



2006 Meeting Minutes

Small Business/Self Employed Taxpayer Burden Reduction Issue Committee Meetings

- December 13, 2006
 - November 7, 2006
 - October 3, 2006
 - August 1, 2006
 - June 15-16, 2006
 - May 2, 2006
 - April 4, 2006
 - March 7, 2006
 - February 7, 2006
-

Burden Reduction Committee Meeting Minutes **December 13, 2006 - 1:15 PM** **Face to Face - Washington, DC**

Program Owner

- Bayder, Helene

Designated Federal Official

- Ramirez, Sandra

Committee Members Present (These attendees count for quorum)

- Barry, Shaun - Franklin Square, NY - Panel Member
- Behnkendorf, Larry - Waterford, MI - Panel Member
- Bensen, Melissa - Hermiston, OR - Panel Member
- Bly, Bill - Wayne, PA - Chair
- Cordeiro, Daryll - Mobile, AL - Panel Member
- Davidson, Charles - Redding, CA - Panel Member
- Edwards, James - Roswell, GA - Panel Member
- Gursey, Gregory - Anchorage, AK - Panel Member
- Guthmann, Howard - St. Paul, MN - Vice Chair
- Havey, Dorothy - Lincolnville, ME - Panel Member
- Jason, Julie - Greenwich, CT - Panel Member
- Kasturi, Srinivasan - West Orange, NJ - Panel Member
- Maisch, Steven - Arlington, WA - Panel Member
- Margulies, Howard - North Easton, MA - Panel Member
- O'Donnell, Marie - Riverwoods, IL - Panel Member
- Richardson, Lovella - Knoxville, TN - Panel Member
- Shah, Rajiv - Columbia, MO - Panel Member
- List title if appropriate, chair, vice chair after state



Committee Members Absent

N/A

TAP Staff

- Knispel, Marisa - Brooklyn, NY - Panel Member
- Odom, Meredith - Brooklyn, NY - Panel Member

Other Attendees

- Tucker, Beth, Acting Director Office of Taxpayer Burden Reduction

Welcome/Introduction

Ramirez welcomed the new and returning members

Roles, Committee Structure & Expectations

Subcommittees will work independently on the issue(s) assigned and report to the Chair and full Committee. They will schedule their own meetings and would appreciate staff's participation.

Roles of the Committee Chair and Vice Chair

Role of Chair

- Serve as the representative for the Area on the Joint Committee (JC)
- Present the final Area committee's recommendations to JC
- Lead committee Meetings
- Partner in the development of meeting agendas
- Ensure decision are made by consensus within the committee
- Prepare an annual self-assessment
- Prepare a monthly committee report
- Ensure everyone on the Committee is heard
- Keep TAP Staff informed of all needs
- Ensure committee receives all research and documentation needed to make recommendations
- Delegate chair responsibility to the vice-chair or other committee member when unable to attend a meeting or perform a Chair duty
- Respond timely to all staff and Joint Committee requests and inquiries

Role of Vice-Chair

- Serve as a back-up for Chair
- Perform other duties on a regular basis as agreed upon with Chair and TAP Staff

Committee Accomplishments in Fiscal Year 2006

In 2006, the Committee worked on the Office-In-Home (OIH) deductions to reduce taxpayer and IRS burden by proposing an optional flat dollar amount deduction as an alternate to the current method. The Committee also worked in reducing the burden involved in completing the S-election process and the request for the innocent spouse relief by simplifying the application process for both and simplifying the forms involved. Lastly, the Committee worked on ways to minimize the potentials for misclassification of employees as independent contractors and to improve the education of employees on this issue.



Election Process

Ramirez explained the election process for Chair and Vice Chair when the candidates would make a brief presentation to explain why they should be elected.

Election of Chair and Vice Chair

Bill Bly was elected as Chair and Howard Guthmann as Vice-chair of the Taxpayer Burden Reduction Issue Committee.

Establishing Structure:

Teleconference Date – The fourth Tuesday of every other month

Face to Face Meeting Date – June 7 - 10th, 2007

Formation of Subcommittees – subcommittees will vary in size and members according to issue assignment.

Program Owner Presentation & Q&A:

Tucker thanked the committee and Bayder for their work. She appreciated the recommendations made by the Committee on the different issues faced by the Office of Taxpayer Burden Reduction. She spoke about the tax gap and asked the members for ideas to solve the gap without causing a burden to the taxpaying public.



SB/SE Burden Reduction Issue Committee Meeting Minutes

November 7, 2006

3:30 P.M. ET

Teleconference

Program Owner

- Bayder, Helene

Designated Federal Official

- Ramirez, Sandra, Brooklyn, NY, Manager

Committee Members Present

- Behnkendorf, Larry, Waterford, MI, Member
- Bland, Sandra, Bemidji, MN, Member
- Bly, Bill, Wayne, PA, Member
- Gurse, Gregory, Anchorage, AK, Member
- Guthmann, Howard, St. Paul, MN, Member
- Hafer, Donna, Burlington, KY, Vice Chair
- Kasturi, Srinivasan, West Orange, NJ, Chair
- Landauer, Steven, Davenport, IA, Member
- O'Donnell, Marie, Riverwoods, IL, Member

Committee Members Absent

- Barry, Shaun, Franklin Square, NY, Member
- Cordeiro, Daryll, Mobile, AL, Member

TAP Staff

- Knispel, Marisa, Brooklyn, NY, Analyst
- Odom, Meredith, Brooklyn, NY, Secretary

Other Attendees

- Davis, Judy
- Margulies, Howard
- Schampers, Rick
- Tiberio, Joe

Welcome

Kasturi welcomed all members and guests.

Roll Call (quorum has been met)

Review Agenda

Project 94X Draft

The team working on this project recently completed the draft of Form 941X presented at this



meeting. Separate drafts are currently being designed for Forms 943, 944 and 945 that will be used to amend such forms.

Davis asked the members not to share this draft or any with the public. It will be released to the public by 2008.

The committee approved this draft of 941X and other similar revisions proposed for 943X. The committee will look at forms 945X and the 944X when ready.

Misclassification Subcommittee

Worker Misclassification (Employee vs. Independent Contractor)

Kasturi stated that he has incorporated member's comments received thus far. The plan is to revise the proposal after this meeting to incorporate any new comments and send it out to all the committee members for their comments before forwarding to Beth Tucker. Tiberio commented on the educational recommendations addressed by the committee's proposal. He informed them that these concerns would have to be addressed by the Stakeholder, Partnerships, Education and Communication (SPEC) Unit which is part of the IRS' Small Business Self Employed (SBSE) organization. SPEC is responsible for working with the Practitioner community and small business organizations to provide information through educational venues such as tax forums, newsletters etc. SPEC is a small organization but they will try to improve compliance through non-audit methods. Bly inquired about SWETR (Service Wide Employment Tax Reporting System) by which the IRS measures non-compliance. Landauer provided Kasturi with some suggestions on revising the proposal. Schampers suggested the committee consider recommending the mailing of notices on a pilot basis. Kasturi mentioned the idea of posting posters/notices that explain the employer's and employee's rights in these areas. Taking all these suggestions in consideration, Kasturi will revise the proposal and would like to send proposal to Beth Tucker in a couple of weeks.

Finally, Tiberio thanked the committee members for their input on this misclassification issue.

Joint Committee Report-Out

Ramirez indicated that the staff is currently preparing the agenda for the Annual Meeting. It will be shared with all via email in order to obtain feedback.

Kasturi reminded the members that both the Area and Issue Committees will have dinners to have the chance to socialize with the new members. If anyone plans to bring their spouse to the dinner, please let Kasturi know for reservation purposes.

Guthmann – stated that he is concerned about the JC procedure for approving referrals. Bly and Landauer also expressed similar sentiments. Kasturi requested them to write to Bernie Coston, Director of TAP expressing their sentiments.

Public Input

No public input. Guest Howard Margulies who will be part of this Committee in the coming year thanked all the members for allowing him to participate in this call.

*These minutes were approved by the TAP Area/Issue Committee on Date 12/7/06.



SB/SE Burden Reduction Issue Committee Meeting Minutes

October 3, 2006
3:30 P.M. ET
Teleconference

Program Owner

- Bayder, Helene

Designated Federal Official

- Ramirez, Sandra -- Brooklyn, NY, Manager

Committee Members Present

- Barry, Shaun -- Franklin Square, NY, Member
- Behnkendorf, Larry -- Waterford, MI, Member
- Bland, Sandra -- Bemidji, MN, Member
- Bly, Bill -- Wayne, PA, Member
- Gursey, Gregory -- Anchorage, AK, Member
- Guthmann, Howard -- St. Paul, MN, Member
- Hafter, Donna -- Burlington, KY, Member
- Kasturi, Srinivasan -- West Orange, NJ, Member
- Landauer, Steven -- Davenport, IA, Member
- Reading, Sheri -- Albuquerque, NM, Member

Committee Members Absent

- Cordeiro, Daryll -- Mobile, AL, Member
- O'Donnell, Marie -- Riverwoods, IL, Member

TAP Staff

- Knispel, Marisa -- Brooklyn, NY, Analyst
- Odom, Meredith -- Brooklyn, NY

Other Attendees

- Tiberi, Joseph
- Schampers, Rick

Welcome

Roll Call (quorum has been met)

Review Agenda

Update on Project 94X

Analyst Judy Davis was unable to join the teleconference and provide an update on the Project.

Misclassification Subcommittee

Sheri Reading reported on the issue. She indicated that certain relevant facts dictated by the courts allow the IRS to classify whether a worker should be an independent contractor or an employee. These relevant facts fall into three categories:

- Behavioral Control – Includes type of, work place location, schedule, degree of instructions and direction, and training the business gives the workers.
- Financial Control – Includes the extent to which the workers has un-reimbursed business expenses, the extent of the workers investment, how the worker is paid and the extent to which the worker can realize a profit or a loss.
- Relationship of the Party – Includes whether there is a written contract describing the parties' intent.

The problem appears to be businesses are classifying workers as independent contractors to avoid paying the employer's portion of taxes, workers compensation, liability insurance and employee benefits. Many of these workers don't understand the classification issues and are unaware of their responsibilities such as paying quarterly estimated taxes and filing Schedule C with their annual tax return. The subcommittee's objective is to educate the taxpayer on factors that determine a worker's status and to propose a method for the IRS to improve compliance in this area.

The subcommittee looked at the possibility of having the employer withhold taxes if the worker requests the same. However, after much consideration, the subcommittee decided that this was not a feasible solution and would do very little to change the current status on misclassification. Currently, if a worker believes he is misclassified, he can complete Form SS-8 and mail to the IRS. After reviewing it, the IRS will contact the business, which may in fact cause a problem for that worker, leading in some cases, his/her dismissal.

The subcommittee is looking at a set of recommendations to improve education and compliance.

For education, the subcommittee is considering the following:

- IRS to mail notices to Form 1099-MISC filers with amounts in Box 7. Such notices would state the guidelines for classifying workers as independent contractors or employees; notify them of the compliance problems and the potential penalties for noncompliance.
- IRS to add a statement to Form W-9 explaining to the workers what their responsibilities as an independent contractors are.
- IRS to add a statement on Form 1099-MISC to read: "If you have income listed in box 7, you are an independent contractor. You may be required to file a Schedule C and be subject to full Social Security and Medicare taxes. For additional information refer to Publication XX "

For compliance, the subcommittee is considering the following:

- IRS to require certification on transmittal Form 1096 for all attached Form 1099s that include a dollar amount in Box 7. The certification would state something to the effect that the filer under the penalties of perjury certifies that the classification workers as independent contractors comply with the applicable guidelines.
- IRS to consider matching information received from businesses in certain suspect industries wherein misclassification is believed to be rampant. The aim is to match information contained on their Form 1099-MISC as filed and the wages/salaries reported on their Form 941. The matching may provide clues that could lead to detailed audits.



- IRS to consider mailing a generic letter to all businesses in suspect industries that file Form 1099-Misc with data in box 7 stating the compliance problems encountered with the misclassification issue and suggesting that these business review how their workers are classified. The letter would also reiterate the penalty for misclassification and warn them of the potential for audits.
- IRS to consider formalizing a plan to work with other government agencies such as the Department of Labor and the SSA to share information on investigations performed on the misclassification issue.

Kasturi asked about the regulations that empower the IRS to penalize businesses that engage in intentional misclassification. Schampers responded that these regulations are part of Section 6651 of the Code. Knispel previously sent information about penalties to the subcommittee members.

See Action Items below.

Guthmann inquired about the progress of the Subchapter S-election recommendations. Knispel reminded him that at a recent meeting, Analyst Meglan Knights reported that the SBSE organizational team is seeking advice and guidance from Counsel on the Committee's recommendations. Guthmann suggested developing a list of issues and their statuses and providing it to the members of the committee. Sandra Ramirez noted that such a list already exists at the Joint Committee level and they monitor the status.

TAP Office Report

N/A

Public Input

N/A

Action Items

Reading will provide a draft of the Misclassification proposal to members of the subcommittee by Thursday, October 5th. Thereafter, the draft will be reviewed and shared with the rest of the Committee.

Schampers will research whether requiring certification on Form 1096 – as explained above- is a legislative issue or not.



SB/SE Burden Reduction Issue Committee Meeting Minutes

*August 1, 2006
Teleconference*

Program Owner Present

- Bayder, Helene — Analyst — Washington, D.C

Designated Federal Official Present

- Ramirez, Sandra — Supervisory Analyst — Brooklyn, NY

Committee Members Present

- Behnkendorf, Larry — Member — Waterford, MI
- Bly, Bill — Member — Wayne, PA
- Cordeiro, Daryll — Member — Mobile, AL
- Gurse, Gregory — Member — Anchorage, AK
- Guthman, Howard — Vice Chair — St. Paul, MN
- Hafer, Donna — Member — Burlington, KY
- Kasturi, Sonny — Chair — West Orange, NJ
- Landauer, Steven — Member — Davenport, IA
- O'Donnell, Marie — Member — Riverwoods, IL
- Reading, Sheri — Member — Albuquerque, NM

Committee Members Absent

- Barry, Shaun — Member — Franklin Square, NY
- Bland, Sandra — Member — Bemidji, MN

TAP Staff

- Knispel, Marisa — Analyst — Brooklyn, NY
- Odom, Meredith — Secretary — Brooklyn, NY

Other Attendees Present

- Meglan Knights — Analyst — Washington, D.C.
- Schampers, Rick — Revenue Agent — Austin, TX
- Davis, Judy — Revenue Agent — Flint, MI
- Tiberio, Joe — Revenue Agent — Boston, MA

Welcome

Kasturi opened the meeting and welcomed all.

Roll Call Taken (quorum has been met)

Review Agenda & June Action Items

Although it was not on the agenda, Kasturi briefed the committee on the June face-to-face Joint



Committee (JC) meeting. The JC reviewed recommendations from several committees. The JC also discussed the topics raised at the meeting with the Commissioner earlier in the year such as taxpayer privacy, free-file, and the VITA/TCE Programs. The committee also discussed items related to new members and appointments of alternates.

Knispel informed the committee that its Innocent Spouse proposal had been sent to the Small Business/Self Employed (SB/SE) Taxpayer Burden Reduction Issue Committee program owner Beth Tucker.

Guthmann asked about the status of the Office in Home Deduction proposal the committee submitted in May 2006. Bayder explained that because the recommendations involved legislative changes, the proposal was shared with Treasury. At this time she has no further news. Footnote: The June 15th 2006 minutes state that: In a letter to Kasturi dated June 9, 2006, Tucker thanks the TAP and the SBSE Burden Reduction Issue Committee for their recommendation on the issue of the Office in the Home (OIH) and the Form 8829, Expenses for the Business Use of Your Home. In the letter, Tucker reiterates what Welsh told the Committee in a previous meeting that the TBR will seek IRS Counsel's guidance to legislative key issues regarding the OIH initiative. The administrative changes that our Committee suggests have already been considered by the TBR team working on the project.

S-Election Project - Update

While awaiting Davis' arrival, Knights proceeded to brief the committee on the status of the S-Election (Form 2553) Project (the committee submitted a proposal on this topic earlier this year). The problem is that a significant number of 1120S tax returns can not be processed by IRS because there is no record of a correctly filed S election form. Some research was done and last year's number of unpostable Forms 1120S was 95,000. Since addressing the committee's recommendations, Knights met with Chief Counsel which has become an ally in the SB/SE division's efforts and supportive of the committee's concerns. Treasury, however, had some concerns and would like to continue having the Form 2553 since it requires the signatures of all the shareholders. If the taxpayer can make the election at the time of filing an 1120S return (one option the committee advocated) Treasury fears that filing the Form 1120S and making the election at that time will result in missing signatures and the shareholders not being aware that the election has been made. The S- Election team is working with three proposals that will impact paper and electronic filing.

Guthmann would like the IRS to continue updating the committee so that they may provide further suggestions as the process continues.

Landauer did not understand why the signatures are required for corporations but not for limited liability corporations or limited liability partnerships. Knights replied that this is one reason the team will continue to advocate legislative changes.

Program Owner Presentation – Form 94X

Davis updated the committee on the status of this project. She explained that the recommendations the committee submitted earlier were incorporated into the mockup of the Form 94X. The mockup has not been shared with the 94X team yet and therefore won't be shared with the committee until after an upcoming team meeting. Davis will then send Knispel an updated mockup to be shared with the committee.

Outreach Activities

Guthmann was contacted by the Local Stakeholder Liaison in the Twin Cities, and he was invited to meet with them in December, Guthmann will be able to talk to them about TAP. Guthmann contacted the American Institute of CPA's of Washington about discussing TAP with them as well.

Program Owner Presentation – Alternative Treatment for Worker Misclassification

Tiberio informed the committee that SBSE is looking into the issue of worker misclassification (this is



when workers who are by law really “employees” are misclassified by the employer who treats them, for tax purposes, as independent contractors) A problem is that there is not a good way to track this issue in the field, therefore the statistics are going to be limited to those types of cases that IRS becomes aware of and so there are numerous cases that can’t be tracked.

Schampers indicated that IRS has instituted a tracking code that all field examiners are asked to use every time they have an open case where worker classification becomes an issue. This will help to better track this in the future. There are GAO and TIGTA reports out on this issue, as well. The IRS has worked with state agencies such as the Department of Labor on this issue. However, state agencies have different standards.

Tiberio explained that the IRS views the issue from the angle of employment tax compliance. When the issue of Worker Classification is looked at, the determination of the worker being an employee or not is based on the facts of each case. If during an audit, a misclassification is determined, the IRS will attempt to reclassify them. There is a Classification Settlement Program where the taxpayer has the option to agree with the IRS and only a portion of the tax assessed will be collected.

Tiberio is looking for the committee to give some possible avenues that may help IRS close the gap on misclassification as opposed to viewing the problem from the compliance (i.e., enforcement) standpoint.

Davis indicated that she feels this is a burden reduction issue for companies that do classify their workers properly yet have to compete with other companies that misclassify their workers. The latter can have a real competitive edge over companies that are doing it correctly. Individuals that are misclassified as non-employees when they are really employees don’t have a voice for themselves. They have to accept how they are classified by their employer just so they will have money to put food on the table. The income reporting form 1099 issued to misclassified workers is also a source of abuse allowing for the deduction of expenses inappropriately.

Kasturi asked a subcommittee be formed on the issue. Cordeiro wondered whether this was an appropriate issue for the committee noting he sees the misclassification as a “social” problem. Kasturi asked that everyone e-mail him about their views as to whether or not they think this is a Taxpayer Burden Reduction issue. Subsequent to this meeting, members and the designated federal official shared their views and it was agreed that the issue does burden taxpayers. Reading volunteered to chair this subcommittee and a subcommittee meeting was called.

TAP Office Report

Ramirez informed the committee about the importance of meeting surveys. She would appreciate it if the members could complete and address their surveys to the staff after the full committee meetings.

Public Input

N/A

Closing/Assessment

- Meeting adjourned @ 4:45 PM
- Next full committee meeting: October 3, 2006 @ 3:30 PM EST

***These minutes were approved by the TAP Issue Committee on**



SB/SE Burden Reduction Issue Committee Meeting Minutes

*June 15-16, 2006
Face-to-Face Meeting
St. Paul, MN*

Program Owner and Other Program Staff

- Bayder, Helene
- Davis, Judith
- Medlock, Teresa

Designated Federal Official

- Ramirez, Sandra — Brooklyn, NY, Manager

Committee Members Present (These attendees count for quorum)

- Behnkendorf, Larry — Waterford, MI
- Bland, Sandra — Bemidji, MN
- Bly, Bill — Wayne, PA
- Cordeiro, Daryll — Mobile, AL
- Gurse, Gregory — Anchorage, AK
- Guthman, Howard — St. Paul, MN, Vice Chair
- Hafer, Donna — Burlington, KY
- Kasturi, Srinivasan — West Orange, NJ, Chair
- Reading, Sheri — Albuquerque, NM

Committee Members Absent

- Barry, Shaun — Franklin Square, NY
- Landauer, Steven — Davenport, IA
- O'Donnell, Marie — Riverwoods, IL

TAP Staff

- Coston, Bernie — Atlanta, GA, TAP Director
- Knispel, Marisa — Brooklyn, NY, Analyst
- Odom, Meredith — Brooklyn, NY, Secretary

Roll Call (quorum met)

Welcome

Kasturi welcomed the members and the IRS staff to the meeting and thanked Guthmann for allowing us to hold the meeting in his office. He asked if everyone had any revisions to the agenda.

National Office Report

Coston announced that this year's TAP's Annual Meeting will be held December 11 through 14th at the same Hyatt hotel as last year. Coston would welcome any suggestions from the members to make this year's meeting more successful than last year's and stated that some changes have already been



established with this effort. Among these changes, the time allotted to the breakouts of the various Area and Issue Committee meetings has been increased and the workshops have been designed to be more productive and valuable to the members.

Coston spoke about the success of the Town Hall meetings that were held this year and said that Nina Olson was very pleased with the outcome of each. He mentioned the last Town Hall meeting, was held in Cincinnati and hosted by our member Donna Hafer. He also spoke about the recent meeting in Cranston, Rhode Island hosted by Area 1 member Hal Gadon. He said that the latter had the largest number of attendees. Coston indicated that the success of these Town Hall meetings is measured by 1) the outreach accomplished whereby community residents learn of the TAP, and 2) by the quality of the issues these residents and attendees bring to the table. Olson has expressed her desire to continue these Town Hall meetings next year due to their great success.

On recruitment, Coston announced that almost 800 applications were received for TAP membership with only twenty-eight positions open throughout the country. The recruitment process was a success and 150 of these applicants will be interviewed in the near future.

Discussion ensued on the number of hours that the TAP expects members to dedicate to the program. A participant stated that a member who has knowledge and experience of tax issues will probably spend more hours of work in the TAP than the 500-hour maximum, while one with less tax knowledge may spend less than the 300-hour minimum. Another participant commented that some members are ill-fitted to the Issue Committee assigned to them as they did not understand the issue. Coston replied that in the new TAP year the members will have the option to change Issue Committees so that they can be more productive. Guthmann is concerned about the coordination of issues whereby some seem to duplicate or overlap. For example, he said, the Area 5 Committee and the Area 3 are working on the issue of Power of Attorney (POA). Coston stated that the TAP Analysts should be researching the TAP database to avoid this overlapping/duplication but sometimes is a matter of interpreting the issue differently. What we need, Coston added, is more dialogue between analysts and management.

Recent Proposals to the IRS and Responses Received

Kasturi spoke about the most recent response from the Office of Taxpayer Burden Reduction (TBR) Acting Director Beth Tucker. In a letter to Kasturi dated June 9, 2006, Tucker thanks the TAP and the SBSE Burden Reduction Issue Committee for their recommendation on the issue of the Office in the Home (OIH) and the Form 8829, Expenses for the Business Use of Your Home. In the letter, Tucker reiterates what Welsh told the Committee in a previous meeting that the TBR will seek IRS Counsel's guidance to legislative key issues regarding the OIH initiative. The administrative changes that our Committee suggests have already been considered by the TBR team working on the project.

Kasturi also mentioned the previous response received from Tucker regarding the Committee's recommendation to the TBR's S-Election project. He asked Bayder to keep the Committee informed on the progress of this project. He also asked the members to review Tucker's response and provide comments and/or further suggestions they might wish to address to the IRS by the next day (i.e. June 16th). Bayder added that the two TBR Analysts involved in these projects (OIH and S-Election), Welsh and Knights, would be willing to converse with them by phone on any comments /suggestions they would have.

Kasturi also requested comments from the members or any further suggestions on the draft proposal for the Innocent Spouse issue. Members had no additional comments and agreed to send the proposal to Tucker as written. Knispel will send the proposal with a cover letter addressed to Tucker.

Guthmann is concerned about the time it takes the IRS to implement the recommendations that have been accepted. Kasturi recognized the improvement in communication between the TAP and the IRS as it is reflected on Tucker's responses to our Committee as she addresses our recommendations item by item.



Update on Last Year's Proposals

Bayder provided the Committee with an update of last year's recommendations on several issues:

Filing Extension Project

Last year's Burden Reduction Issue Committee provided input on the issue of making Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, an automatic six-month extension. The Form was changed and the extension period increased from four to six months this past filing season.

Annualization of Form 941 and Creation of Form 944

To simplify the process and reduce taxpayer burden, the employment tax return, Form 941, was simplified for those employers who have up to \$1,000 in annual employment tax withholding liability. A new Form 944, Employers Annual Tax Return, was created for those who qualify to file annually instead of quarterly. However, Bayder said, the IRS has been experiencing some problems with the processing of this new Form that have resulted in mailing erroneous notices to taxpayers. Bayder added that action is still pending on another related TAP recommendation to increase the threshold for the filing of the Form 944 to \$2,500. Davis stated that the Social Security Administration and the IRS do not agree with this proposal of raising the threshold in order to increase compliance.

Davis also said that 20,000 employers who qualify to file Form 944 filed Form 941 instead causing the IRS to address notices to them in order to rectify the situation. She added that research shows that about one million taxpayers are affected by the current \$1,000 limit and increasing the threshold to \$2,500 will increase the number of affected taxpayers substantially.

Rounding Off

The Office of Taxpayer Burden Reduction (TBR) is reconsidering this issue for various reasons. A couple of reasons are that while reducing the burden for some taxpayers, it would increase it for others and it would also increase the IRS' burden in programming. The latter will result in the unnecessary mailing of notices to taxpayers.

Collection Information Statements

All stakeholders' suggestions received were considered by the project team. Currently, the IRS is refining its software to allow taxpayers to pre-calculate interest and penalty to complete these statements.

Prioritization of SBSE Notices

Bayder indicated that the TAP's W&I Notices Issue Committee worked on this topic while the SBSE Burden Reduction Issue Committee concentrated on the mail-out strategy.

Examination Appointment Letter

Last year's Committee provided input on the notice the taxpayer receives when called for an audit to make it clear and concise. The IRS team working on this issue intended to educate the taxpayer as to how the examination process works and how to prepare for an examination. TAP made great recommendations not only on this notice but on other literature sent to taxpayers such as Publication 1, Your Rights as a Taxpayer. The changes to Publication 3498, The Examination Process, have already been made.

Issues for Future Meetings

Bayder briefed the members on some of the issues that will be assigned to them in the future:

1. Specialty Tax- employment tax and excise tax concerns such as non-compliance and communication with those citizens living abroad. The IRS unit working on international issues will work with us.



2. Changes to the Form W-4 (Withholding Program) and the problems encountered in completing this Form.

Participation in Meetings

Ramirez facilitated a group discussion on enhancing member participation in the Committee's work. The discussion covered topics such as difficulty of issues, knowledge and expertise of the subcommittee members on the issue worked, attendance, role of the subcommittee chair, times and length of subcommittee meetings, standing subcommittees vs. rotating subcommittees, etc. The members voted (5-3) to retain the current process of creating subcommittees as new issues come up and to allow members to participate in subcommittee activities based on their interest/knowledge in the issue.

Participation and Outreach in the TAP's Issue Committee

Kasturi encouraged members to make a special effort to outreach in their communities to capture broad public perspectives on issues we are working. For example, Program Analyst Kathy Welsh invited the Committee to solicit input on the Office in the Home from the practitioners and the self-employed residents of the members' areas. Bland shared her experience on polling TAP membership on free e-file to gain insight into their concerns. Kasturi shared his experience on getting small business input on Sub-S election process through a presentation to SCORE, a volunteer advisory organization sponsored by the Small Business Administration (SBA).

Electronic Installment Agreement (e-IA)

Teresa Medlock, a Collections Program Manager, is working in conjunction with the Office of Taxpayer Burden Reduction (TBR) on the Electronic Installment Agreement (EIA) that will allow taxpayers to establish a payment agreement with the IRS on the Internet. The EIA will reduce taxpayer burden by reducing the use of paper agreements and make the process easier and more convenient. At the same time it will also be more efficient for tax practitioners and reduce the IRS resources needed to monitor the program. The idea for the EIA came about from the fact that in Fiscal Year 2005 alone, the IRS processed 2.6 million installment agreements. The program will be completed in 3 phases and is being tested at a small-scale since May 1, 2006. Some modifications must be made before its full release to the public.

Medlock explained the three phases the EIA must undergo and provided a printed Power Point presentation to the attendees to help visualize the different computer screens seen when accessing the EIA (Attachment #1). She also explained that the EIA team considered and incorporated some of the many suggestions by external stakeholders such as the National Association of Tax Professionals (NATP), National Association of Enrolled Agents (NAEA) and the TAP among others.

Vice Chair Election

Howard Guthmann was nominated and elected by consensus.

Amended Tax Return Project 94X

Judy Davis reviewed the information she had given the members in their May meeting on the background and the aim of this Project (Attachment #2). She discussed the two options being considered by the IRS project team to reduce taxpayer (both employer and payer) burden in correcting previously filed employment tax returns. Davis asked the Committee to review these options and make suggestions.

On June 16th, the second day of the meeting, the members worked with Davis and discussed the pros and cons of both options. They suggested combining parts of the current two options to create a simpler, easier way to amend an employment tax return. The combination would then be tailored to each applicable tax return (Form 941, 943, 944 and 945) and allow for a stand alone form that can



be processed in a consistent manner, reduce IRS notices to the taxpayer and allow the assessment of interest and penalties to be consistent and efficient.



June 16, 2006

All members and IRS staff were present with the exception of:

Program Staff

Medlock, Teresa

Committee Members Absent

- Barry, Shaun — Franklin Square, NY
- Bland, Sandra — Bemidji, MN
- Landauer, Steven — Davenport, IA
- O'Donnell, Marie — Riverwoods, IL

Taxpayer Burden Reduction (TBR) Referral Process

Analysts Tammy Cleveland and Kathy Welsh joined the meeting via phone to make a presentation on the Referral Process available to the public to submit burden reduction ideas to the Office of Taxpayer Burden Reduction (OTBR). The Form 13285A, Reducing Tax Burden on America's Taxpayers, available on line for submitting ideas may be mailed or emailed to this Office. The purpose of this Process is to achieve: 1) simplification of IRS forms and publications; 2) streamlining internal policies and procedures; 3) promoting less burdensome ruling and laws; and, 4) assisting in the development of a new, more accurate burden measurement methodology. All this will reduce the burden to taxpayers which is measured in time and money they spend in complying with tax filing obligations. Some of the suggestions referred in this Process come from IRS employees. All suggestions are analyzed and discussed with the affected IRS organization before initiating steps to implement. Staffing and cost of implementation must also be analyzed. If suggestion requires a legislative change, OTBR will write to the taxpayer suggesting that they address their proposal to their congressman. However, if there is potential for burden reduction in the suggestion, there is a four-step process to follow. Cleveland supplied the members with Talking Points (Attachment #3) that indicate what these steps are and gives examples of TBR projects that are underway. Cleveland also stated that the person who submits the suggestion will receive confirmation of receipt and information on the IRS's decision as and when it is made.

The presentation created great interest and discussion from all the members and many questions were asked. Coston, for instance, indicated that the IRS has several suggestion programs that are available to employees as well as the public. He asked: Does the process cross-reference those other suggestion programs to avoid redundancy? Cleveland replied that the Process filters all suggestions before addressing them to the proper IRS organization.

Taking the opportunity of Welsh's presence on the phone, the Committee asked for an update on their recommendation on the issue of Office in the Home. She indicated that at the moment, the IRS Counsel was considering the legislative aspects of their proposal and will provide their response to the Program in July.

TAP/SBSE Coalition

Beth Tucker, Office of Taxpayer Burden Reduction (TBR) Acting Director, also joined the meeting via phone. She personally thanked the Committee for their work on the proposals they have already addressed to her office. She added that the TBR is a valuable tool for the IRS Commissioner, and thus she appreciates TAP's and other stakeholders' input on their work. Tucker also promised to keep the Committee members informed of progress on the recommendations the IRS decides to accept for implementation.



Kasturi asked Tucker if the Program Owners could provide the Committee with their internal data and research so that the members better understand the basis of the issues and consequently respond with a more analytical approach in developing their suggestions.

Committee Report-Out on the 94X Project

Members discussed the amended tax return project and made their suggestions to consolidate parts of the two options being considered into one form that would be tailored to each of the employment tax forms. Davis expressed her appreciation for their valuable feedback. She agreed to work with the project team to create a sample of the recommended form(s) to be used for making adjustments to the employment forms and share it with the Committee at the next month's meeting. At that time, any further suggestions will be considered before the final product is presented to the Program.

Closing

Again, Kasturi and all the members thanked Guthmann for his hosting this meeting. The members decided to cancel the originally scheduled July 11th meeting and wait until our August 1st meeting to discuss progress on the 94X Project that will be presented again by Davis.

Action Items

Knispel: Send the Innocent Spouse proposal to Tucker.

Davis: Work with the Committee's recommendation on 94X Project and create a sample to present at the next month's meeting.

Next meeting: Tuesday, August 1st , 3:30 P.M. ET.



SB/SE Burden Reduction Issue Committee Meeting Minutes

*May 2, 2006
3:30 PM ET
Teleconference*

Program Owner and Other Program Staff

- Bayder, Helene
- Cleveland, Tammy
- Davis, Judith
- McLane, Lisa
- Welsh, Kathy

Designated Federal Official

- Ramirez, Sandra — Brooklyn, NY, Manager

Committee Members Present (These attendees count for quorum)

- Barry, Shaun — Franklin Square, NY
- Behnkendorf, Larry — Waterford, MI
- Bland, Sandra — Washington, DC
- Bly, Bill — Wayne, PA
- Gurse, Gregory — Anchorage, AK
- Guthman, Howard — St. Paul, MN
- Hafer, Donna — Burlington, KY
- Kasturi, Srinivasan — West Orange, NJ, Chair
- Landauer, Steven — Davenport, IA
- O'Donnell, Marie — Riverwoods, IL
- Rue, Thomas — Mechanicsville, VA, Vice Chair

Committee Members Absent

- Reading, Sheri — Albuquerque, NM

TAP Staff

- Knispel, Marisa — Brooklyn, NY
- Odom, Meredith — Brooklyn, NY, Secretary

Roll Call (quorum met)

Welcome

Kasturi welcomed the members and IRS staff. He indicated that the next Joint Committee meeting would be next day, May 3rd, and briefed the participants on the recently held meeting of a few TAP members, including himself, with the IRS Commissioner on April 20th. Kasturi indicated that at the meeting there were three specific items discussed in some detail. These were: 1) the issue of privacy of taxpayer data, 2) the relationship between the National Taxpayer Advocate and the Taxpayer Advocacy Panel (TAP) and 3) expanding the VITA/TCE Programs. Kasturi has recently written a paper



addressing the first issue to the Joint Committee and he expects it to be used as input in responding to the Commissioner who expressed an interest hearing from TAP on this issue. The paper focuses on the potential for identity theft with the outsourcing of tax return preparation to foreign countries and the fact that these foreign preparers are not expected to follow US laws. He proposes the creation of a Taxpayer ID Number to be used in lieu of a Social Security Number to protect identity. Kasturi requested that this discussion paper be shared with the Committee and invited the members to send their comments directly to him.

Program Owner Presentation

Davis presented the issue of Amended Employment Tax Returns and Form 941C. To begin, she explained to the Committee, the purpose of the different tax returns involved in her team's project such as Form 941, Quarterly Employment Tax Return; Form 943, Employment Annual Tax Return for Agricultural Employees; Form 945, Annual Return of Withheld Federal Income Tax and Form 944, Employer's Annual Tax Return for employers with \$1,000 or less of tax liability. Davis explained that Form 941C, the form used to amend all the aforementioned forms, is not a stand alone form but must be filed with Form 843, Claim for Refund and Request for Abatement, or with a current period employment tax form in the case when additional tax is owed or an overpayment is to be credited with no interest. The current problems with Form 941C are processing problems, she said. The fact that there are no standard procedures to process a stand alone form like this one causes inconsistencies in processing. Current periods are being adjusted for tax liability rather than the actual period in which the adjustment occurred, while the wage adjustments are corrected in the period in which the error occurred. The new Form 941 C should help prevent this and provide for an easier and consistent stand alone form without having to wait until a tax return is due. It should also reduce staffing needed to process this form.

Davis continued by providing background on the project. The team is cross-functional composed of a variety of IRS subject matter experts that was created in November, 2005. It is governed by the Office of Taxpayer Burden Reduction and has received much input from internal as well as external stakeholders. Its objectives are to reduce taxpayer burden while increasing voluntary tax compliance. The redesign of the Form 941C, Davis said, will also allow for streamlining the processing of adjustments to one department. The option of the redesign will avoid having to design separate forms to correct errors in the Forms 943, 944 and 945. The new Form 941C will be used for corrections to any of these forms thereby establishing a means by which taxpayers (both employers and payers) can timely and easily correct previously filed employment tax returns.

The next steps the team will take include reviewing alternative options as to how to use Form 941C such as: using one Form to correct each type of employment tax return, a different Form for each annual return vs. each quarterly return, etc. Also, the team will ensure that the processing of the Form is efficient by partnering with Submission Processing and Accounts Management and that any new development will not hinder but improve the process.

Landauer asked Davis how was the redesign of Form 941C tested. Davis replied that it has not been tested; the team has just been examining different options for the project. Hafer asked if the IRS will suspend the requested adjustment before contacting the taxpayer requesting it. To this, Davis explained that the IRS will not contact the taxpayer unless the examiner making the adjustment determines there is a need to contact the taxpayer. When asked, Davis indicated that there are no statistics available on past years' adjustments/corrections. She added that using a "checkbox" indicating an adjustment is to be made on a particular tax return was rejected by the team because the checkbox does not allow the taxpayer to indicate what the adjustment is.

Davis would appreciate this TAP Committee's input on the project. The members should review the two options to the design of the Form 941C that Davis will provide to the committee as well as offer any additional options and suggestions. She send the two samples next week for forwarding to the Committee and emphasized that the team would appreciate feedback within 60 days to attain their implementation deadline of the 2008 tax calendar. **Members should note that the information**



provided by Davis is to be used only for the committee's work and must not be shared outside the committee.

Barry volunteered to lead the new subcommittee that will work on this assignment. Landauer and Hafer joined as members. Chair urged more members to join the subcommittee and requested that those interested should contact Shaun. Ramirez suggested to Barry that he e-mail the entire committee when setting up the subcommittee call/work. Davis indicated she will try to be available at the committee's face to face meeting in June, as well to address further questions/issues.

Subcommittees Report-Out

Subcommittee on Office-in-Home

Guthmann reported in Bly's absence and indicated that a recent memorandum summarized the subcommittee's recommendations. The subcommittee members agreed that any simplified method adopted by the IRS should always include the option for the taxpayer to calculate the home office deduction using the current available method. Nevertheless, they all agreed that taxpayers that do qualify for the deduction should be able to opt for a flat dollar amount. Those who have a home office for less than twelve months would be allowed a percentage of this flat amount which will be calculated by dividing the whole number of months they had an office by twelve. Multiple businesses in the same home can each claim its own flat dollar deduction. The flat dollar is to be established by the IRS and should be recalculated each year.

Those using flat dollar deduction will not get any depreciation deduction and thus there will be no recapture upon the sale of the home. The calculation of the standard rate should also exclude real estate taxes and home mortgage interest which will continue to be claimed in Schedule A as is currently done. The items that should be included are utilities, insurance, repairs and other fees. The deduction allowed would be the lower of the flat dollar amount or the net income from the business, excluding the deduction. This will result in simplifying the process to take the in-home office deduction and could be applied in the case of the Married Filing Joint status when both spouses have a home-office.

Also, Guthmann added, there is no need for a Form 8829EZ since the Form 8829 should suffice for those electing to use the current method.

Welsh stated that many of the subcommittee's recommendations support the IRS team's suggestions. Recently, she has referred some questions to IRS Counsel on the issue of depreciation as the proposed changes might have an impact on legislation. Overall, she agrees with the subcommittee's recommendations and appreciates their work. The Chair requested Marisa to distribute Bly's memo to the entire committee for their review and comments. The committee's recommendations are expected to be formally transmitted to the IRS within the next two weeks in the usual manner.

Subcommittee on Innocent Spouse

Behnkendorf indicated that the subcommittee finalized their suggestions on Form 8857, "Innocent Spouse Relief, Separation of Liability and Equitable Relief" and Form 12510, a follow-up questionnaire to this Form. He will present a written draft of the subcommittee's proposal to the IRS by May 3rd. The draft will contain comments he received from members who are not part of this subcommittee. Any member of the committee with comments on this should get back to Larry within the next two business days. The finalized comments will be formally transmitted to IRS within one week to ten days.

McLane thanked the subcommittee members for their work and indicated that their comments and suggestions and those of other stakeholders will be incorporated into the team's final draft.



Office Report

Ramirez requested that all members reply to Odom's email requesting information on travel arrangements for the face-to-face meeting in St. Paul, MN as soon as possible. She indicated that the meeting will take place on June 15th and 16th with the previous day and the one after to be used to travel.

Guthmann, a resident of St. Paul and the host of the meeting, volunteered to provide advice in making dining and sightseeing arrangements.

Public Input

No public participation.

Action Items

Behnkendorf will finalize a written draft proposal to the IRS on the issue of Innocent Spouse.

Marisa: Send copy of Bly's memo on OIH to all committee members for comments with a week turn around time. Ensure TAPSpeak e-mails contain some text about why the e-mail is being sent.

Meredith: Send Bayder hotel information for June face-to-face meeting and confirm from her if any more lodging rooms are needed.

- Meeting adjourned 4:35 P.M. EST
- Next meeting will be a face-to-face meeting in St. Paul, MN on June 15th and 16th.



SB/SE Burden Reduction Issue Committee Meeting Minutes

*April 4, 2006
3:30 PM ET
Teleconference*

Program Owner

- Bayder, Helene
- Tucker, Beth

Designated Federal Official

- Ramirez, Sandra — Brooklyn, NY, Manager

Committee Members Present (These attendees count for quorum)

- Barry, Shaun — Franklin Square, NY
- Behnkendorf, Larry — Waterford, MI
- Bly, Bill — Wayne, PA
- Gurse, Gregory — Anchorage, AK
- Guthman, Howard — St. Paul, MN
- Hafer, Donna — Burlington, KY
- Kasturi, Srinivasan — West Orange, NJ, Chair
- Landauer, Steven — Davenport, IA
- O'Donnell, Marie — Riverwoods, IL
- Reading, Sheri — Albuquerque, NM
- Rue, Thomas — Mechanicsville, VA, Vice Chair

Committee Members Absent

- Bland, Sandra — Washington, DC
- Cordeiro, Daryll — Mobile, AL

TAP Staff

- Jenkins, Audrey — Brooklyn, NY
- Odom, Meredith — Brooklyn, NY, Secretary

Roll Call (quorum not met)

Welcome

Kasturi congratulated all members for all of the hard work they put in to get the recommendation out on Form 2553.

Introduction of Beth Tucker

Kasturi welcomed Beth Tucker.

Tucker addressed the committee. She will be working in the afternoon with the Commissioner, Mark Everson and also with SBSE's Kevin Brown. Brown will discuss how important it is for SBSE to continue



to look at ways to reduce the burden on small business self-employed taxpayers. The Office of Taxpayer Burden Reduction staff is impressed by the work the TAP is doing. The goal is to make sure the the committee's work be as data driven as practical. The initiatives considered are areas that will have the greatest potential to alleviate taxpayer burden, and make it much easier for small businesses to comply and flourish. The Office in the Home is a very important issue and OTBR welcomes all suggestions from the committee.

Subcommittees Report-Out

- **Subcommittee on Office-in-Home**

Bly stated the committee had a meeting on March 29th. The committee decided the use of a square footage calculation for the home office deduction. This method would be an option available to the taxpayers, but they may choose to use the traditional method. The committee is considering flat square footage rate that would eliminate the need for depreciation and other expenses for home office allowed now. The committee would like for Kathy Welsh to sit in on the next meeting so the committee can present her with their new ideas. Kasturi suggested quantifying the benefits of the committee's recommendation based on data from the IRS such as the number of returns affected, and estimated hours saved. The committee is still looking for ideas on other ways.

New Issues

- **Innocent spouse**

Lisa McLane presented the committee with some highlights on the new Form 8857. In June of 2005, a cross functional team was developed to take a look at the innocent spouse program, with the objective of simplifying the process and reducing taxpayer burden. The customer base is about 25,000 taxpayers who file these claims annually. Though small in number, it is a high profile program. Presently 43% of the Form 8857 received are rejected in the first-read operation. If the claim makes it through the first-read, 63% more of these claims are rejected and disallowed once they are processed. This is a huge concern. There have been reports of problems with the form from the functional area which is located out in the Cincinnati area. They reported taxpayers experience difficulty understanding the Form and thus make mistakes completing it. They are often confused with its purpose and that of Form 8379 (Injured Spouse). Some other steps the team took were collecting data from the Form and observing the process of the claims to pinpoint the cause of the high reject rate. The SBSE team conducted a focus group with the appeals function. TAP Analyst Mary Ann Delzer helped Lisa McLane get feedback from one of the TAP committees at a meeting on August 26, 2005. Feedback was requested from the TAP members to hash out ideas on improving the form and the program. The team used a research report to understand the demographics of the filers and to study the characteristics of claim filings. The team decided to redesign the Form 8857, made an assessment of each line of the Form and reevaluated Form 12510 questionnaire, which must be completed if the taxpayer is to be considered for relief. The draft of the new Form 8857 was presented to the committee during this conference call. This should contribute to faster claim processing and it will eliminate the suspense period on waiting on questionnaires coming back to the IRS. Hopefully it will also eliminate 30,000 letters a year that are sent to taxpayers. The form was converted to a plain language format to be understood at the level of a seventh-grader. Most of the instructions are on the form and the form has a new section called "Figure Out If You Should File This Form". The new form will limit claims up to 3 yrs. This 3-year logic will accommodate over 90% of the filers and it should help with the accuracy and relevance of the information from the taxpayers. The box labeled "Important Things You Should Know Before You File This Form" should give taxpayers some direction of how to complete it and emphasize the importance of answering all of the questions on it. The current check box for spousal abuse was replaced by a line stating, "We Must Contact The Person Who Was Your Spouse For The Years You Want Relief"- this must be done by law. This upfront reference should eliminate 2,500 to 3,000 letters a year and



expedite claim processing. This was a suggestion put forward by the TAP panel. Part 2 of the form is the section which the team worked on to educate the taxpayer on the type of relief using plain language. Question 5 asks the taxpayer if he/she is interested in getting the refunds and to educate the taxpayer on when he/she needs to send proof of payment. Parts 3, 4 & 5 have been redesigned to focus on key questions that the IRS needs answered to make a proper determination. The check boxes throughout these three parts should enable determination about what the taxpayer knew and did not know about their return filings and about their financial situation for the years they are seeking relief. The table in part 5 was redesigned for determining if economic hardship exists. Hopefully this will allow the IRS consider any relief the taxpayer is entitled to. Parts 6 & 7 have been mirrored from the form 940. Publication 971 will also need to be changed as a result of the new form 8857. There will be some focus-testing done with taxpayers on this project that will start in mid-May and run through June. The new form should be released by August or September. The team will appreciate any input from the TAP.

Formation of Subcommittee for Innocent Spouse

Kasturi requested Behnkendorf take the lead on this subcommittee. Hafer, Reading and O'Donnell will also be part of this subcommittee. Any other members interested in participating on it should contact Behnkendorf. He will be soliciting members by email and a date and time to meet. McLane stated that it would not be a problem for the subcommittee to contact her directly.

Closing

Ramirez will follow up via email in reference to the Minutes Approval Process.

Bayder will have McLane and Welsh participate at the next teleconference with more information. Judi Davis will present the members with a new issue.

McLane thanked the committee for their time and interest in the Innocent Spouse form.

Bayer thanked the committee as well.

Public Input

No public participation

- Meeting adjourned 4:30 P.M. EST
- Next meeting, May 2, 2006 @ 3:30 P. M. EST



SB/SE Burden Reduction Issue Committee Meeting Minutes

*March 7, 2006
3:30 PM ET
Teleconference*

Program Owner

- Bayder, Helene — Program Owner

Designated Federal Official

- Ramirez, Sandra — Manager, DFO — Brooklyn, NY

Committee Members Present (These attendees count for quorum)

- Barry, Shaun — Franklin Square, NY
- Behnkendorf, Larry — Waterford, MI
- Bly, Bill — Wayne, PA
- Cordeiro, Daryll — Mobile, AL
- Guthman, Howard — St. Paul, MN
- Hafer, Donna — Burlington, KY
- Kasturi, Srinivasan — West Orange, NJ, Chair
- Landauer, Steven — Davenport, IA
- O'Donnell, Marie — Riverwoods, IL
- Reading, Sheri — Albuquerque, NM

Committee Members Absent

- Bland, Sandra — Washington, DC
- Gurse, Gregory — Anchorage, AK
- Rue, Thomas — Mechanicsville, VA

TAP Staff

- Knispel, Marisa — Analyst
- Odom, Meredith — Management Assistant

Other Attendees

- Clevend, Tammy — Analyst, OTBR
- Welsh, Kathy — Analyst, OTBR
- Knights, Meglan — Analyst, OTBR
- Hanson, David — Commerce Clearing House (CCH)
- Candace Ewell — Small Business Administration (SBA)

Roll Call

Welcome

Kasturi welcomed all members and guests. If need be, he said, meetings could be extended an extra _



hour. While working on the recommendations for Form 2553, Kasturi noticed that not all members participated with comments on the issue. He encouraged them to be more proactive next time.

The Joint Committee had an administrative meeting and discussed the Annual meeting which will be held in November. The issue process and timeline slideshow that was created for chair training will be shared with all members.

FTF Meeting Date/Location Update

The Meeting will be held in St. Paul or Minneapolis, Minnesota on June 14 - 17, 2006. Meeting times are to be established.

Replacement for Michael Chessman

Beth Tucker is the interim director.

New Issue: Office in Home Deduction

Welsh presented the committee with a new project to work on: Form 8829 (expenses for home business use). This Form is very difficult for taxpayers to fill out. We need to come up with ideas to simplify this form. One way is to create a standard deduction per square foot for the business use of the home just as there is a standard mileage rate for the business use of a car. OTBR is working with Counsel to see if this can be established via regulation or revenue procedure. There are other issues to work around in terms of depreciation because by law, it's deemed "allowed or allowable". Even if the taxpayer doesn't take the deduction if he has claimed to have an office in the home and then sells his residence, the taxpayer needs to do a sale recapture of that depreciation. The issue with taxpayers that file married filing joint that are claiming more than one office must be also be considered.

Welsh indicated that OTBR is addressing the issue of multiple Form 8829 and creating a simpler Form 8829EZ. The idea is to establish a standard deduction by a rate factor and quickly come to a deduction amount. There are some legal issues that must be addressed. Changes on the Form have to also be applied to farmers as well as impact on the Form 2106. There are 2.5 million taxpayers that file Form 8829. The number could be higher but OTBR suspects that many do not file it because it is such a complex form. The OTBR is aiming to simplify the calculation not to change the requirements to obtain the deduction. The target date to have this completed is tax year 2008.

Kasturi suggested forming a subcommittee to look into this issue. He also said that subcommittees will rotate until there is a need for standing subcommittees.

Subcommittee Report-Out Subcommittee East/West S-Election Process

Guthmann spoke about the proposal the subcommittee wrote on the S-Election Process. He's waiting on comments from the other members. Knights told the committee that she will be using this proposal in the future She recommended that the Committee elaborate on the Goal Statement of their proposal and that they incorporate Bland's comments. Ramirez agreed and explained that the purpose of the goal statement is to give the ultimate goals you want the IRS to achieve. Guthmann suggested presenting solutions to the issues without considering changes to the law. Knights promised to give the Committee her feedback on the proposal by Friday, March 10th.

Public Input

Ewell thanked the Committee and stated that she enjoyed the meeting.

Next Meeting

April 4, 2006, 3:30 P.M. ET



SB/SE Burden Reduction Issue Committee Meeting Minutes

*February 7, 2006
Teleconference*

Welcome/Announcements

Kasturi welcomed the members. He explained that a Federal Register notice was not issued for this meeting since it was likely that it would not have posted timely. In any case, the meeting's purpose will be to collect and provide information.

Ramirez indicated that the notes of our January meeting in Washington, D.C. will be available soon.

Kasturi announced the following addition to the agenda: roles and responsibilities of subcommittees. He would like to spend a few minutes giving an overview.

Roll Call

Panel Members Attending

- Shaun Barry — Franklin Square, NY
- Larry Behnkendorf — Waterford, MI
- Bill Bly — Wayne, PA
- Sandra Bland— Washington, DC
- Greg Gurse— Anchorage, AK
- Howard Guthman— St. Paul, MN
- Donna Hafer — Burlington, KY
- Sonny Kasturi — West Orange, NJ, Committee Chair
- Steve Landauer — Davenport, IA
- Marie O'Donnell— Riverwoods, IL
- Sheri Reading— Albuquerque, NM
- Steve Rue — Mechanicsville, VA, Committee Vice-chair

Panel Members Absent

- Daryll Cordeiro — Mobile, AL

TAP and IRS Attendees

- Helene Bayder, SBSE Program Owner
- Michael Chesman, SBSE, Director, Office of Taxpayer Burden Reduction
- Meglan Knights, SBSE Program Analyst
- Marisa Knispel, TAP Program Analyst
- Sandra Ramirez, TAP Program Manager, Committee Designated Federal Official

Program Owner Introduction

Chesman introduced himself and announced his departure from the IRS this Friday. He said that he has accepted a position as general counsel to a large insurance company. Beth Tucker, Director of Communications and Liaison, will act in the position until it is filled. Chesman expressed his



appreciation for working with the IRS and with the TAP these past years. All members congratulated Chesman and wished him well.

Subcommittee Chair Roles and Responsibilities

Kasturi explained the roles and responsibilities of a subcommittee and its chair. The subcommittee, he indicated, researches the issue assigned to it and discusses the issue during their subcommittee meetings. The subcommittee chair is to conduct an orderly meeting and lead a thorough discussion. The chair or a designee from the subcommittee should take notes during the meeting and distribute them not only to the subcommittee members but also the committee Chair, Vice chair, and to staff to inform every one of their discussions. The subcommittee chair (or leader) acts as a spokesperson for the subcommittee and as a salesman of the recommendations put forth by the subcommittee. At the full committee meetings, the subcommittee chair presents progress made and is the spokesperson and advocate for the recommendation(s) and/or position of his or her subcommittee.

Subcommittees will find they need to coordinate their work with the other subcommittees and on occasion, even outside of their committees. Finally, the subcommittee chair is the focal person responsible for ensuring the subcommittee's final recommendations are drafted/written.

Kasturi compared the subcommittee chair's position to his position as the chair of the SBSE Burden Reduction Issue Committee. His role is that of the spokesperson for the Committee and he must defend the Committee's position and recommendations to the IRS' Issue Program Owner. This is why it is of utmost importance, he said, that the Committee chair is aware of and understands the discussions and decisions of the respective subcommittees.

Kasturi added that the role of the Committee vice chair is that of assisting the chair in his functions (reviewing minutes, recapping action items/assignments, closing meeting) and acting as chair in his absence. Likewise, a subcommittee chair would assign a replacement or appoint a vice chair when this situation applies.

Subcommittee EAST

Bly reported on the subcommittee's deliberations and recommendations:

1. Two subcommittee meetings were held, the last being January 31st. He distributed notes from that meeting to staff and Kasturi. He indicated that the subcommittee reviewed the TIGTA audit reports back to 2002 that explained the S-election problems and the members agreed that the problems arise from processing the application to elect S-status rather than problems with the application form itself, Form 2553, or its instructions. He asked Knights what changes, if any, has IRS undertaken since these reports were published. Knights replied that the IRS has undergone several computer system changes to capture information not being captured in the past and improve the system, as recommended on these reports. She can get them for the committee.
2. The subcommittee recommends that; a) the IRS take a sampling of the first thousand immediately rejected/unprocessable Forms 2553 and analyze them to determine what the problems/trends are, b) that taxpayers be allowed to elect Subchapter S election at the time they file their first corporate tax return (Form 1120S) so that the status may become effective and would remain in effect until changed by the taxpayer in writing using appropriate IRS Forms. Bly asked Knights if the reason for the filing Form 2553 was regulatory or legislative.

Chesman clarified the fact that making the election is statutory but as to the timing of when the application Form 2553, or, the election is made it can be made with the first filing of the Form 1120S. Knights indicated that the subcommittee's recommendation that the Form or the election be made at the time of filing the tax return, Form 1120S, would have to be presented to IRS Counsel.

Landauer asked how extensions for filing the tax return would be affected if the regulation

were changed. Chessman replied that it would not affect extensions because the election is being made at the time of the filing or in this case, when the extension is due. It is also possible, Chesman added, that the IRS may request further supporting documentation. Chesman noted that suggesting the option of making the election applicable at time of first filing 1120S is not a short term solution – it would require approval from the Secretary of the Treasury and the Assistant Commissioner for Tax Policy, as well.

3. Another recommendation made by Subcommittee EAST is that the requirement that all shareholders sign the application for election (Form 2553) be eliminated, if the number of shareholders is large, to reduce burden.
4. A third recommendation is that Note 1 of the Form 2553, Election by a Small Business Corporation, be enlarged in bold type with an additional statement indicating that if an election to become subchapter S has not been approved, the tax return Form 1120 must be filed instead of Form 1120S.
5. The fourth and last recommendation is that the numerous references in the Form 2553 instructions to: revenue procedures, sections of the tax Code, etc, be placed in the footnotes. The main text would refer to the footnotes. This change would make the instructions easier to read. Overall, the subcommittee found that the instructions are not burdensome or hard to read.

Subcommittee WEST

Gursey indicated that the subcommittee posed some questions to Knights on the unpostability of 46,000 tax returns (Form 1120S) and the processing of Form 2553 which she replied to.

Guthmann recommended that to solve the problem of the 46,000 unpostable tax returns, the requirement of filing Form 2553 be eliminated. He believes that the problem is also one based on the processing of this Form and not the Form 2553 per se. He suggested that in its place, a check-a-box or the like be used on the tax form to allow selection of subchapter S. He indicated that in most cases tax professionals like CPAs and attorneys are those who complete the Form for the shareholders and these professionals are knowledgeable of the election requirements. Of the 46,000 unpostable 1120S 's he can't believe that non filing of Form 2553 is the real problem and doesn't understand why IRS can't match the 1120s with the Form 2553.

Chesman indicated that these problems come from "mom and pop" type taxpayers. The problem of filing form 2553 or filing it correctly for this groups of taxpayers is the same as the problem with filing an application for an Employer Identification Number (EIN), Form SS-4 for this group of taxpayers. For instance, the name of the entity on the SS-4 (or Form 2553) does not match the name on the tax return or tax form. Another problem, he added, is that taxpayers apply for an EIN number multiple times and use the incorrect number when filing the tax return. This is not an IRS processing problem but one of incorrect submission, Chesman said.

Rue stated that from his experience attorneys/accountants contribute to the problem because they don't get/aren't involved with applying for the S election but assume that the election was made and has been granted, so they file the Form 1120S instead of Form 1120. Guthmann thinks that this situation could be resolved if the corporation received prompt notification of the error from the IRS. Knights replied that the IRS does contact the corporation within 30 days. Chesman added that the corporation also has two years after incorrectly filing Form 1120S to correct the error and submit Form 2553 for the election. The reason why the law was written this way, Chesman said, is to avoid corporations switching statuses (i.e. C-corporation status vs. S-corporation status) from year to year to benefit from the tax advantages that each status might offer that year.

O'Donnell compared this unpostable return problem to the same problem faced by Form 8832, Entity Election Classification, filers previously. That problem was addressed by allowing the form 8832 to be filed with the first year return and not requiring the form 8832 to be signed. She suggested the IRS review the revenue procedures or revenue rule (rather than wait for regulation changes) to see if the same could be applied to the Form 2553.



Kasturi suggested the subcommittees continue researching and discussing the S-election problem. Knights expressed interest in learning the individual experiences of the TAP members who are tax practitioners on this issue. What burden, if any, have they experienced. Kasturi suggested and encouraged the members to contact tax practitioner associations in their communities to learn the problems these professionals may experience with the issue.

Future Topics

Bayder listed three topics the committee will be discussing in the future:

1. office-in-home deduction
2. innocent spouse provision changes
3. mail-out strategy for bulk mailing

Chesman elaborated on these topics. The IRS is aiming to make the calculations for the deductions of an office in the home easier in order to avoid burden and complexity such as those found with the calculations for depreciation. He said that this issue arose from last year's hearings as the number one issue of burden and complexity. IRS has talked with Counsel and they are receptive to some kind of alternatives. The Office of Taxpayer Burden Reduction would like to run some alternatives it's considering by the committee. The second topic is related to the application to obtain innocent spouse relief. Many taxpayers confuse the definition of "innocent spouse" with that of "injured spouse" for which there is a different application process. Chesman explained the difference between both statuses and added that of approximately 50,000 applications for innocent spouse, only 20% of the applicants get relief. One of the main reasons is the incorrect completion of the application (Form 8857). Kasturi asked if background information could be made available on this topic to the committee so that they could 'bone up' on it. Bayder replied that when Lisa McLain, the person in charge of this initiative is more ready to present to the committee that may be an appropriate time to provide information.

Finally, Chesman explained that the issue of the mail-out strategy was presented to this Committee last year by Lisa McLain. The strategy aims to reduce the amount of paper (forms and instructions) that the IRS sends out to taxpayers. Some recommendations made by the TAP last year are currently being considered by the IRS for implementation.

Kasturi requested that the Program Owners give the members more background information on topics that are assigned so that they may read and prepare for future discussion. Chessman agreed that the committee get familiar with the topics. In anticipation of working these issues, Kasturi designated the issue of the 'office-in-home deduction' to the Subcommittee EAST and that of the 'innocent spouse' to the Subcommittee WEST.

Change of Date for Face-To-Face (FTF) Meeting

Kasturi explained that he would be unable to attend the FTF meeting on the scheduled date and asked that the committee consider rescheduling the meeting to the week prior or following the week already scheduled. Knispel will email all members to obtain their available or preferred dates (May 31-June 3rd or June 14th - June 17th).

Closing Assessment

In closing, Kasturi underscored the importance of assessing each committee meeting by completing the meeting survey provided to them before each meeting.

Action Items

Subcommittees will continue deliberating on the S-election issue.

1. Subcommittees were assigned their next topic and they should do preliminary research on their respective topic:



Subcommittee EAST - office-in-home deduction

Subcommittee WEST – innocent spouse

2. Knispel will request availability/preference for the FTF meeting in June from each member; ensure notes from January meeting are sent.

Next Full Committee Meeting

Tuesday, March 7, 2006 at 3:30 PM ET.