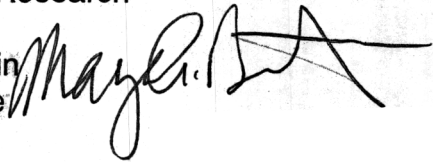




DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JAN 30 2004

MEMORANDUM FOR BUD PAUTLER
Director, SB/SE Research

FROM: Maya A. Bernstein
Privacy Advocate 

SUBJECT: K-1 Data Link
Privacy Impact Assessment

The Office of the Privacy Advocate has reviewed the Privacy Impact Assessment (PIA) for the K-1 Data Link. Based on the information you provided, the Office of the Privacy Advocate does not have any privacy concerns that would preclude this system from operating. However, a revised PIA is required when considering any future upgrades or modifications to the system or at the scheduled recertification of this system.

We are forwarding a copy of the PIA to the Director, Modernization and System Security, to be included in the Security Accreditation Package for formal acceptance for operation. That office may request information concerning the statements contained in the PIA to ascertain compliance with the applicable security requirements. If you have any questions, please contact me at 202-927-5170, or your staff may contact Brian D. Townsend at 202-927-5162.

cc: Director, Modernization and System Security OS:MA:M

Date

MEMORANDUM FOR CHARLENE W. THOMAS
ACTING PRIVACY ADVOCATE CL:PA

FROM: Director, SB/SE Research; S:SF:SR:R
Director, SRPP (LMSB); LM:SR:R

SUBJECT: Request for Privacy Impact Assessment (PIA) –
K-1 Data Link

Purpose of the System: Provide security certification and accreditation for a workload identification system which quickly identifies new cases of abusive schemes by applying rules associated to known schemes. The system will also categorize investment structures by similarities and identify potential cases, thus quickening the Service's time to respond to new schemes.

Name of Request Contact:

Name: Rick Fratanduono, Chief , Research SB/SE
Organization Name & Symbols: SB/SE Research S:SR:R
Mailing Address: 500 N. Capitol Street, Wash, D.C.
Phone Number (with area code):202-874-6523

Name: Don McPartland, Chief, LMSB Research, West
Organization Name & Symbols: LMSB Research LM:SR:R
Mailing Address: 1301 Clay St. Oakland, CA 94612
Phone Number (with area code): 510-637-2191

Name of Business System Owner:

Name: Bud Paulter, Director, SB/SE Research
Organization Name & Symbols: S:SR
Mailing Address: 5000 NCFB C2-300
Phone Number (with area code): 202-283-2620

Name: Richard Teed, Director, Strategy, Research/Prgm Plan
Organization Name & Symbols: LM:SR
Mailing Address: One Montvale Ave. Stoneham MA 02180
Phone Number (with area code): 202-283-8335

Requested Operational Date: 06/30/2003

Category: (Reason PIA is required--enter "y" or "n" and applicable dates)

New System?: ___Y___
Recertification? (if no change, enter date of last certification) ___N___
Modification of existing system?: ___N___

Is this a National Standard Application (NSA)?: ___N___
Is this a Modernization Project or System? ___N___

Privacy Impact Assessment - *K-1 Data Link*

If yes, the current milestone?: *(Enter 1-5; explain if combining milestones)*

System of Record Number(s) (SORN) #: 42.021 (existing SORN) *(coordination is required with Office of Disclosure--contact David Silverman, 202-622-3607)*

Treasury/IRS 42.021—Compliance Programs and Project Files

Attachment: PIA

Data in the System

<p>1. Describe the information (data elements and fields) available in the system in the following categories:</p> <ul style="list-style-type: none"> A. Taxpayer B. Employee C. Audit Trail Information (including employee log-in info) D. Other (Describe) 	<p>A. Taxpayer Currently available: Schedule K-1 Extract from the Tax Year 2000 and 2001 Information Returns Master File</p> <p>Processing Year 2001 and 2002 BRTF (Business Return Transaction File)</p> <p>Processing Year 2001 and 2002 Form 1040 IRTF (Individual Return Transaction File) or MACS (Midwest Automated Compliance System) for returns with TPI >=</p> <p>EP/EO (now TE/GE) information and files on charitable organizations or tax exempt entities</p> <p>Derived Lists of Corporate Affiliations</p> <p>Possible Additions: NonFiler lists from SB/SE</p> <p>OVCI (Offshore Voluntary Compliance Initiative) and LCCI (Last Chance Compliance Initiative) and other Offshore data sources</p> <p>Forms 5471 and 5472</p> <p>Tax Shelter Registration Database (Form 8264) and OTSA (Office of Tax Shelter Analysis) Database</p> <p>Other extracts (e.g. DIV, 1099) from the Tax Year 2000 and 2001 Information Returns Master File</p> <p>C. Audit Trail Employee log-in to database</p>
<p>2. Describe/identify which data elements are obtained from files, databases, individuals, or any other sources.</p> <ul style="list-style-type: none"> A. IRS B. Taxpayer C. Employee D. Other Federal Agencies (List agency) E. State and Local Agencies (List agency) F. Other third party sources (Describe) 	<p>IRS and Taxpayer Data elements. All data described in 1.A. above is internal IRS data. No other sources are applicable. There are several thousand fields in the above datasets.</p>
<p>3. Is each data item required for the business purpose of the system? Explain.</p>	<p>All items are required for the business purpose of the system. The system is designed to visualize the links between entities represented in the data listed above.</p>

Privacy Impact Assessment - K-1 Data Link

<p>4. How will each data item be verified for accuracy, timeliness, and completeness?</p>	<p>Each data item is derived from recent first party filings and are deemed to be accurate and complete. All data items are deemed to be timely by their existence in the data sets listed above. Completeness and accuracy are verified by data preparation before receipt into this system and by additional data cleansing techniques which are part of the data loading process.</p>
<p>5. Is there another source for the data? Explain how that source is or is not used.</p>	<p>There are no other sources for this data.</p>
<p>6. Generally, how will data be retrieved by the user?</p>	<p>The data will be retrieved via a customized interface to database in which the data resides. The user will enter one or more TINs and will be presented with a link diagram and/or a text listing of related entities.</p>
<p>7. Is the data retrievable by a personal identifier such as name, SSN, or other unique identifier?</p>	<p>Yes, data will be retrieved by SSNs and EINs as described in 6, above.</p>

Access to the Data

<p>8. Who will have access to the data in the system (Users, Managers, System Administrators, Developers, Others)?</p>	<p>Users, System Administrators and Developers will have access to the data.</p>
<p>9. How is access to the data by a user determined and by whom?</p>	<p>During prototype, access will be limited to select members of the IRS research community and individuals assisting in development feedback as determined by the IBS (Intelligent Business Solutions) group in IRS/HQ Research. Operational access and control will be addressed after management determines appropriate extent of system use.</p>
<p>10. Do other IRS systems provide, receive, or share data in the system? If YES, list the system(s) and describe which data is shared. If NO, continue to Question 12.</p>	<p>No.</p>
<p>11. Have the IRS systems described in Item 10 received an approved Security Certification and Privacy Impact Assessment?</p>	<p>N/A</p>
<p>12. Will other agencies provide, receive, or share data in any form with this system?</p>	<p>No other agencies will provide, receive or share data in any form with this system.</p>

Administrative Controls of Data

<p>13. What are the procedures for eliminating the data at the end of the retention period?</p>	<p>Three tax years of data will eventually be available on the system. As the old data becomes obsolete, it will be purged from the database, per statutory record retention requirements for tax returns.</p>
<p>14. Will this system use technology in a new way? If "YES" describe. If "NO" go to Question 15.</p>	<p>Yes, this system will allow users to visualize the connections between various entities through link analysis diagrams. This ability to see a graphical representation of these interrelationships has not been previously available.</p>
<p>15. Will this system be used to identify or locate individuals or groups? If so, describe the business purpose for this capability.</p>	<p>As describe above, this system will provide the ability to identify affiliations that might have been previously unknown or hard to discover. This capability is the primary purpose of the system. By providing compliance personnel with new tools to visualize and analyze Investment Structures which are common in Abusive Tax Schemes, the K-1 Link Database will directly benefit a number of SB/SE IRS Strategies including:</p> <p><u>Strategy 1:</u> Increase Compliance Among Small Business and Self-Employed Taxpayers by Enhancing Compliance Techniques and Targeting Education Efforts.</p> <p><u>Strategy 2:</u> Combat the Formation, Use and Impact of Abusive Tax Non-Compliance.</p> <p><u>Strategy 4:</u> Improve Business Results by Revamping Our Operational Practices and Processes.</p> <p><u>Strategy 5:</u> Promote Employee Satisfaction by Improving Practices that Maintain a Quality Workforce</p> <p>The K-1 Link Database will also directly benefit LMSB's Strategic objectives of Reducing Compliance Risk and Abusive Tax Avoidance Transactions.</p>
<p>16. Will this system provide the capability to monitor individuals or groups? If yes, describe the business purpose for this capability and the controls established to prevent unauthorized monitoring.</p>	<p>Yes. The system will allow individuals involved in particular Abusive Tax Avoidance Transactions to be targeted for enforcement action. Authorization and control will be through existing SB/SE Compliance Initiative Project (CIP) Procedures (IRM 4.19.1.1.4.5).</p>

Privacy Impact Assessment - *K-1 Data Link*

<p>17. Can use of the system allow IRS to treat taxpayers, employees, or others, differently? Explain.</p>	<p>Yes. This system will allow compliance enforcement personnel to more accurately identify tax returns which warrant investigation as well as providing sufficient explanation on other returns such that no investigation/audit is necessary.</p>
<p>18. Does the system ensure "due process" by allowing affected parties to respond to any negative determination, prior to final action?</p>	<p>Yes. Any workload identified through this application will be subjected to traditional due process measures already in place for enforcement actions.</p>
<p>19. If the system is web-based, does it use persistent cookies or other tracking devices to identify web visitors?</p>	<p>N/A</p>