States	**Fraud Detection Center**	**Fax Number**
CT, MA, ME, NH, RI, VT, UPSTATE NY, MI	**Andover**	**978.691.6902**
GA, NC, SC, AL, FL	**Atlanta**	**678.547.3344**
TX, NM, AZ	**Austin**	**512.460.7436**
Brooklyn, Manhattan, NJ	**Brookhaven**	**631.447.4608**
OH, KY, WV, IN	**Cincinnati**	**859.669.3711**
CA	**Fresno**	**559.441.5881**
IL, WI, ND, SD, NE, IA, KS, MO	**Kansas City**	**816.823.8543**
AR, TN, MS, LA, OK	**Memphis**	**901.546.3148**
CO, MT, WY, UT, NV, ID, OR, WA, AK, HI	**Ogden**	**801.620.6806**
PA, VA, MD, DE	**Philadelphia**	**215.516.1445**

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