



American Institute of CPAs
1455 Pennsylvania Avenue, NW
Washington, DC 20004-1081

May 6, 2013

The Honorable Dave Camp
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington D.C. 20515

Dear Chairman Camp:

The American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to submit written testimony for the record of the Committee on Ways and Means hearing titled “Internal Revenue Service Operations and the 2013 Tax Return Filing Season” held on April 25, 2013.

The AICPA is the world’s largest membership association representing the accounting profession, with nearly 386,000 members in 128 countries and a 125 year heritage of serving the public interest. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

Thank you for considering our input on these very important topics. If you have any questions or would like to discuss our testimony, please contact me at (304) 522-2553 or jporter@portercpa.com; or Melissa Labant, AICPA Director – Tax Advocacy & Professional Standards, at (202) 434-9234 or mlabant@aicpa.org.

Sincerely,

Jeffrey A. Porter, CPA
Chair, AICPA Tax Executive Committee



American Institute of Certified Public Accountants

Written Testimony for the Record

**Committee on Ways and Means
U.S. House of Representatives**

Hearing on Internal Revenue Service Operations and the 2013 Tax Return Filing Season

April 25, 2013

The American Institute of Certified Public Accountants (AICPA) has long been an advocate for sound tax policy and administrative procedures that promote simplification and fairness of the tax law, as well as ease in compliance with and administration of that law. We appreciate the importance and the role that the U.S. House of Representatives Committee on Ways and Means (the “Committee”) provides in shaping the current tax law as well as its administrative processes. On behalf of our members, thank you for the opportunity to submit our statement for the record on the important topics of the Internal Revenue Service (IRS) operations and the 2013 tax return filing season.

The AICPA is the world’s largest member association representing the accounting profession with nearly 386,000 members in 128 countries and a 125 year heritage of serving the public interest. Our members advise clients on federal, state and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America’s largest businesses.

Tax Filing Season Challenges

We appreciate the opportunity to share our feedback on this year’s tax filing season. Overall, it was an extremely challenging and compressed tax season for both the IRS and tax practitioners.

We appreciate the tremendous challenges the IRS faces in administering the tax filing season each year, which includes the timely release of forms, the testing of systems, and responding to taxpayer inquiries. However, when the IRS experiences a significantly challenging filing season like this one, the challenge is not limited to the government. The adverse impact extends to taxpayers and tax return preparers, who face additional burdens attributable to the disruption to normal and efficient work streams and planning. In this context, our members and their clients faced a very compressed and difficult filing season this year due to the late (January 2) enactment of tax legislation and the resulting delay in the release of 31 tax forms.

Since the IRS could not accept tax returns that included certain forms until February or early March, our members essentially lost the first half of filing season. The release of forms at such a late date also necessitated the filing of more extensions of time for filing tax returns on behalf of their clients; however, extensions do not completely solve the problem. Tax preparers still needed to perform the necessary preliminary work to calculate the amount of the tax payment due with the extension. The late enactment of the law that caused these forms delays was disruptive to accounting firms’ internal procedures, causing many

firms to first conduct this initial review process involving the extension now, and then a second preparation and review process later to ensure proper completion of the tax return.

The delay in the release of forms also caused significant anxiety for taxpayers. Many taxpayers were anxious to file their tax returns, and would call their tax practitioners on a weekly and sometimes daily basis to obtain an update on their returns. The delay created an aura of confusion, particularly for elderly taxpayers, and sometimes required additional efforts by them. Many of our members' clients would need to come back to the practitioner's office to pick up a completed copy of their tax return; other clients needed to make an additional trip to sign the Form 8879, *IRS E-file Signature Authorization*.

Nevertheless, we believe the IRS did an outstanding job under the difficult circumstances. The IRS maintained an open dialogue with stakeholders during the entire filing season and we applaud their responsiveness to our concerns. On February 15, 2013, the AICPA submitted a [letter to Acting Commissioner Steve Miller](#) regarding the delayed release in forms. Within days, the IRS issued [Notice 2013-24](#) in response to our concerns, which provided the appropriate relief requested from late-payment penalties assessed under Internal Revenue Code (IRC) section 6651(a)(2).

Unfortunately, in addition to the late release of IRS forms, the filing season was a tremendous challenge to practitioners due to the late issuance of corrected Forms 1099-B, *Proceeds from Broker and Barter Exchange Transactions*, and amended Forms 1099-DIV, *Dividends and Distributions*, by an increasing number of brokerage firms. A copy of Forms 1099-B and 1099-DIV (hereinafter referred to as "Form 1099") must be furnished to taxpayers by February 15, 2013.¹ However, brokerage firms can amend a Form 1099 at any time. In fact, one of the largest brokerage firms issued corrected Forms 1099 as late as April. Tax practitioners were then notified about the late-corrected Form 1099 by their clients who contacted them, mere days prior to the tax return filing due date. Clients want their tax practitioners to immediately amend their individual income tax returns that had already been prepared and filed. Although an amended Form 1040 can be filed after April 15th, taxpayers wanted to either make certain they did not owe any late payment penalties or obtain their refund as soon as possible. Taxpayers were also anxious to get this year's tax return "behind them" without extensions, if possible.

Over the last few years, the AICPA and its members have noticed more and more brokerage firms issuing corrected Forms 1099, sometimes issuing multiple corrected forms on the same account. While we understand that the brokerage firms face many challenges to meet reporting requirements in a timely fashion after close of the calendar year, corrected forms create anxiety, confusion and for some taxpayers, an increase in tax preparation fees. Taxpayers are willing to file an amended return if necessary, but strongly prefer to file only once. As a result, many taxpayers now have a tendency to wait until they have received their annually-anticipated corrected Forms 1099 before bringing their tax records to their CPA. For example, the chair of our Tax Executive Committee prepared an individual income tax return for an elderly couple last year on February 12th, and had to amend the return in April due to an amended Form 1099. His clients did not want to send him their tax information in February this year, because they were concerned about possibly receiving a corrected Form 1099. His clients' prediction, or educated guess, was correct, and they received

¹ IRC section 6045(b).

several corrected Forms 1099. They eventually brought the preparer their tax information, and he prepared their individual income tax return this year on April 3rd – nearly two months after the date the client would normally have their tax return prepared. Such compression in the tax filing season is becoming a reality more and more for tax practitioners each year. According to IRS statistics, returns prepared by tax professionals through March 15, 2013 had decreased by 8.1 percent from the 2012 filing season.²

We believe there is a solution to the growing problem of corrected Forms 1099. We suggest you consider legislation that would permit taxpayers to report *de minimis* changes in their income from a corrected Form 1099 or amended Schedule K-1 (from a partnership, trust, or S Corporation) in the year of receipt of the amended form. For example, if ordinary dividends of \$200 are reported on a tax practitioner's client's tax return for 2012, the client should not need to file an amended tax return if the client receives a corrected Form 1099 showing \$210 of dividends. Such a process is inefficient for taxpayers, tax preparers and the government.

The IRS could provide a simple one-page form allowing taxpayers to report the amount shown on the taxpayer's original return and the amount reported on a corrected or amended form. The differential would be included on the taxpayer's current year return (i.e., if a taxpayer receives a corrected Form 1099 in April 2013 for the 2012 or prior tax year, the taxpayer would report the difference on the taxpayer's 2013 income tax return). Because the change in income would be attributable to a corrected or amended form (as opposed to taxpayer error), good faith would automatically be presumed and late-payment penalties should not be assessed. Taxpayers would also have the option of filing an amended return.

The AICPA proposes this flexibility to streamline the tax return reporting process for both the government and taxpayers. The preparation, filing, processing and examining of amended returns is costly to everyone. This recommendation would make the entire process more efficient.

The IRS Budget

In the Committee's review of the administration of enacted tax laws, we urge you to address the important issue of the IRS budget. We have long advocated for funding levels for the IRS that would allow the IRS to efficiently and effectively administer the tax laws and collect taxes. Giving the IRS the resources necessary to properly process tax returns and enforce the tax laws is vital to maintaining our voluntary compliance tax system.

The AICPA continues to express our strong support for the adequate funding of the IRS's fiscal year 2014 budget. Unfortunately, the IRS's budget has been severely challenged in recent years. The IRS received an overall budget allocation of \$11.8 billion in fiscal 2012, down from \$12.1 billion for fiscal 2011. The challenge for the IRS is even more dramatic, as the \$5.3 billion enforcement budget that they received for fiscal 2012, was reduced by approximately \$200 million from the prior year.³ These statistics are further

² IRS Filing Season Statistics for Week Ending March 15, 2013, available at <http://www.irs.gov/uac/Newsroom/Filing-Season-Statistics-for-Week-Ending-March-15-2013>.

³ Department of Treasury, FY 2013 Budget in Brief, at http://www.treasury.gov/about/budget-performance/budget-inbrief/Documents/11.%20IRS_508%20-%20passed.pdf.

highlighted by the reduction in IRS employment levels to 98,000 for fiscal 2012 from 104,000 in the prior year.

The AICPA expects that the IRS would identify responsible ways to allocate any additional resources it receives; and that Congress, through its oversight responsibilities, would ensure that those resources are properly utilized. Unfortunately, the budget process has become much more complicated for federal agencies in general and especially challenging for the IRS. In this context, National Taxpayer Advocate Nina Olson stated in 2011 that the most serious challenge facing American taxpayers is the combination of the IRS's expanding workload and the agency's limited resources to handle that workload.⁴ Ms. Olson points out that the IRS's role has expanded from one concentrated on tax collection to one focused on distributing benefits to a variety of individuals and businesses. We agree with Ms. Olson and suggest that Congress also consider the IRS's need to administer an increasing number of aspects of health care reform when addressing the agency's budget for fiscal year 2014.

The AICPA believes that the IRS should be provided with the proper resources to fund its mission, which will in turn empower the agency to fulfill its customer service and enforcement responsibilities. Any increase in enforcement funding must be balanced with positive responses to the taxpaying public as customers, a balancing act that has become even more challenging for the IRS when faced with the current era of "mission creep" beyond its core tax administration functions. As we have stated in the past, all taxpayers must have access to resources that enable them to fulfill their tax responsibilities, and adequate IRS budgetary funding must be provided to ensure this access.

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The AICPA appreciates this opportunity to submit written testimony for the record. We are available to meet with you or your staff if you would like additional information on any of our comments.

⁴ [National Taxpayer Advocate's 2011 Annual Report to Congress](#), Volume 1, MSP #1 "The IRS is Not Adequately Funded to Serve Taxpayers and Collect Taxes."