2017 Conference – Our 25th Anniversary

We are inching closer to celebrating our 25th Anniversary at the 2017 AFIRE Golf Tournament & Conference on 9/21-22/2017 (Golf on Thursday and conference on Friday). As we have for the last several years, the conference will be held at Turf Valley near Ellicott City, MD. Unlike the past, members can already make their hotel reservations by contacting Turf Valley (www.turfvalley.com or call 888-833-8873) and tell them you are a member of “AFIRE” and provide the group code of 28059K. The special room rate is $123 p.n. and reservations must be made by 8/25/17.

The Commissioner has accepted an invitation to speak Friday morning (9/22/17) with our compliance presenter, Darren Guillot, (Director, Collection, Field in SBSE), scheduled for that afternoon. Invitations have been extended to the Deputy Commissioners, Jeff Tribiano and Kirsten Wielobob (who replaced John Dalrymple), as well as Jessica Klement with NARFE (who made a great presentation at the 2016 conference). Rick Skorny has volunteered to put together a slide show using photos from the AFIRE Facebook postings (also see next article).

Using AFIRE Private Facebook Page

AFIRE Friends, our private & secure Facebook group, is available for members. Not only can members get information about your former colleagues but you can share your information by posting articles, photos, jokes or whatever you want. As noted in the previous article Rick Skorny will be using photos posted as part our upcoming conference.

To join AFIRE Friends all you need to do is have a Facebook account and send your request to Susan Smoter at spire@jhu.edu. You will receive an invite on your personal Facebook account. Once you are a member, the following are some “basic” pointers:

• General Posting: To post information on AFIRE Friends site, click on the AFIRE Friends group front page. At the top of the page there is a blank post at the top of the page (like your personal Facebook page). As you would do on your personal page, enter your information and click “post.”

• Posting Articles: Cut and paste the link from the original source into the blank post -- the article should appear and you the click “Post.”

• Editing posts: You can edit or delete any post by clicking the “v” at the top right of your post after it’s been published. You will then be able to edit the text you previously entered or delete the entire post.

• Adding Photos: Above the place where you create your post, click on the tab “Add Photos/Videos” to upload your selection from your device.

• Adding Documents: There is a “More tab” to use if you want to add a File (useful to share a document).

• Other: Members can do many other things including “Create an Event” (post something on the AFIRE Friends calendar) and “Live Video” (live streaming video of an event you are attending).

Content Ideas for AFIRE Website

The Communications Committee invites you suggestions on improving website. Please send your ideas to afire-friends@gmail.com. Members are also asked to update their personal information on the website – it is simple to do.

Martinsburg Golf Tournament

The NCC/MCC/ECC 50th Golden Anniversary Tournament is coming up. This year’s event will be on 6/2/17 at the Shenandoah Valley Golf Club in Front Royal, VA. The tournament is open to everyone! This is a charity golf tournament with proceeds being donated to Kids Club of Shenandoah Valley. The tournament will use Captain’s Choice, better known as a Scramble with a shotgun start at 9 a.m. Applications with your payment of $70 per person must be submitted no later than 5/22/17. For more information see the AFIRE Friends Facebook page or contact Ed Heironimus at heir@aol.com.

IRS Executive Departures

Cheryl P. Claybough, Director, Pass Through Entities Practice Area (PTE) in LB&I, retired on 1/31/17 after more than 29 years of service. Cheryl began her career in 1988 as a revenue agent in Colorado.

John Dalrymple, Deputy Commissioner Services & Enforcement, is retiring (again) on 3/18/17 after 35 years of service. John began his first career with IRS in 1975 as a
revenue officer in Iowa. He returned to IRS in 2013 after his initial retirement in 2006.

**Shenita Hicks**, Director, Examination in SBSE is retiring on 3/31/17. Shenita began her career in 1981 as a revenue agent cooperative education in Phoenix, AZ.

**Bobby Hunt**, Director, Operations Support in SBSE, is retiring 3/31/17 after more than 38 years of service. Bobby began his career in 1979 as a revenue officer cooperative education student in North Carolina.

**Shawn Tiller**, Director Refund Crimes in CI, is retiring on 3/18/17 after 23 years of federal service in federal law enforcement. Shawn joined IRS in 2014 from the Postal Inspection Service.

**Mary Ann Thompson**, Field Director, Ogden Accounts Management in W&I, is retiring on 3/31/17 after more than 35 years of service. Mary Ann began her career in 1967 as a Code & Edit Seasonal in Ogden, UT.

### New Members

Welcome Cheryl P. Claybough, Julie Garcia, Jack Miller, Phil Brand, Susan Quackenbush & Dean Silverman

### Members in the News

**Dave Mader**, most recently the controller at OMB, is now the chief strategy officer for Deloitte's federal government practice.

**Bill Vajda** is the newly appointed Chief Information Officer for the State of Alaska.

### In Memoriam

Steve Burgess

### IRS Organization & Funding

**Presidents 2018 Budget**: The following is an excerpt from the “Budget Blueprint …” (page 37) issued on 3/16/17: “Preserves key operations of the Internal Revenue Service (IRS) to ensure that the IRS could continue to combat identity theft, prevent fraud, and reduce the deficit through the effective enforcement and administration of tax laws. Diverting resources from antiquated operations that are still reliant on paper-based review in the era of electronic tax filing would achieve significant savings, a funding reduction of $239 million from the 2017 annualized CR level.”

**The “Right” Crazies** (FedSmith) A Congressman and a Senator from Kansas introduced similar bills in their respective chambers titled “The Fair Tax Act” (see H.R. 25) to abolish IRS. That particularly interesting from that State which has discovered major flaws in their so-called tax reform. The proposed legislation replaces the income tax with a national sales tax. While ill-advised legislation like this has not gone anywhere in the past, who knows what could happen with the abolishment/reorganization fever from those in control. There are 75 co-sponsors in the House (probably the same ones wanting to impeach the Commissioner).

**Relationship Between Services & Budget?** (NAEA & Federal News Radio) The same old rhetoric from those in control were doing it again at a hearing by two House sub-Committees on 3/8/17 “To examine the Internal Revenue Service’s (IRS) failure to efficiently direct available resources to customer service and what might be done to improve it.” John Dalrymple pointed out that the IRS has “sustained the largest percentage of budget cuts of any federal agency since 2010 …” thus “any budget cut would be devastating” and there is no “… fat left to cut.” A member of the so-called Freedom Caucus pretty much says it all: “Why didn’t you ask more often to offset this terrible performance?” Another question from another one of those was about union time during the 2012 filing season. The IRS has a net loss about 17,000 and suffered about $1B cut in their budget since 2011. The tax cheats, mainstream practitioners and those who need IRS services notice the impact but not those in control in Washington. In a recent newsletter NAEA pointed out the reduction in phone and enforcement staffing, overaged correspondence “has reached biblical proportions” and uncollected debt has increased to $140B.

**Individual Audits Fall** (NAEA & Wall Street Journal) The latest data reflects that that the audit rate was only 0.7% in FY 2016. Even the individual high income audits dropped with households with income above $1M million falling to 5.83%. Business audits fell to 0.49% (the lowest since 2004). *Wall Street Journal*

**CI Annual Report** (IR-2017-47) CI initiated 3,395 cases in FY 2016 that focused on tax-related identity theft,
money laundering, public corruption, cybercrime and terrorist financing. The number of cases dropped for the third consecutive year (staffing reduction is the cause). A piece of good news is there is a higher conviction rate (92.1%).

**Future State Perspective (NAEA)**
The two-step authentication process, implemented in response to the data breach two years ago, relies on the user having a cell phone but apparently, many people do not have their own cell phone account — e.g. using account for their workplace, spouses, & parents — while others do not have a “contract phone.” The pilot Taxpayer Digital Communication (TDC) project, will allow taxpayers undergoing a Schedule A correspondence audit to communicate with IRS using secure messaging. This should virtually eliminate paper correspondence. The program will allow taxpayer representatives to be included in all correspondence with the practitioner be required to create a personal account and have a POA on file in CAF. Per NAEA, IRS has some “unique challenges with the project's online mechanism for taxpayers to authorize their tax professional …” However, some states (e.g. New York) have something similar in place. Apparently, part of the IRS problem is the interface with Centralized Authorization File (CAF) which NAEA suggests should be replaced.

**Fraud, Identity Theft, Phishing etc.**

**Breached?** (Accounting Today) The IRS data retrieval tool that allows students applying for loans to download information from their or their parents’ tax returns has apparently been breached and has been shut down. IRS suspended the tool after concerns about a potential breach. The Department of Education and the IRS are investigating the issue.

**IRS Progress** (Federal News Radio) In his 3/8/17 testimony (see related article above) John Dalrymple shared information illustrating that the those who reported being victims of identity theft dropped 46% between 2015 (698,700 people) and 2016 (376,000 people). A few years ago, John pointed out that “… it was taking us an average of 300 days to close a case, but more recently the IRS has been meeting its goal of resolving cases in an average of 120 days or less.” The inventory … dropped from about 95,000 to 28,900 currently. In testimony at the same hearing TIGTA expressed concern about the risk of unauthorized access to tax accounts through online tools by having inadequate authentication. [https://www.treasury.gov/tigta/congress/congress_03082017.pdf](https://www.treasury.gov/tigta/congress/congress_03082017.pdf)

**Cyber Attack Iceberg?** (Federal News Radio) The latest study on the state of cyber defense in the U.S. has some red flags. The report states that our country is only at “virtual tip of the cyber-attack iceberg.” The report warns other nations will have offensive cyber capabilities that “far exceed the United States’ ability to defend and adequately strengthen the resilience of its critical infrastructures” Apparently, the federal government lacks a “unified national policy” to deter cyber-attacks. The more “troublesome attackers” include Russia, China, North Korea and Iran.

**Impacting Employees & Retirees**

**Self Plus One FEHB (FedSmith)** There are approximately 1.9M receiving a federal pension annuitants are covered by at least Medicare Part A. Almost all who had Family FEHB coverage switched to the newer Self Plus 1 plans. Even though those that did so have the so called “Medicare dividend,” that reduces the cost to the FEHB insurer. However, there is little difference (if any) in the monthly premiums we pay. The conclusion: the insurance companies are pocketing the savings.

**Retirement Application Backlog** (Federal News Radio): The OPM retirement claim backlog is at the highest level since October 2015. There were over 9,000 new claims in February, which is lower than the January (the normal peak month). OPM has a benchmark inventory set at 13,000 but the inventory is nearly double that amount.

**Debt Ceiling Raid on G Fund** (Federal News Radio): The past practice of raiding the G fund will likely happen again to avoid a Federal government default this month. According to the Congressional Budget Office [projection on March 7](https://www.treasury.gov/tigta/congress/congress_03082017.pdf), projects that “if the current suspension is not extended or a higher debt limit is not legislated before March 16, the Treasury will, from that date forward, have no room to borrow under standard operating procedures.” By suspending our investment in G Fund Treasury gets access to about $224B. Based on a 1987 law the G Fund would be made whole if Congress increases the debt ceiling. Additional accounting tricks of
the trade would include amortizing payments for the Civil Service Retirement and Disability Fund (CSRDF) and Postal Service Retiree Health Benefits Fund (PSRHBF).

**Annuity & Divorce** (FedSmith): A retiree got a bill from OPM that he owed more than $28,000 to an ex-spouse because of an adjustment made 8 years after he retired. This adjustment was to treat his FERS annuity supplement the same way as his FERS annuity. There are 594 other annuitants in the same pickle. OPM is interpreting that Title 5 of the United States Code Section 8421(c) that the FERS supplement must be apportioned the same as FERS even if the divorce decree is silent.

**COLA Methodology** (FedSmith) The newly introduced “CPI-E Act of 2017” in the House proposes to change the Cost of Living Adjustment (COLA) formula to use CPI-E rather than CPI-W to make the calculation more accurate. The measure would change the mix of the basket of goods used to calculate COLA to be more consistent for seniors. However, the bill would include Social Security (including disability, survivor’s benefits), federal retirement plans, veterans, VA compensation for dependents. 

**FEAA Scholarships** (SEA Newsletter) If you know of someone looking for a scholarship, the Federal Employee Education and Assistance Fund (FEAA) is accepting scholarship applications until 3/27/17. FEAA typically provides over 200 students with merit-based scholarships. Past scholarships have been awarded to gone to the children of federal civilian employees who died or were severely injured during the terrorist attacks on the Alfred P. Murrah Federal Building in Oklahoma City, the Pentagon on 9-11, and the US Embassies and Consulates in Kenya, Tanzania, and Libya. For more information, visit FEAA's website.

**GPO & WEP Repeal?** (NARFE) A new bill, Social Security Fairness Act of 2017 (H.R. 1205), would repeal the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP). The GPO denies federal retirees benefits they earned on their own and the WEP prevents federal retirees who receive a government annuity based on their own work and the WEP substantially reduces the Social Security benefit of federal annuitants who worked in Social Security-covered employment.

**The “R” Word** (ChiefHRO.com): With all the movement around government reorganization and substantial budget cuts in 2018, the specter of a Reduction in Force (RIF) raises its ugly head. IRS ran significant RIFS when Submission Processing Centers (SPC’s) were reduced from 10 to 5 with two more SPCs on the chopping block. However, the alternative (attrition) is not a good solution either because is random at best and can take months or years to meet the lower staffing levels. Of course, it is usually the better employees who leave as they are more competitive for jobs elsewhere. RIFS have their problems as well including being very disruptive (also cause good people to leave especially those with less years of service) and is very expensive and likely will not provide the immediate cost reductions needed (e.g. buyouts, severance pay, lump sum leave and grade & pay retention).

**IRS Longs & Shorts …**

**Slow Start for Filing Season** (Accounting Today) The tax preparation firms had a slow January followed by a busy February primarily because of the PATH Act delays placed on some refunds. The Act mandated IRS hold up processing returns claiming EITC or ACTC until 2/15/17. However, some taxpayers mistakenly thought they could not file until 2/15/17 so they did not visit their friendly preparer until much later than normal. A representative of one large firm pointed out that was nearly $50B in refunds that got delayed. Another firm’s representative suggested that in addition to the PATH Act, there are some people thinking there would be an immediate change relating to ACA that would impact on their 2016 returns. The due date changes for partnerships and corporations (which some states did not make the same change) may not have impacted clients but put some pressure on preparers since the partnership information (K-1) is necessary to file their individual returns.

**“Silent” ACA Individual Mandate** (Accounting Today) The “Executive Order Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Repeal,” IRS will be accepting Form 1040 return whether the taxpayer indicates they had health insurance in 2016. Taxpayer’s are legally required to check box 61 indicating they had health insurance coverage all year or attach Forms 8965 and 8962. Unlike the past IRS had planned to reject
returns without that information this year. IRS would have typically collected the penalty for not having insurance by deducting it from a refund. Once the return has been processed the IRS would have to go after someone for receiving too large of a refund one expert surmised – e.g. via correspondence audit.

**Freeze on New Revenue Rulings & Rev Procs**  
(FedSmith, Accounting Today & Tax Notes) A couple of executive orders initiated “regulatory reform.” One requires federal agencies to establish a task force for ensuring each agency has a team researching all regulations. So-called Regulatory Reform Officers (RRO) are established to oversee implementation of regulatory reform initiatives. The theory that regulation kills jobs would be a stretch at IRS but no new revenue rulings or revenue procedures will be issued for a while according to Tax Notes. IRS will still issue routine updates (e.g. interest rate changes & mileage deduction allowances), private letter rulings and chief counsel advice memos but no new regulations will appear in the Federal Register or the Internal Revenue Bulletin.

**ETAAC Vacancies (IR-2017-57)** IRS needs to fill three vacancies on the Electronic Tax Administration Advisory Committee (ETAAC). Selectees will serve three-year terms beginning this September. Applications will be accepted through 4/24/17. Interested individuals can self-nominate or be nominated by others and complete the ETAAC application.

**TAP Vacancies (IR-2017-58)** The Taxpayer Advocacy Panel (TAP), a federal advisory committee that listens to taxpayers, is looking for interested individuals. The TAP helps identify taxpayer concerns and make recommendations to improve customer service. Selectees will serve a three-year term starting in December 2017. Vacancies for regular and/or alternate members are in several states. Applications will be accepted through 4/24/17 with interested individuals must apply online at www.usajobs.gov.  

**Virtual Currency Summons** (Bloomberg) So what are the users of bitcoin type currency hiding? Digital Assets Tax Policy Coalition, a virtual currency industry group, has formed ostensibly to oppose an IRS “John Doe” summons for detailed information about the customers Coinbase, a digital currency exchange. The customers don’t want to be identified because they may be targeted by IRS. In 2014 IRS determined that virtual currencies are property for tax purposes. The IRS summonsed Coinbase last November for information about customers who traded digital currencies from 2013 to 2015. Bitcoin, with a market capital of some $20B, is the largest digital currency in the world. Per the article the whole universe of virtual currency is possible because of a type of software that “…works as an account ledger on computers all over the world. The ledger tracks, verifies and records every use of a bitcoin to ensure the coins are valid and makes it almost impossible to change a past transaction. Bitcoin users are difficult to trace as the entire network, including their identities, is encrypted with no central authority keeping track of who’s who.” While the Coinbase blog states they agree that virtual currency users should pay their taxes it objects to the IRS summons as being “overly broad” and “… implies that all users of virtual currency are evading taxes.”

**2017 Tax Forum Registration Open** (eNews for Tax Professionals 2017-9): The 2017 IRS Nationwide Tax Forums are now open for registration. The forums will be held at five locations this summer. See IRS Nationwide Tax Forum website at www.irstaxforum.com.

**Special Enrollment Exam** (eNews for Tax Professionals 2017-9) Effective 3/1/17, the fee for taking each of the three parts of the Special Enrollment Examination increased from $109 to $111.94. The increase is due to a change to the vendor’s portion of the fee.

**The Lowest Rated Agency - IRS?** (Accounting Today) IRS is the lowest-rated federal agency in a recent Pew Research Center survey, with 45% of those surveyed having a favorable view and 48% having an unfavorable view. Of course, those who claim to be part of the party in power those numbers are 64% to 30% respectively. While the opposition party view IRS favorably, 62% to 30%. With the declining budget, it was no surprise that a Nerdwallet survey reflects that only 11% feared being audited.

**Taxpayer Comments About IRS** (Accounting Today) Some interesting comments from practitioners regarding how their clients feel about IRS which is apparently generationally different:
• “Baby Boomers are fearful and are often more compliant with wanting to pay what they have to and not make any waves … Gen Xers have no trust of the IRS and … fudge a little more with the attitude that they [IRS] don’t need their money” and “Millennials are … confused by the complexity of the tax systems [and have] heavy criticism on where and how the tax dollars are spent.” (Arizona EA)

• “Fewer audits … means many folks feel it’s OK to exaggerate their expenses, minimize their income and so on, because the odds of being audited are so low.” (Kansas EA)

• “The IRS is too political, as seen by the entire Tea Party issues that came to light.” (Arizona EA)

• “Nothing … they use me as a buffer and expect me to be able to swim through the muddy waters.” (Florida EA)

• “When my clients talk about the IRS, they’re still intimidated by the … image.” (Ohio EA)

• “My clients both don’t like the IRS and are afraid of the IRS.” (New Mexico EA)

• “Clients still feel the IRS has no compassion. This is caused in a lot of cases by the computer letters, which are cold and [formal].” (Washington State EA)

• “Clients dislike the IRS and believe the president is the culprit of all the tax laws.” (Texas EA)

• “What my clients are saying about the IRS is largely unprintable.” (Florida CPA)

• “They’re fed up with how unresponsive the agency is, especially in situations where they get a notice, submit a response and then get another notice with no acknowledgement …” (Florida EA)

• “My clients are saying that the IRS … is both dysfunctional and riddled with some … employee’s incapable of regularly and consistently performing their job …” (Colorado EA).

Unclaimed Refunds (eNews for Tax Professionals 2017-9) There are nearly 1M taxpayers who may be part of nearly $1B in unclaimed refunds from TY 2013. Taxpayers entitled to these refunds will have until 4/18/17 to file their claim.

Tax “Reform”

Reform Prospects (Accounting Today) The bet is that any tax reform this year is not going to happen even though it may be a top priority of the House (where all tax legislation must begin) and the Administration. If you were at IRS in 1986 you will remember and if not read “Showdown at Gucci Gulch” (eBook available for $8.99). Senator Bill Bradley is often given the credit for making it happen along with the Reagan Administration gang at Treasury, the House Ways & Means Chairman and the Senate Finance Committee Chairman. Each one provided give and take in the process including sacrificing some tax code aspects they loved. Ideologies on the left and right were put aside as they cut rates and closed loopholes (to the disdain of some industries & lobbyists) and in senate, the bill was passed 97-3. But that was then and this is now. Too many on either side hose seem to be unbending in their positions - Republicans against raising any taxes, even if needed to offset cuts elsewhere and Democrats are against on reducing corporate tax rates. Even the idea of a border adjustment tax (aka a sales tax or value added tax) favor exporters like Boeing and Caterpillar over importers like Wal-Mart and Target as well as consumers. But it is a new tax so the Tea Party/ Freedom Caucus types (as well as similarly minded outside groups) object.

Reform & Utilities (Bloomberg) Utility companies are sounding the alarm that some tax reform proposals may affect earnings. Specifically, being able to deduct considerable tax expenses related to billions in debt necessary to build power projects. One brokerage firm suggested losing that deduction (or even capping it) could cut earnings by as much as 8.5% for some utilities. The consumer will likely feel the brunt if the utilizes try to recoup expenses by increasing rates.

Border Tax aka “Hybrid VAT”? (Accounting Today) The speculation is that tax reform will come in the form of lower corporate tax rates, repatriation amnesty and a border adjustment type tax. The latter (as mentioned in an earlier article) is bringing out the talons from many directions. As a new tax draws the ire of the right wing, our trading partners opposed it as a “de facto tariff” (and thus prohibited by the WTO as a government subsidy), importers oppose it because it increases their costs and the left opposes it a regressive tax that will drive up the cost of consumer products). This type of tax is somewhat of a hybrid Value Added Tax (VAT) and taxes imports without being able to deduct the cost of goods sold. If the corporate tax rate is reduced the net effect may be somewhat neutral for some
companies but there the potential price increase in consumer goods could be as high as 15%. Under a “pure” VAT, a product made in the U.S. with all U.S. sourced materials, would have a 10% tax on the item that is typically passed on to the consumer. Exports would not be affected by a border adjustment tax if that product is made in the U.S. Importers would pay the tax under a border tax but a VAT does not do that. A concern on the Right is that if the WTO does not approve the border tax adjustment the result may be a real VAT which they see as affecting “… international competition and make it easier for governments to raise taxes in the future.”

Border Tax Example (Bloomberg) A small bike shop in California designs unique bike frames that are manufactured in Taiwan and imported to the U.S. for assembly. A border adjustment tax (proposed at 20%) would apply to the imported bike frame. While the party in power focuses on corporate tax rates, small businesses, like this one, are severely affected. Data from 2012 suggests that businesses employing 500 employees or less “…account for 99.7% percent of U.S. employers and 64% of net new private-sector jobs.”

No Interest Deduction? (TaxProToday) One of the reform proposals from those in power takes away the corporate interest deduction, which is the third largest corporate tax deduction, could result in replacing debt financing with equity funding. An option could be (someone ironically) something called “Islamic Financing,” (because charging interest is not allowed under Islamic law) where a “… loan is structured so the bank has an equity interest of sorts in the transaction.” One proposal is to allow companies to immediately expense capital investments rather than depreciate them and to forego an interest deduction. The House Republican blueprint states: “Allowing investments to be immediately written off provides a greater incentive to invest than is provided through interest deductions under current law; allowing both together would be distortive as it would result in a tax subsidy for debt-financed investment.”

International

Tax Treaties (Accounting Today) There are numerous tax treaties and protocols that have been languishing for years in the Senate. AICPA has asked the Senate “… to quickly consider and approve …” these items. Many of these have been held up because some majority party members do not like the Foreign Account Tax Compliance Act (FATCA). The AICPA pointed out that these “… tax treaties are vital to … economic growth as well as U.S. trade and tax policy.”

Hiding Assets Offshore (IR-2017-35) Hiding assets offshore remains one of the IRS Dirty Dozen. The combined results from the Offshore Voluntary Disclosure Program (OVDP) and separate streamlined procedures has led to over 100,000 disclosures and more than $10B has been collected by IRS since 2009.

Selective TIGTA Reports

ACA Premium Tax Credit: The Premium Tax Credit (PTC) was designed to help offset the cost of health care insurance for lower income taxpayers. Certain taxpayers can elect to receive some or all the PTC in advance but must reconcile any advance payments with the allowable amount when they file their return. TIGTA determined that RS accurately determined the allowable PTC on more than 97% percent returns processed as of 5/1/16. Errors on the remaining 3% were caused by programming errors or because the amount was below the IRS tolerance level. TIGTA identified that some Exchanges did not timely provide IRS with the Exchange Periodic Data (EPD) and Form 1095-A, Health Insurance Marketplace Statement data thus IRS could not do any computer matching on the related returns. IRS agreed with four recommendations and did not agree with two others. https://www.treasury.gov/tigta/auditreports/2017reports/201743022fr.pdf.

Fraud Stories in the News

Pocatello, ID: Preparer pled guilty to one count of aiding and assisting in the preparation of a false return. From approximately 2009 through 2012, the preparer prepared false individual income tax returns without his clients’ knowledge by adding items such as medical and education expenses. He consented to a being permanently barred him from preparing income tax returns.
Jackson, MS: Preparer pled guilty to theft of government funds. Beginning in 2013 the preparer filed fraudulent returns and amended returns without client approval. Refunds from the amended returns were diverted to addresses under her control.

El Cajon, CA: Two preparers and a recruiter working with those preparers have pled guilty to a scam involving filing of false returns, using stolen IDs and receiving over $880,000 in fraudulent. Their “recruiter” the personal ID information from the victims by falsely telling informing victims they could obtain “free” government money. They obtained almost $890,000 in refunds using this method.

Tangipahoa Parish, LA: Preparer pled guilty to using a scheme to file false federal returns using stolen IDs. From 2008 through 2016 the perpetrators obtained EFINs in the names of several prep businesses and used them to file fraudulent federal returns. The preparer and others involved in the scheme had IRS to issue refunds in the form of checks and prepaid debit cards.

Washington, DC: Preparer pled guilty to preparing fraudulent returns for tax years 2009 through 2014 that used inflated charitable deductions, fictitious unreimbursed employee expenses and false businesses.

Philadelphia, PA: Bogus preparers pled guilty to conspiring to file federal tax returns using stolen IDs. They opened bank accounts in the names of non-existent tax service companies then used stolen IDs to e-file fraudulent refund returns and directed the IRS to deposit over $95,000 in refunds into those bank accounts.

Raleigh, NC: Preparer pled guilty to aiding in the preparation of fraudulent returns for 2011 to 2015. Evidence showed the preparer created false businesses, business expenses, personal expenses and deductions on returns.

Allentown, PA: Preparer pled guilty to conspiring to file federal tax returns using stolen IDs. The preparer and others used stolen Puerto Rico residents’ names 7 SSNs to file fraudulent returns and directed more than $4M in refunds onto pre-paid debit cards.

Message from the Editor – On the Outside Looking In

The roller coaster ride continues with an interesting start to the new administration including a pleasant surprise that the Treasury Secretary wants additional funding for IRS. Subsequently the outline of the 2018 budget however, projects a 14% cut to IRS. The crazies on the far right (e.g. the so called “Freedom Caucus”) and the legislation introduced to abolish the IRS also tell a different story.

Tax reform might happen sometime soon but what will it look like is a big question even with one political party in control. The instructor in my recent Enrolled Agent CE course provided a good overview illustrating the differences between the Administration and Congress, within the House of Representatives and ultimately talk in the Senate.

The “border adjustment tax” concept (see earlier articles) or a hybrid VAT, was a “déjà vu” for me since I did a research paper in graduate school on that topic (not sure if I can find it). I did not attempt to do much new research on the topic (mine is decades old) but that kind of change by be a classic example for the law of unintended consequences (which applies to some of the proposed individual tax law changes too) and the potential negative impact on consumers (a VAT is considered regressive).

Thanks,

Jerry Heschel
801.920.2255
jerryhh2@gmail.com
Park City, UT