

**House Ways and Means Oversight Subcommittee on the 2011 Filing
Season and
FY 2012 Budget Request
March 31, 2011**

Questions for the Record

Chairman Charles Boustany

- 1. During your testimony you explained that a majority of small businesses e-file. However, the Electronic Tax Administration Advisory Committee noted that businesses e-filing are the lowest of all e-filing classes. Could you please clarify the e-filing rates among small businesses for the last three years? What has your agency done to improve the rate of e-filing among businesses?**

Response:

E-File % Rates for Business-related Returns				
Form Type	CY 2011 (4/3/11)	CY 2010	CY 2009	CY 2008
1120	32.0%	23.9%	18.7%	13.2%
1120-S	54.3	37.3	30.0	20.9
7004	49.2	35.0	28.1	20.7
1065/1065-B	56.0	36.4	28.3	20.4

(Form 1120, corporate return; Form 1120-S, S corporations, Form 7004, business extension to file; 1065/1065-B partnership returns.)

First, it is important to distinguish between tax returns filed by businesses, and tax returns which include business income. By far the largest numbers of returns that include business income are individual income tax returns filed by self-employed individuals. These returns are included in the overall E-File rate for individuals, which is near 75% for 2011.

With respect to business tax returns – which are lower volume – the IRS has significantly enhanced its E-File technology in recent years, through our Modernized E-File platform. As of 2007, companies that have assets of \$10 million and that file 250 returns (including information returns) must e-file. Both the IRS Oversight Board and the Electronic Tax Administration Advisory Committee have recommended a renewed emphasis on business e-file, and we agree. One area under particular review is the Form 941/Form 944. There are 30 million employment tax forms filed annually, placing these forms second in volume behind individual income tax returns. The IRS is continuing to consult

with ETAAC, and more recommendations are pending. While I am pleased with our progress to date, I believe we still have a long way to go.

- 2. According to your written testimony, Taxpayer Assistance Centers are an important source for taxpayers seeking in-person assistance with their tax returns and are especially popular among elderly taxpayers. However, a recent Treasury Inspector General for Tax Administration study found that the placement of Taxpayer Assistance Centers has not kept pace with population shifts and, as a result, a large percentage of the U.S. population does not live anywhere near one of these centers. Besides IRS sponsored Saturday open houses, where taxpayers receive tax filing assistance from IRS volunteers, what is your agency doing to improve taxpayer access to in-person taxpayer assistance? Is the IRS going to partner with U.S. Post Office locations, as the Inspector General suggested?**

Response:

IRS has undertaken many successful actions to expand the availability of face-to-face IRS assistance.

In fiscal year 2009, IRS employees worked at nine geographically dispersed Volunteer Income Tax Assistance (VITA) sites, and assisted taxpayers with account and other issues as a supplement to the free tax return preparation assistance provided by our VITA partners and volunteers. We selected these sites to provide additional IRS services because they were located in areas where population shifts were occurring. During FY 2010, IRS employees worked at 27 VITA sites and assisted over 5,300 taxpayers. The IRS is currently staffing 31 VITA sites during the 2011 Filing Season.

As you mention, IRS sponsors Saturday Open Houses. The Open Houses are staffed by IRS employees from various functions within the IRS, including face-to-face assistors and employees from the Collection and Examination functions. The IRS also holds taxpayer outreach events on various Saturdays to inform taxpayers of the Earned Income Tax Credit (EITC) and to provide assistance to taxpayers in determining their eligibility for the EITC. These Saturday activities provide additional service hours beyond the normal 5-day week. In Fiscal Year 2010, IRS conducted seven Saturday events (EITC events and Open Houses) at nearly 200 locations across the country, with at least one location in each state, serving over 45,804 taxpayers. IRS has conducted four Saturday service events so far during the 2011 Filing Season and will conduct two additional Saturday events after the 2011 Filing Season closes. The IRS assisted almost 32,000 taxpayers during the four 2011 events that have been held to date.

In addition to the Saturday events, during the 2010 Filing Season, the IRS provided expanded service hours on weekdays (before 8:30 a.m. and after

4:30 p.m.) and on Saturdays at 16 of our largest and busiest Taxpayer Assistance Centers (TACs) across the country. This expanded service assisted 6,272 taxpayers through the week of April 15, 2010. Based on the success of our 2010 expanded service hours program, during the 2011 Filing Season, we offered expanded hours of service at 36 TACs, including TACs in populous areas and our busiest locations, to serve additional taxpayers. IRS accomplished this effort by staggering tours of duty of existing staff.

Finally, IRS had Facilitated Self Assistance (FSA) kiosks, which provide a form of virtual interaction between the IRS and taxpayers, at 49 TACs during the 2010 Filing Season. The FSA kiosks allow taxpayers to access a number of useful automated services through irs.gov. Approximately 9,700 customers used FSA kiosks during the 2010 Filing Season. The IRS replaced the FSA kiosks used in the 2010 Filing Season with new, more user-friendly FSA kiosks in 37 TACs in February and March of 2011. This upgrade increased our capacity to serve taxpayers in some of our busiest TACs. Nearly 16,000 taxpayers used the kiosks this fiscal year through April 9, 2011.

IRS will consider collaborating with the U.S. Postal Service after the 2011 Filing Season.

- 3. Last week, your agency issued new guidance requiring employers to report the value of employer sponsored health coverage on employee W-2 wage statements. This reporting requirement was added by the Affordable Care Act. Since the information will not affect an employee's tax liability, what is the IRS doing to make sure employees do not include these amounts in income? Is there anything your agency can do to reduce these burdens on employers?**

Response:

The IRS has taken action to educate employees and to ensure employees do not report the value of employer sponsored health coverage in income. Every news release and piece of published guidance has stressed prominently that the amounts reported on the W-2 under this provision are not taxable. On Form W-2, the "Notice to Employee" section discusses the cost of employer-sponsored health coverage and specifically states in bold type that this amount is not taxable. Additionally, the "Instructions for Employee" section provides a listing of codes that may appear in Box 12 of Form W-2. The description of Code DD states that this amount is the cost of employer-sponsored health coverage and notes in bold type that the amount reported as Code DD is not taxable. When an employee reads either section, the employee should immediately see the bold type informing the employee that these amounts are not taxable.

The IRS has taken significant steps to reduce the reporting burden on employers. In 2010, the IRS published Notice 2010-69, which provided reporting relief for

Forms W-2 issued for 2011 (generally provided to employees in January 2012). This notice had the effect of making reporting of this information optional for 2011. This allowed employers additional time to make necessary changes to payroll systems or procedures. The IRS more recently issued Notice 2011-28, which provides guidance for W-2s issued for 2012 (generally provided to employees in January 2013), and beyond. This guidance had the effect of making the reporting requirement optional for employers filing fewer than 250 Forms W-2 at least through 2012, and until further guidance on this issue. The notice also provided the answers to a number of frequently asked questions posed by the employer community.

The IRS also requested comments on how future guidance could further reduce the reporting burden while still providing useful information to employees on the cost of their health care coverage. Also, the IRS requested comments on any challenges employers may face in implementing the reporting requirements for the 2012 Forms W-2, and how further guidance could address those challenges.

- 4. In your oral testimony you noted that your agency is working on additional guidance with regard to competency exams that are required of practitioners pursuant to the new paid tax return preparer regulations. Given that competency examinations are slated to begin in June of this year, when can return preparers expect more information regarding the administration of competency examinations?**

Response:

We recognized up front that development and rollout of tests for paid tax return preparers would be a critically important endeavor. This is one of several reasons that we are phasing in this requirement over a three-year period. We are making good progress on establishing the infrastructure required for nationwide testing. Additionally, we intend to seek public input on the structure and content of the test. We will continue to communicate frequently with the tax return preparer community with plenty of notice so they can incorporate these new requirements without undue disruption to their business. Our current target is to open the testing process in the fall of 2011.