

OHIO GFOA

IRS Update

9/11/07

10:15-11:05



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- **Overview of IRS Activity**
- **Enforcement Issues**
- **Compliance Concerns**
- **Miscellaneous**

Sources of Information

- www.irs.gov/govt
- Customer Account Services for account related assistance 1-877-829-5500
- Ohio Field Specialists:
 1. Trudee Billo 419-522-2359
 2. Amy Myers 419-522-2259
 3. Wendy Speelman 419-526-2607
- Publications
- Public Employer's Tool Kit on web site

Strategic Initiatives

- Large entity audits (payroll over \$40 million)
- Federal Agencies
- Compliance checks including Community College project
- Outreach Programs including Phone Forums, Seminars, Articles

Audit Focus

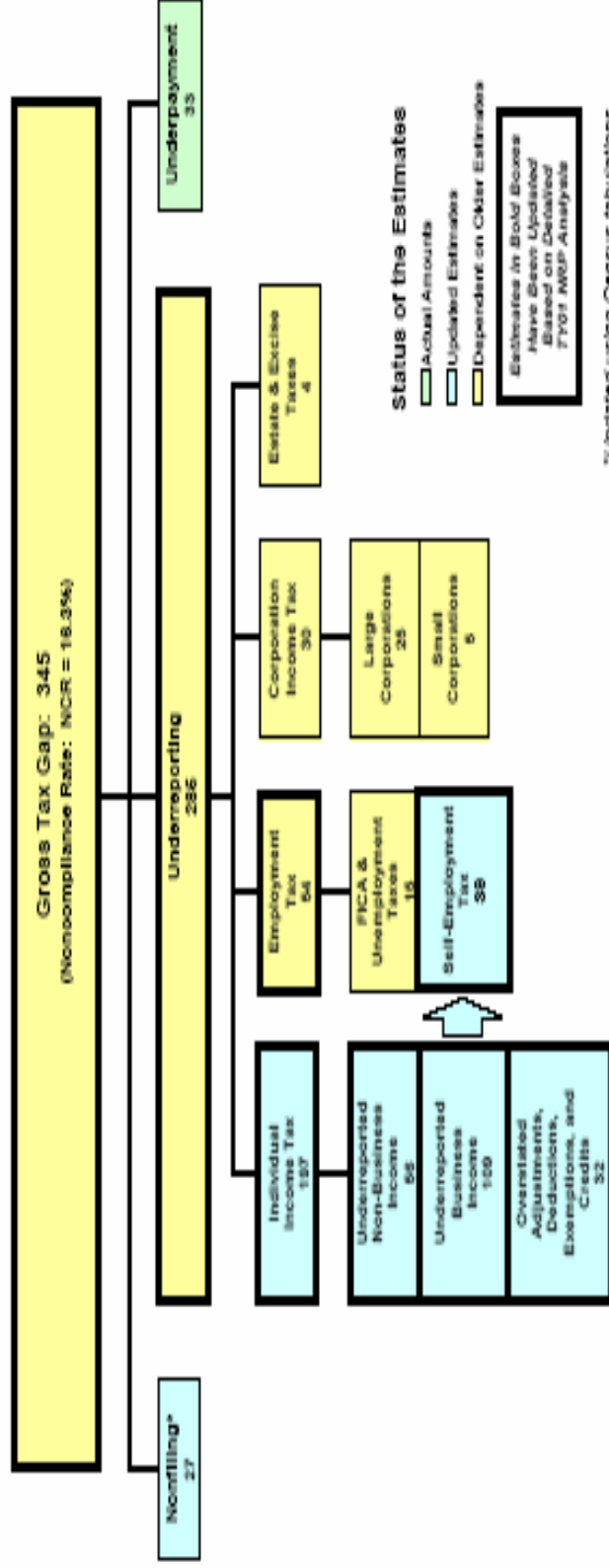
- Worker Classification
- Taxation of Fringe Benefits
- Relocation Payments
- Settlement Payments
- Information Return Filings
- Back-Up Withholding

Items of Interest

- New Section 72(t)(10) for exception to 10% early withdrawal penalty.
 1. Distributions after 8/17/06
 2. Code 2 for box 7 on 1099-R
 3. Reduces age 55 to age 50 for “qualified public safety employee”
- Chief Counsel Advisory regarding Salary Reductions
- Emergency Workers & Fica/Medicare

Tax GAP Slides

Tax Year 2001 FEDERAL TAX GAP (in Billions of Dollars)



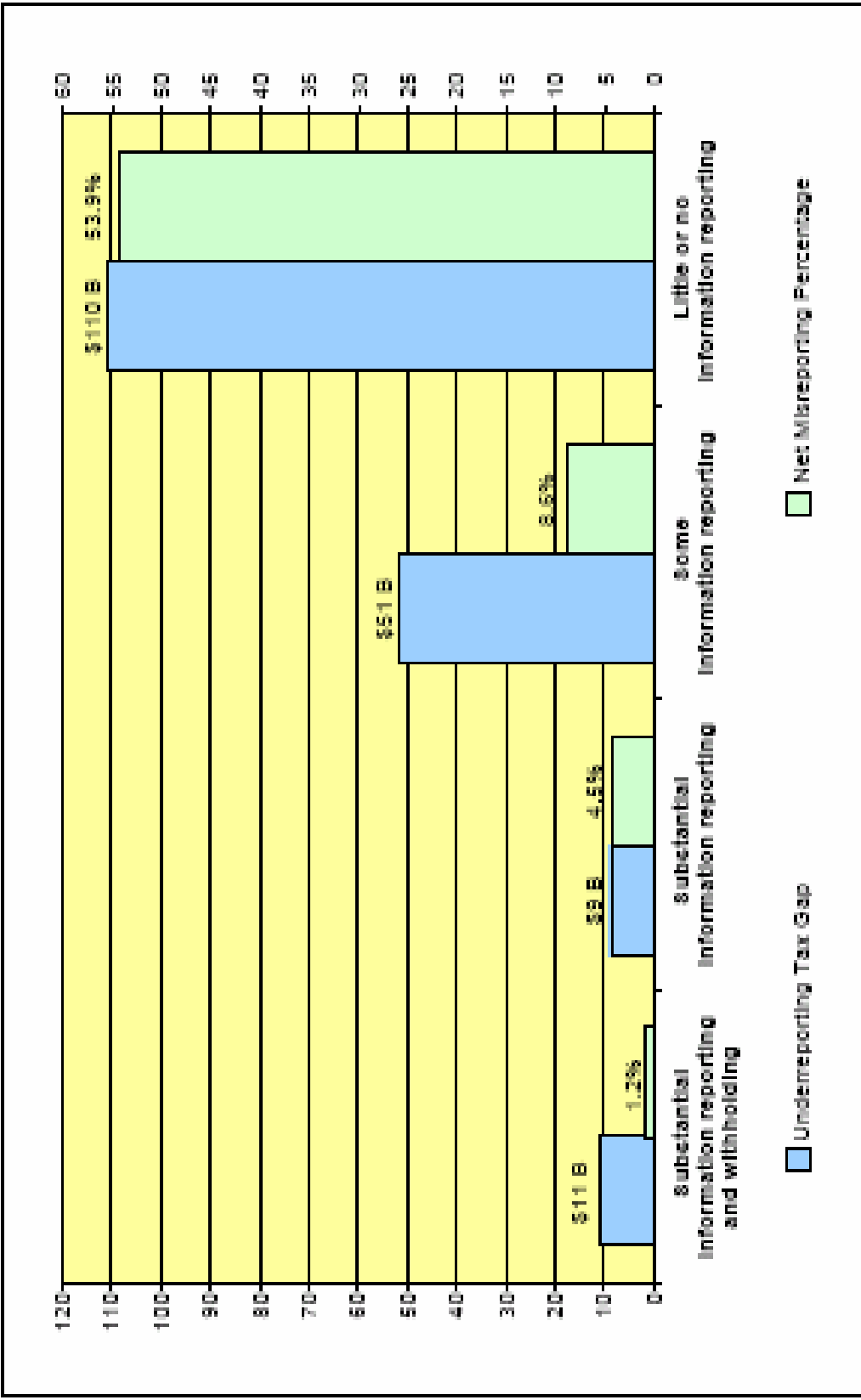
Individual Income Tax Underreporting Gap Estimates, Tax Year 2001

Type of Income or Offset	Tax Gap (\$B)	NMPT ¹
Total Underreported Gap	197	18%
Underreported Income	166	11%
Non-Business Income	56	4%
Wages, salaries, tips	10	1%
Interest income	2	4%
Dividend income	1	4%
State income tax refunds	1	12%
Alimony income	*	7%
Pensions & annuities	4	4%
Unemployment Compensation	*	11%
Social Security benefits	1	6%
Capital gains	11	12%
Form 4797 income	3	64%
Other income	23	64%
Business Income	109	43%
Nonfarm proprietor income	68	57%
Farm income	6	72%
Rents & royalties	13	51%
Partnership, S-Corp, Estate & Trust, etc.	22	18%
Overreported Offsets to Income	15	4%
Adjustments	-3	-21%
SE Tax deduction	-4	-51%
All other adjustments	1	6%
Deductions	14	5%
Exemptions	4	5%
Credits	17	26%
Net Math Errors (non-EITC)	*	

¹ NMPT = Net Misreporting Percentage

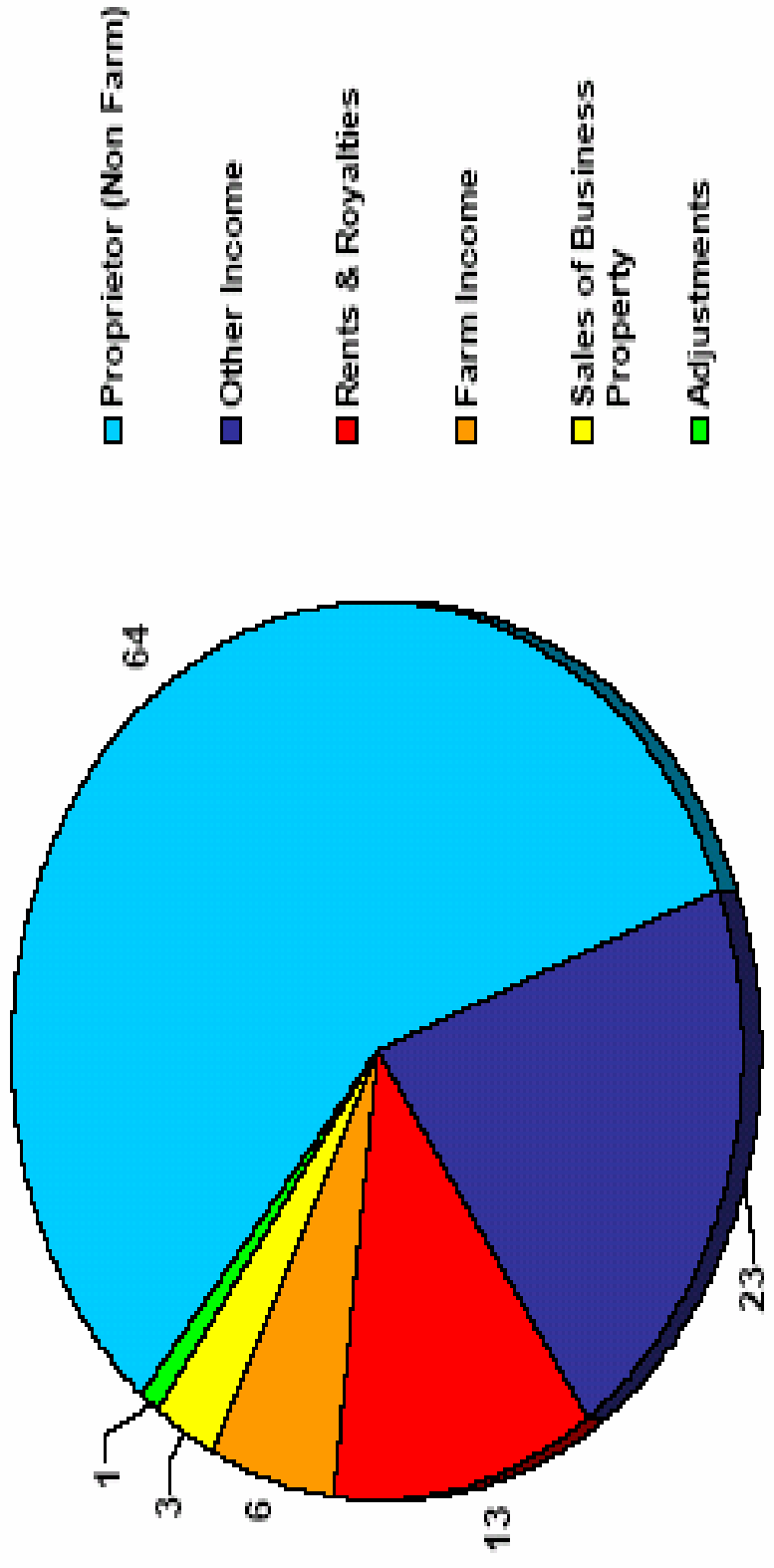
* Less than \$0.5 billion.

Individual Income Tax Underreporting Gap



Individual Income Tax Underreporting Gap Little or No Information Reporting

(Dollars in Billions)



Internal Revenue Service

Program Summary by Appropriations Account

(Dollars in thousands)

Appropriation	FY 2006		FY 2007		FY 2008	
	Enacted	President's Budget	CR-rate	President's Budget	CR-rate	President's Budget
Taxpayer Services	\$2,142,042	\$2,079,151	\$2,046,908	\$2,103,089	\$36,181	2.74%
Pre-filing Taxpayer Assistance and Education	577,425	575,694	556,693	578,078	21,385	3.84%
Filing and Account Services	1,564,617	1,503,457	1,490,215	1,525,011	34,796	2.33%
Enforcement	4,708,441	4,797,126	4,690,572	4,925,498	264,926	5.68%
Investigations	579,555	591,090	579,893	602,872	22,989	3.96%
Exam and Collections	3,919,275	4,054,760	3,992,599	4,165,233	232,634	5.92%
Regulatory	209,611	151,276	148,090	157,393	9,303	6.28%
Operations Support	3,461,205	3,488,404	3,519,228	3,769,587	250,359	7.11%
Infrastructure	894,403	873,146	873,146	908,095	34,949	4.00%
Shared Services and Support	1,176,202	1,129,617	1,163,846	1,223,351	59,505	5.11%
Information Services	1,430,600	1,485,641	1,482,236	1,638,141	155,905	10.52%
Business Systems Modernization	242,010	212,310	196,810	282,090	85,280	43.33%
Health Insurance Tax Credit Administration	20,008	14,846	14,846	15,235	389	2.62%
Subtotal, Internal Revenue Service	\$10,573,706	\$10,591,837	\$10,438,364	\$11,095,499	\$657,135	6.30%
Outselling Collectors - Reimbursable	137,110	125,723	125,723	133,498	7,775	6.18%
Mandatory Appropriation - User Fees	100,000	242,000	242,000	190,000	(62,000)	-25.62%
Total Program Operating Level	\$10,810,816	\$10,959,560	\$10,806,087	\$11,408,997	\$602,910	5.59%

FY 2006 Enacted is presented in the new budget structure for comparability across fiscal years. This differs from the FY 2008 President's Budget Appendix which presents FY 2006 as it was executed. The FY 2006 enacted level excludes rescission of unobligated balances (\$29 million from Taxpayer Services and \$9 million from HTCA). In addition, FY 2007 CR-rate includes proposed interappropriation transfers.

403(b) Project

- Questionnaires to all 50 states
- Participation should be available to all including substitute teachers, janitors and cafeteria workers expected to work 20 hours per week
- Corrective measures available.

Notice 2007-142 Annualization Election

- Teachers electing pay over 12 month period
- Rules not applied to school years beginning before January 1, 2008
- School districts are not required to offer the annualization election
- Procedure changes will be required

1099 Reporting

- Attorney's
- Corporations
- Legal Service Corporations
- Medical and Health Care Payments
- Difficulty of Care Payments
- Student Loan Interest
- Qualified Tuition and Related Expenses
- 1099G
- 1099R
- Due Date Issue

Employee Classification

- New Form 8919 Uncollected Social Security and Medicare Tax
- Section 218 Agreements
- Section 530 Relief
- Common Law Tests

Withholding Issues

- Employers no longer required to submit W-4 forms
- Lock In letters
- 28% back-up withholding if not exempt.
- “B” & “C” notices
- Firefighter and Emergency Workers

Fringe Benefits

- De-minimis benefits
- Valuation of benefits
- Cash as a benefit
- Gift certificates
- Employee Achievement Awards
- Reporting

Miscellaneous

- Telephone Excise Tax Refunds
- Form 990 redesign
- National Taxpayer Advocate Report
- Withholding For Non-Resident Aliens



Questions