

IRS Updates



Richard Furlong, Jr.
Senior Stakeholder Liaison

January 4, 2018
North Jersey Working Together Conference
Seton Hall University

Due Date

- Returns and payments otherwise due April 15, 2018, are timely if filed or paid by Tuesday, April 17, 2018



Due Dates for W-2s, W-3s & 1099-MISC, box 7



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Due Date January 31

- PATH Act requires due dates for certain information reporting forms by January 31
 - Electronic and paper Forms W-2 & W-3 are due to the Social Security Administration
 - Forms 1099-MISC, box 7 (for non-employee compensation) are due to the Internal Revenue Service



Extension of Time to File

- Extension of time to file Forms W-2 is no longer automatic
 - IRS will only grant extensions for specific reasons
 - For details
 - Form 8809



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Expired Provisions

- Tuition and fees deduction (Form 8917)
- Mortgage insurance premiums
- Credits (including Form 5695)
- Discharge of principal residence debt
- 7.5% medical expense AGI floor



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Qualifying Widow(er)

- Qualifying child no longer must be a dependent
- Name must be provided if not dependent (as with head of household)
- Name changed to “Qualifying Widow(er)”
- Other changes

Proposed Regulations 137604-07



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Other New Forms

- Form 8973, Certified Professional Employer Organization Customer Reporting Agreement
- Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities
- Form 8975, Country-by-Country Report
- Form 9100, Notice of Late Election
- See [IRS.gov/DraftForms](https://www.irs.gov/DraftForms),
[IRS.gov/LatestForms](https://www.irs.gov/LatestForms)



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Research Credit

- Eligible small businesses can ... apply part or all of their research credit against their payroll tax liability, instead of their income tax liability.
- To qualify ... a business must have gross receipts of less than \$5 million and could not have had gross receipts prior to 2012.
- Eligible small business with qualifying research expenses can choose to apply up to \$250,000 of its research credit against its payroll tax liability.

Notice 2017-23



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Other Changes

- Electing to treat a federally declared disaster area loss as sustained in the preceding year (Form 4684)
- Example: Casualty loss incurred in a federally declared disaster area from hurricane Harvey, Irma or Maria in 2017.
- Taxpayers have until 10/15/2018 to make the election to amend their 2016 tax return to claim the casualty loss or to claim the loss on their 2017 tax return.



Rev. Proc. 2016-53

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Other Changes

- Qualified Small Employer Health Reimbursement Arrangements
- Notice 2017-67 (October 31, 2017)




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Education Credits

- Federal Identification Number of the educational institution is required on Form 8863 for all claimants of American Opportunity Tax Credit (AOTC), even if institution didn't issue Form 1098-T
- Form 8862 revised to encompass AOTC (and child tax credit)
- Form 1098-T qualified tuition reporting




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Form 8863 (2017)		Page 2	
Name(s) shown on return		Your social security number	
 Complete Part III for each student for whom you're claiming either the American opportunity credit or lifetime learning credit. Use additional copies of page 2 as needed for each student.			
Part III Student and Educational Institution Information. See instructions.			
20 Student name (as shown on page 1 of your tax return)		21 Student social security number (as shown on page 1 of your tax return)	
22 Educational institution information (see instructions)			
a. Name of first educational institution		b. Name of second educational institution (if any)	
(1) Address. Number and street (or P.O. box), City, town or post office, state, and ZIP code. If a foreign address, see instructions.		(1) Address. Number and street (or P.O. box), City, town or post office, state, and ZIP code. If a foreign address, see instructions.	
(2) Did the student receive Form 1098-T from this institution for 2017? <input type="checkbox"/> Yes <input type="checkbox"/> No		(2) Did the student receive Form 1098-T from this institution for 2017? <input type="checkbox"/> Yes <input type="checkbox"/> No	
(3) Did the student receive Form 1098-T from this institution for 2016 with box 2 filled in and box 7 checked? <input type="checkbox"/> Yes <input type="checkbox"/> No		(3) Did the student receive Form 1098-T from this institution for 2016 with box 2 filled in and box 7 checked? <input type="checkbox"/> Yes <input type="checkbox"/> No	
If you checked "No" in both (2) and (3) , skip (4) . However, you must complete (4) if you're claiming the American opportunity credit.		If you checked "No" in both (2) and (3) , skip (4) . However, you must complete (4) if you're claiming the American opportunity credit.	
(4) If you checked "Yes" in (2) or (3) , enter the institution's employer identification number (from Form 1098-T).		(4) If you checked "Yes" in (2) or (3) , enter the institution's employer identification number (from Form 1098-T).	

Education Credits

- Eligible educational institutions, therefore, will continue to have the option of reporting either the amount of payments of qualified tuition and related expenses received in Box 1 of Form 1098-T or the amount of qualified tuition and related expenses billed in Box 2 of Form 1098-T for the 2017 calendar year without being subject to penalties.

IRS Announcement 2016-42
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1098-T

CORRECTED

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Payments received for qualified tuition and related expenses \$	OMB No. 1545-1574 2017 Form 1098-T	Tuition Statement
FILER'S federal identification no.	STUDENT'S taxpayer identification no.	3 If this box is checked, your educational institution changed its reporting method for 2017 <input type="checkbox"/>		Copy B For Student This is important tax information and is being furnished to the Internal Revenue Service. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.
STUDENT'S name		4 Adjustments made for a prior year \$	5 Scholarships or grants \$	
Street address (including apt. no.)		6 Adjustments to scholarships or grants for a prior year \$	7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January--March 2018 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		8 Check if at least half-time student <input type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	
Service Provider/Acct. No. (see instr.)	10 Ins. contract reimb./refund \$			

Form **1098-T** (keep for your records) www.irs.gov/form1098t Department of the Treasury - Internal Revenue Service

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Expiring ITINs

- ITINs with middle digits 70, 71, 72 or 80 will expire at the end of 2017.
- Notice CP-48 Notice explains the steps these taxpayers need to take to renew the ITIN if it will be included on a U.S. tax return filed in 2018.
- All ITINs not used on a federal tax return at least once in the last three years will also expire at the end of 2017.

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Expiring ITINs

- Federal tax returns submitted in 2018 with an expired ITIN will be processed. However, exemptions and/or certain tax credits will be disallowed until renewed.

IR-2017-128



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REVOCAION OR DENIAL OF PASSPORT

- Legislation review
- Implementation date
- Roles of IRS and Department of State
- Avoiding passport denial/revocation

IRC 7345



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Changes to user fees, effective Jan. 1, 2017

	Old Fee	Fee as of 1/1/2017
Regular Installment Agreement	\$120	\$225
Regular Installment Agreement W/ Direct Debit	\$52	\$107
Low Income Installment Agreement	\$43	\$43
On-line Payment Agreement (Regular Installment Agreement)	\$120	\$149
On-line Payment Agreement (Direct Debit Installment Agreement)	\$52	\$31



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Refundable Credits Due Diligence



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Under PATH, IRC 6695(g) Preparer Due Diligence Now Includes...



Earned Income
Tax Credit



Child & Additional Child Tax
Credit



American Opportunity
Tax Credit



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Common Due Diligence Errors

- Failing to meet the knowledge requirement
- Failing to keep records and documentation



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Knowledge Requirement

It's not just about knowing the law. You must...

Apply common sense standard

Not ignore the information you have

Ask questions when needed

Record your questions and client's responses



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Recordkeeping

Keep paper or electronic records of:

- Form 8867, Paid Preparer's Due Diligence Checklist
- All applicable worksheets and computations
- Who, when and how eligibility information provided
- Documents you relied on to determine eligibility or compute the credit
- Additional inquiries made to meet the knowledge requirement and client's responses



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Interview Techniques

- Is the picture you have of your client correct, consistent and complete?
 - Ask open ended questions
 - Address all eligibility requirements



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Focus Your Attention on Common EITC Errors

Claiming child who does not meet residency or relationship requirements

Reporting income or expenses, particularly Schedule C's correctly

Filing as single or head of household when married



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These EITC Qualifying Child Situations Call for Additional Inquiries

- Claiming qualifying child other than son or daughter
- Single parent claiming a son or daughter
- Claiming disabled adult as qualifying child



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Schedule C Income Verification

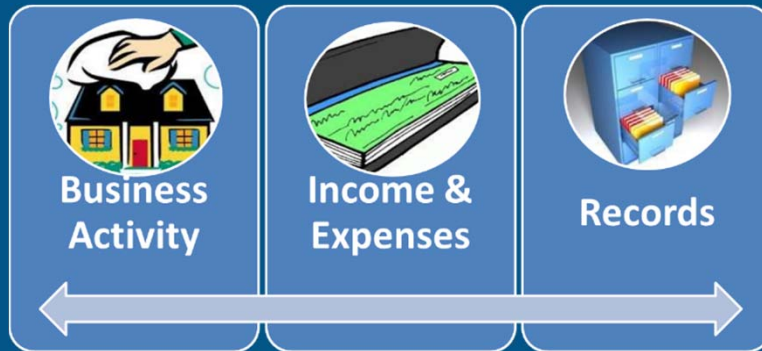


- Books and records to support income
- Per services charges & frequency
- Cleaning supplies cost
- Equipment cost



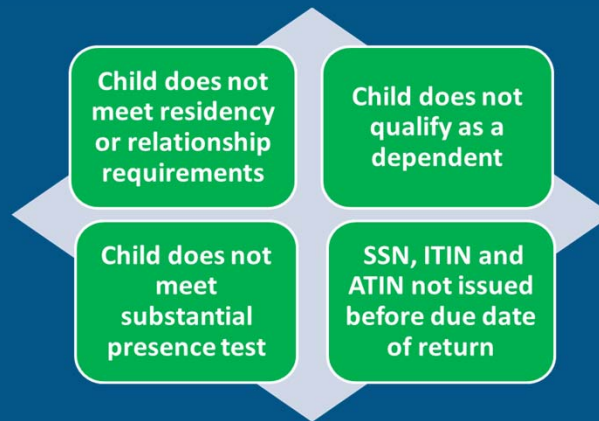
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A diligent preparer considers...



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Focus Your Attention on Common Child Tax Credit Errors



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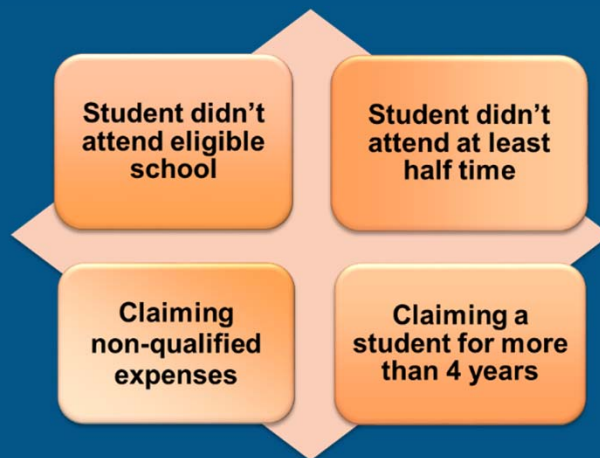
These CTC Situations Call for Additional Inquiries

- If a new client, determine when the SSN/ITIN/ATINs were issued
- Claiming qualifying child other than son or daughter
- Divorced/single parent claiming a son or daughter
- Child not a US citizen and may have lived outside of the US during the year



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Focus Your Attention on Common American Opportunity Tax Credit Errors



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Questions to Ask While Reviewing Form 1098-T

<input type="checkbox"/> CORRECTED		OMB No. 1545-1574		2017	Tuition Statement
FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		1 Payments received for qualified tuition and related expenses	\$		
		2 Amounts billed for qualified tuition and related expenses	\$	Form 1098-T	
FILER'S federal identification no.	STUDENT'S taxpayer identification no.	3 If this box is checked, your educational institution changed its reporting method for 2017		<input type="checkbox"/>	
STUDENT'S name		4 Adjustments made for a prior year	\$	5 Scholarships or grants	\$
Street address (including apt. no.)		6 Adjustments to scholarships or grants for a prior year		7 Checked if the amount in box 1 or 2 includes amounts for an academic period beginning January—March 2018 ▶ <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code		\$			
Service Provider/Acct. No. (see instr.)	8 Check if at least half-time student <input type="checkbox"/>	9 Checked if a graduate student <input type="checkbox"/>	\$	10 Ins. contract reimb./refund <input type="checkbox"/>	

Form **1098-T** (keep for your records) www.irs.gov/form1098t Department of the Treasury - Internal Revenue Service



These AOTC Situations Call for Additional Inquiries

- No Form 1098-T
- Student is not typical college age
- Name of school is unusual
- Form 1098-T does not show at least half time student
- Form 1098-T shows graduate student
- If college age student return, find out about parent claiming student



A Cautionary Tale

Court Denies
Return Preparer
Penalty Refund



Tax Analysts, Tax Notes Today, FEBRUARY 08, 2017
Reference CODE: Section 6694 -- Understatement by
Return



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Resources on EITC Central

- Found at [eitc.irs.gov/Tax Preparer Toolkit](http://eitc.irs.gov/Tax%20Preparer%20Toolkit)
- Refundable Credit Hot Topics for Preparers
- Due Diligence Training Module for CE credit
- Frequently asked questions by preparers
- Due Diligence training videos
- Examples on how to handle common due diligence situations
- Publications, forms and instructions



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Partnership Penalty Relief

- The IRS will grant relief from the penalties *failure to file and furnish returns* for the first taxable year of any partnership that began after December 31, 2015
- *If the partnership filed the Form 1065, 1065-B, or 8804 and Schedules K-1 or 8805 by April 18, 2017 for calendar-year taxpayers*

IRS Notice 2017-47



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W-2 Verification Code Pilot Update



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W-2 Verification Code Pilot

- To verify wage/withholding data included with e-filed Form 1040
- On 47M Forms W-2 in filing season 2017:
 - ADP, Ceridian, Intuit, Paychex, Payroll People, Prime Pay, Ultimate Software
 - Almost 1 in 5 Forms W-2
 - Each included the VC on the W-2s of some of their clients (708K EINs in total)
 - Each PSP gave IRS its list of EINs whose W-2s contained VCs



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Form W-2 Verification Code Pilot

- Unique 16-character code
- Calculated using data from the W-2
- Valid characters: A-F, 0-9
- In box, "Verification Code," on copies B & C
 - B: "To be filed with employee's federal tax return"
 - C: "For employee's records"
- W-2 Instructions: If you are e-filing and if there is a code in this box, enter it when prompted by your software. This code assists the IRS in validating the W-2 data submitted with your return. The code is not entered on paper-filed returns.



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Form W-2 Verification Code Pilot

- Missing or incorrect VCs did not prevent or delay the processing of a return or refund.
- IRS calculated the VC and compared it with the VC the taxpayer entered.
 - Allows validation before any data is received from SSA.
- If VC validated, we treated the W-2 data submitted with a 1040 to be valid, thereby reducing false fraud-selections.



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Form W-2 Verification Code Pilot

W2VC Result				W2VC Result Total
Exact	Inexact	Expected , But Not Received	Received, But Not Expected	
30.6%	1.1%	61.3%	7.0%	100.0%

- **Filing season 2017**
 - If taxpayer/preparer had a W-2 with a VC, the VC was entered 34% of the time
 - $(\text{Exact} + \text{Inexact}) / (\text{Exact} + \text{Inexact} + \text{Expected Not Received})$
 - If VC was entered, it validated 97% of the time



- $\text{Exact} / (\text{Exact} + \text{Inexact})$

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Form W-2 Verification Code Pilot

- **Filing season 2018**
 - 10-12 participants
 - 7 from FS 2017; Natl Finance Ctr; few more PSPs
 - 66M Forms W-2 (1 in 4 W-2s); 951K EINs
 - 56M will have letters of VC in lower case
 - To better distinguish, e.g., “B” vs. “8,” “D” vs. “0”
 - Form W-2 has box 9, “Verification code”
 - Will allow 1040 software to more effectively direct taxpayer to find the VC
 - 1040 software: info and edits for valid characters (a-f, 0-9)



Audit Technique Guides

Provides IRS examiners insight into issues and accounting methods unique to specific industries

The screenshot shows the IRS website interface for the 'Audit Technique Guides - Agriculture' page. At the top, there is the IRS logo and a search bar. Below the logo are links for 'Help', 'News', and 'Language'. There are also buttons for 'Charities & Nonprofits' and 'Tax Pros'. A navigation menu contains 'File', 'Pay', 'Refunds', 'Credits & Deductions', and 'Forms & Instructions'. The breadcrumb trail reads: 'Home > File > Businesses & Self-Employed > Small Business & Self-Employed > Audit Technique Guides Agriculture'. The main heading is 'Audit Technique Guides - Agriculture'. Below this, there is a list of guides: 'Individuals', 'International Taxpayers', and 'Businesses & Self-Employed'. Under 'Businesses & Self-Employed', there are two links: 'Farmers ATG - Chapter Two - Income (PDF)' and 'Hardwood Timber Industry (PDF)'. A brief description of the MASP program is also visible.



Form W-2 Phishing Scam

- Poses as company executive, asks payroll employee for list of all employees W2s
 - 50 victims last year; 200 this year
 - Hundreds of thousands of new IDT victims
- Targets: businesses, public schools, universities, tribes
- Employer/victims should email dataloss@irs.gov and provide POC



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Security Summit Initiatives

- Shared data elements from return
- Required stronger password protocols
- Agreed on ISAC
- Agreed on stronger cybersecurity framework
- Two-factor authentication protections for certain IRS.gov tools



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Security Summit Initiatives - 2017

- Shared data elements expanded to business tax returns
- W-2 Verification Code test expanded to 50 million forms
- Additional data elements identified
- States partnering with banks
- Summit partners working to identify “ultimate bank accounts”



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Tax Practitioner Awareness

- Protect Your Clients, Protect Yourself
- Register for e-News for Tax Professionals
- Follow the IRS Twitter for tax professionals

From: IRS E Services < >
 Sent: Wednesday, April 26, 2017 2:39 PM
 Subject: Account Closure Now!

Dear Tax Pro,

We noticed you have not updated your eServices and EFIN details for 2017 Tax season. Please follow the link below to securely update your eServices account renewal details or else you will loose your account.

[update now](#)

We will suspend any Tax Pro who fails to renew and follow this update within 24Hrs.

Sincerely,
 IRS.gov e-Services

Tax Pro: Be Alert to Account Takeover Tactics

DON'T TAKE THE BAIT

IRS www.irs.gov/securitysummit



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Responding to a Data Breach

- Contact your local Stakeholder Liaison
 - www.irs.gov keyword search “stakeholder liaison” to find contact for your state
 - IRS may be able to help protect your clients if notified quickly
- Review “Data Loss Information for Tax Professionals” at IRS.gov/identitytheft for additional steps



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Beware W-2 Scam

- Impersonates CEO and asks for list of all employees and their W-2
- 50 victims last year; 200 victims so far this year
- Report thefts at dataloss@irs.gov
- Details at IRS.gov/identitytheft



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Beware W-2 Scam

VERIFY!



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Frequently Used Email Subjects

- Request
- Important Request
- Review
- Manual Review
- Urgent
- EMPLOYEES YYYY
- Urgent Request
- CONFIRM



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Example #2 We Have Seen

Subject: URGENT!!!

Hello [EMPLOYEE],

Kindly send me the individual YYYY W-2 (PDF file) and earnings summary of all W-2 of our company staff for a quick review.

Thanks.

[C-LEVEL EXECUTIVE]



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Example #3 We Have Seen

Subject: Important Request

[EMPLOYEE],

I'm working on a wage analysis for the board, i need you to send me the individual YYYY W-2 (PDF) and earnings summary of all W-2 of all staffs for a quick review via email.

Thanks

[C-LEVEL EXECUTIVE]



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Look Ahead

- Focus on authentication
- Expand ISAC capabilities
- W-2 Verification Code test will continue into next year
- “Verification Code” box will appear on 2017 Form W-2



E-Services & Online Tools

The screenshot shows the IRS website interface for tax professionals. At the top, there is a search bar and navigation links for 'Help', 'News', and 'Language'. Two buttons, 'Charities & Nonprofits' and 'Tax Pros', are visible. Below this is a horizontal menu with categories: 'File', 'Pay', 'Refunds', 'Credits & Deductions', and 'Forms & Instructions'. The main content area features a breadcrumb trail: 'Home > Tax Pros > e-Services Online Tools for Tax Professionals'. The title 'e-Services - Online Tools for Tax Professionals' is prominently displayed. On the right side, there is a language selector set to 'English'. On the left, there are links for 'Enrolled Agents', 'Annual Filing Season Program Participants', and 'Enrolled Retirement Plan'. A central note states: 'Note: e-Services is compatible with IE6 to IE11 only' and 'HOT TOPICS 02/06/2017'. Below this, an 'Important information for e-Services users:' section provides details about revalidation requirements. On the right, there is a graphic with the words 'LOGIN' and 'PASSWORD' on a dark background.



Staying Current

- Tools for Tax Professionals (IRS.gov)
- Quick Alerts
- e-News for Tax Professionals
- Other Subscriptions



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Current IRS State

IRS

Search

Help | News | Language

Charities & Nonprofits | Tax Pros

File | Pay | Refunds | Credits & Deductions | Forms & Instructions

Home > News > Future State and IRS Activities

Future State and IRS Activities

English

What's Hot

News Releases

Multimedia Center

Tax Relief in Disaster Situations

To better serve taxpayers, the IRS needs to align its organizations to most effectively meet their needs. Several projects underway will help us identify areas where we can become more effective, more efficient and/or generate savings to reinvest in the future. Many business units continue to develop and consider a number of projects tied to the larger Future State effort with a goal of improving taxpayer service, better equipping employees and achieving compliance outcomes. Those efforts include:

- **Tax Exempt/Government Entities** has many initiatives underway, including a Lean Six Sigma review of determination letter processes in Exempt Organizations and Employee Plans and developing web-based solutions for taxpayer service and outreach.



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The Taxpayer Component

- A more complete online experience
- Freeing up resources for those who need 1-on-1 assistance
- More up-front issue identification when the return is filed
- Improved authentication to prevent fraudulent returns using stolen identities



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Online Account Features

Key features now available allow taxpayers to

- View amount of tax owed as of today's date
- See the balance for each tax year for which they owe tax
- Pay by bank account, debit or credit card
- Set up an online payment agreement
- Review up to 18 months of tax payment history
- Access Get Transcript to view, print or download tax records
- Get key information including adjusted gross income and filing status from the current year tax return as originally filed (primary taxpayers)



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Taxpayer Digital Communications (TDC) – Secure Messaging Correspondence Examination Pilot Program



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SB/SE TDC Pilot Program

- Correspondence Examinations
 - SB/SE Schedule A audits by mail
 - Philadelphia Correspondence Examination Operation
- Secure Messaging
 - Interaction using secure online environment
- Invitation only
 - Taxpayers and POA clients receive marketing insert



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Power of Attorney Participation

- Taxpayers signed up for Secure Messaging
- Taxpayers and their POAs must pass the IRS Secure Access
 - POA already in the CAF database
 - POAs authenticate under their SSN



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TDC – Secure Messaging

- TDC Secure Messaging pilot launched FY 17
 - Last about 12 months.
 - Mail-outs/invitations completed for FY 17
- 9,150 taxpayer invites



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PTIN Issuance and Renewals

On June 1, 2017, the United States District Court for the District of Columbia upheld the IRS' authority to require the use of a Preparer Tax Identification Number (PTIN), but enjoined the IRS from charging a user fee for the issuance and renewal of PTINs.

As a result of this order, PTIN registration and renewal was suspended on June 2.



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PTIN Issuance and Renewals

- PTIN issuance resumed, without charge, on June 21, 2017
- The IRS, working with DOJ, is still considering how to address the court order
- Additional information will be posted on the IRS.gov [Tax Pros page](#) when it becomes available



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Data Book Statistics

SOI Tax Stats – IRS Data Book

- Published annually
- Contains statistical tables and organizational information on a fiscal year basis
- Provides data on:
 - Collecting the revenue
 - Issuing refunds
 - Enforcing the law
 - Assisting the taxpayer
 - Budget and workforce



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IRS Commissioner Remarks 2017 Nat'l Press Club

IRS Commissioner John Koskinen (excerpts)

- Since 2010, IRS full-time workforce has shrunk to 77,000 employees
- In next two years, 35% of IRS workforce are eligible for retirement
- IRS has only 122 full-time employees 25 years old or younger



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Contact Information

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