# The New Face of the IRS

IN OCTOBER 2000, AT AN IMA CO-SPONSORED seminar, local IRS representatives gathered in Albuquerque, N.M., to present changes that are taking place nationally.

Senior Commissioner Representative Walter Blood III discussed the IRS reorganization under Commissioner Charles Rossotti. The idea behind the reorganization is a customer-service-driven IRS, including a new mission statement: "Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all." This is a dramatic change from the old mission statement that read along the lines of collecting the proper amount of tax at the least cost to the taxpayer.

Although the new organization (Figure 1) officially took effect October 2, 2000, the "master implementation time horizon" has been extended to 2002. "Tasks" remaining to be accomplished include "realigning the workload." For instance, by the year 2002, all of the nation's business returns will be handled by either Ogden, Utah (52%), or Cincinnati, Ohio (48%.)

**Figure 1. New IRS Organization**

Four Operating Divisions
1. Wage & Investment (most individuals)
2. Small Business / Self-Employed
3. Tax Exempt / Government Entities
4. Large & Mid-Sized Business

Four Functional Units
1. Appeals
2. Taxpayer Advocate
3. Communication & Liaison
4. Criminal Investigation

National Headquarters (smaller role than in the past)

Two Support Divisions (including IS)

The former "Problem Resolution Office" is now called the "Taxpayer Advocate Service." Linda Martinez, the taxpayer advocate manager for New Mexico, provided a list of telephone numbers for the IRS, including the National Taxpayer Advocate's Helpline, (877) 777-4778. She also presented seven "case criteria" that the Taxpayer Advocate's Service may be able to use to assist taxpayers. See Figure 2. Naturally, many of these criteria are subjective, but they do give some idea of the types of situations where assistance can be found. Although there is a Form 911, "Application for Taxpayer Assistance Order" (revised 3-2000), Martinez's group accepts cases by phone, letter, or fax as well. If someone is aware of an ongoing problem, the "Advocacy Issue Submission Form" (revised 7-2000, Form #12413) will be useful. The advocacy program is "dedicated to preventing, reducing, or eliminating the problems taxpayers encounter in the course of meeting their federal tax obligations" (Advocacy Issue Submission Form, p.1).

Under congressional mandate, the IRS has a revamped appeals process with new forms, publication(s), and even a new third level of appeals. This third level is still within the IRS but has been removed from the local situation to improve objectivity. The new law prohibits the appeals agent from receiving *any* communication from the original collection function (revenue agents, etc.). The term being coined is no "ex parte" communication. [Reference: "Your Appeal Rights and How to Prepare a Protest If You Don't Agree," Publication 5, revised 1-1999; "Offer in Compromise," Form 656, revised 1-2000; "Collection Appeal Rights," Publication 1660, revised 1-1999; and "Request for a Collection Due Process Hearing," Form 12153, revised 1-1999.]

The Service is focusing on "end-to-end accountability," with "pre-filing, filing, and post-filing" efforts. An example given at a previous seminar was the treatment by tax preparers of the Earned Income Credit (EIC). It turns out that there were approximately 400 tax preparers in the southwest district who calculated the EIC improperly. To resolve the issue, the Service planned to visit the preparers in order to determine where rules were misapplied or misunderstood. Although this seems uncomfortable to most of us, the IRS was going out to educate, not issue preparer penalties.

Approximately 60 different "Audit Technical Guides" are available for the public to buy. These are the actual guides used by IRS auditors for all of the different industries, such as manufacturing or construction. Prices range from $3 to $28 and can be ordered by phone at (202) 512-1800.

Another change addressed at the seminar is in the area of "innocent spouse relief." Under the tax law, a divorced or abandoned spouse who had previously filed a joint return can apply for relief if three criteria are met. The first is "an understatement of tax due to erroneous items of your spouse" (Publication 971, p. 2). Previous law required the understatement to be more than $500. New law has no de minimis rule and no minimum threshold amount. The second criterion is "having no knowledge of or reason to know of understatement at the time you signed the joint return." The final criterion asks whether "taking into account all facts and circumstances, it would be unfair to hold you liable for understatement." Indicators in determining unfairness are listed as 1) received any significant benefit from the understatement of tax, or 2) were later divorced from or deserted by your spouse. [Reference: "Innocent Spouse Relief," Publication 971, revised December 1998; "Request for Innocent Spouse Relief," Form 8857, revised December 1998.]

Relief can also be sought under two new areas: "relief by separation of liability" and "equitable relief." Relief by separation of liability allows a person to allocate or divide the understatement between the spouses. Under equitable relief, a spouse may be relieved of his or her tax responsibility when it would be unfair to hold that person liable and that person doesn't qualify for "innocent spouse relief" or "separation of liability." Equitable relief also provides for relief from underpayment of taxes that were stated properly. To illustrate, a couple files a joint tax return that shows a tax liability of $10,000. The couple pays $4,000 with the return and they take a loan of $6,000 to pay the remainder of the tax liability. But the second spouse spends (and thus does not remit) the $6,000 without telling the first spouse. In this case, the first spouse may be able to get equitable relief for the $6,000 underpayment.

Figure 2. **Taxpayer Advocate Case Criteria**

- Taxpayer is suffering or about to suffer a significant hardship.
- Taxpayer is facing an immediate threat of adverse action.
- Taxpayer will incur significant costs if relief is not granted (including fees for professional representation).
- Taxpayer will suffer irreparable injury or long-term adverse impact if relief is not granted.
- Taxpayer has experienced a delay of more than 30 calendar days to resolve a tax related problem or inquiry.
- Taxpayer has not received a response or resolution to their problem by the date promised.
- A system(s) or procedure(s) has either failed to operate as intended or failed to resolve the taxpayer's problem or dispute within the IRS.

Finally, the IRS is expanding the e-file program to include payroll tax forms 940 and 941. For questions concerning e-filing call (801) 620-7444 [Reference: Form #8633, "Application to Participate in the IRS e-file Program," revised July 2000].

Of course many of these changes have taken place to benefit the taxpayer, but, with any policy change, there may be trade-offs between the current and former systems. On February 2, 2000, Reuters reported that the IRS "collections from delinquent taxpayers were off by $2 billion when compared to 1996 figures." Commissioner Rossotti "acknowledged the agency had problems implementing a section of the law that would hold IRS agents accountable for abuses in the collection process. Rossotti further said the agency was doing a better job assuring agents that simple mistakes would not result in punishment or job loss." (Reuters). But as Commissioner Rossotti pointed out, "I do think we have gotten past the first stage. We want to respect taxpayer rights. We also have to collect the taxes." (AP) ■

*Nick DeCandia, an engineering graduate of the University of Notre Dame and a finance/accounting graduate of the University of New Mexico, reached a supervisory level in corporate accounting while he was working. He recently switched roles with his wife to become Mr. Mom.*