



2004 Meeting Minutes

SB/SE Fair Compliance (Schedule C Non-filers) Committee Meetings

- August 21, 2004
 - August 20, 2004
 - June 22, 2004
 - April 22, 2004
 - February 10, 2004
-

August 21, 2004

Roll Call – All Committee members and Staff were present except:

Absent Panel Member

- Edward Hanna, Tampa, FL
- Charles Taylor, Los Angeles, CA

Absent IRS Staff

- Barbara Loos, Program Analyst

Opening of the Meeting

Nagel requested a report from the Subcommittee chairs on the issues discussed the previous day. The issues and the full Committee's discussion on these issues are indicated below.

Outreach & Education –Kerrigan reported:

1. **Schedule C-EZ, Expanded Eligibility:** The IRS has already adopted the committee's recommendation that the expense cap for eligibility be increased from \$2,500 to \$5,000. The Subcommittee recommends that the eligibility limitation that the taxpayer must have no inventory in the trade or business be dropped. *Reasoning:* The IRS has already adopted simplified inventory accounting rules in other areas where annual revenues are less than \$1,000,000. Inasmuch as the eligibility rules still retain an expense cap (now \$5,000), inventory that is simply expensed under the cash method of accounting would still be required to satisfy the expense limitation. However, the burden reduction achieved by the Schedule C-EZ (a) would be extended to other, deserving small businesses without harming revenues; (b) would further reduce IRS administrative burden; and, (c) would conform to existing IRS policy in other areas allowing for simplified inventory accounting for small businesses.

Subcommittee Decision & Recommendation: Remove the inventory exception to eligibility for use of the Schedule C-EZ.

Full Committee Approved the Decision & Recommendation

2. **Creation of New Form for Independent Contractors (W-9IC):** The current IRS Form W-9 is the Request for Taxpayer Identification and Certification submitted by an employee to an

employer. *Summary:* In order to combat Schedule C non-filing and the underreporting of non-employee compensation, the Subcommittee recommends that the IRS develop and publicize, through outreach and education, a new form W-9IC to be submitted by independent contractor payees to payors. *Reasoning:* IRS research has found that the lack of knowledge with respect to understanding the potential tax liabilities and payment requirements hinders compliance among the Schedule C filers. The IRS has the opportunity to reach and educate this target audience by developing a new form, the W-9IC which, in a sense, distinguishes this group uniquely from other taxpayers and educates them about their payment and filing obligations as independent contractors. In other words, beyond the practical purpose of the Form, the W-9IC could be used as a preemptive tool to educate Schedule C filers about their payment and filing obligations.

Subcommittee Decision & Recommendation: The IRS should develop and publicize through outreach and education, a new Form W-9IC. The current Form W-9 could be modified as follows for this purpose:

- Change "W-9" in the top left corner to "W-9IC."
- Make the following changes under the first paragraph below "Purpose of Form":
 1. Delete all references to income examples except the general text "income paid to you."
 2. Directly following (below) the first paragraph include an "FYI Box," bordered in bold, containing bold type text stating in substance, "Generally, income received as a independent contractor is subject to the self-employment tax at 15.3% and the income tax."
 3. Move the entire "Nonresident alien who becomes a resident alien" text to the end of Purpose of Form section (just prior to the "Penalties" section) to make available the space on the first-page for the "Benefits of Filing" text.
 4. On the front page, add a simple "Benefits of Filing" message adapted from the sample messages being implemented by, and as a part of, the IRS's comprehensive non-filer communications strategy.
 5. On the front page, add text informing taxpayers about their payment obligations, for example, "CAUTION: In order to minimize the taxes you may have due April 15th of next year, you should strongly consider making estimated tax payments. You can accomplish this by sending in estimated tax payments with Form 1040-ES. See instructions for Form 1040-ES and Publication 505."
 6. The IRS can review the items under "Exempt from Backup Withholding" to determine if any of the listed items can be eliminated.
 7. The IRS can review sections: "Part I Taxpayer Identification Number (TIN)," "Part II Certification," and "What Name and Number to Give the Requester," to alter or eliminate text as appropriate.

Discussion by Full Committee: *Smedley:* Good idea but an education initiative must be created to alert payors to the existence of the Form and its purpose. The Form should also warn about income tax rates. *Fish:* Information must be stressed in the Box: strike all references to tax rates; needless detail. *Castleberry:* The Box should also mention estimated tax obligations. *Greenberg:* Shouldn't taxpayers be warned of high tax bill potential by mentioning rates? *Swarts:* Taxpayers are easily confused by the many taxes that might apply. Mentioning rates only adds to confusion. Remove mention of actual rates. *Smedley:* Mention of only one rate might create false impression that that is the only percentage that applies to the income. *Castleberry:* Let's allow the IRS form designers suggest the actual look and feel of form.

Full Committee Decision & Recommendation: Approved. Strike all rates from text box, and include warnings, generally, that income is likely subject to federal income tax, self-employment tax and estimated tax

payment obligations, with references on where to go for more information.

3. **Tax Literacy Curriculum for Trade Schools/High Schools:** Greenberg has spearheaded this effort. The attached curriculum outline was developed by Greenberg as a means of delivering tax literacy to high school and trade school students. The curriculum uses lesson plans available from the IRS's SPEC organization and requires about 30 minutes of classroom time. Due to time, budget, and required curriculum constraints, few teachers have opted to learn and/or teach financial literacy topics. Many students eligible to file the basic Form 1040 EZ unnecessarily use paid preparers when they could easily learn how to complete and file the Form themselves. Others who work as independent contractors, and do not know their work status as contractors, are not aware of their tax obligations. The curriculum has been discussed with the SPEC, and this organization has expressed interest. Such a program would require groups with tax preparation knowledge to do the actual classroom training as volunteers. For example, the AARP's 15,000 tax counselors for the elderly constitute a large cadre of potential classroom instructors.

Subcommittee Decision & Recommendation: The IRS should adopt the attached curriculum to use in a pilot project and should provide forms and other materials to volunteers who teach the 30 minute seminar at local high schools and trade schools.

Full Committee Approved Decision & Recommendation

Payment Issues Subcommittee – Fish and Nagel reported:

1. **Form SS-4, Questions 12 and 13:** *Castleberry:* Strike questions entirely. They are extraneous to the issuance of an EIN. IRS should issue employment tax education pamphlets with the formal, written notice or letter issuing the EIN. *Smedley:* Have the IRS mailing tell taxpayers how to get information on when and how to comply with employment and income tax withholding, payment and reporting requirements. Have the IRS mailing instruct taxpayers to contact the IRS via telephone, internet or telefax when they are ready to begin paying wages in order to request their first employment tax payment coupons and returns. *Nagel:* Change these questions to ask "how many employees you have now?" that is, limit the questions to a "Yes or No" answer for the current employees, not future plans to employ. *Loos:* the SS-4 should ask, "Do you have employees now?" If answer is "Yes", the taxpayer should get the necessary returns and coupons; if "No", the taxpayer should get the notice advising them about employment tax obligations, with instructions and the IRS-contact information to use when the payment of wages begin. *Loos:* Committee should stress in the recommendation that the IRS will save money on the "No" response by not having to send out unnecessary forms.

Consensus Decision & Recommendation: Strike questions 12 and 13 as is. Create new questions 12a and 12b:

Q12a: Should be "Are you paying wages currently" Yes/No.

Q12b: If "Yes"- "state the date wages or annuities were first paid"; and, "What is the Number of Employees of Each Type Paid: Agriculture-Household-Other?".

"Yes" answers would trigger the IRS computers to send out the standard employment tax "Compliance Packet" including payment coupons, returns, and instructions. "No" answers would trigger the IRS computers to send out employment tax obligation booklets, with instructions to contact the IRS (at designated telephone numbers, URLs, or telefax numbers) when first wages/annuities are scheduled to begin in order to request the Compliance Packet.

Decision & Recommendation Later Approved by full committee.

2. **IRS's Proposed Form 1099 Matching Program:** *Smedley:* What do these two questions accomplish? How does this solve the lack of accountability or ability to match? *Castleberry:* IRS claims that the two questions allow them to compare the answers via computer automation to the payor-taxpayer's Form 1096 Annual Summary and Transmittal of US Information Return. Answers require the payor-taxpayer to separately state contract labor costs, and to identify those contract labor costs that required a Form 1099 issuance that year. Otherwise, payor-taxpayers can "bury" contract labor costs in other expense categories such as repairs, COGS, etc., often quite legitimately. *Fish:* The two seemingly simple questions will create a lot of work for accountants, and they likely cannot collect for it. *Hanna:* Objects to IRS claiming contract labor costs are "buried" in other places. It is often quite legitimate to claim such costs as part of COGS or repairs. Compiling the data sounds burdensome for the honest taxpayer. *Nagel:* Take out the first question, and require an answer only for the second question dealing with total contract labor costs for which Form 1099s are required. *Fish:* How about simply, "Have you filed all required Form 1099s?" This would require the payor-taxpayer and the practitioner to address the issue. *Nagel:* What if the taxpayer leaves the answer blank? *Castleberry:* Then you have an incomplete "No File" return. Answering the two questions is not intrusive or burdensome, and answers will help IRS track and fight cost-effectively non-reporting of 1099 income. *Smedley:* A serious non-payment problem exists here. Many recipients believe that if you don't receive a Form 1099 then the income is not taxable. *Forzano:* IRS has to have information here. I also object to tax dodging that is so rampant here. *Fish:* Force IRS to use terminology consistent with the Form 1096 and Form 1099. Use "non-employee compensation" rather than "contract labor." *Hanna:* Making payor-taxpayers track all contract labor separately, even when no Form 1099 issuance obligation exists (payments are all under \$600 for the year) is plainly burdensome. *Fish:* Practitioners and payor-taxpayers will adapt to the burden over time. *Hanna:* Limit the first question to total contract labor costs for which a Form 1099 was required, and have second question ask how much contract labor you reported on the Form 1096 for the year. It achieves the same matching purpose, and does not require unnecessary tracking of contract labor payments where no Form 1099 issuance obligations exist. **Consensus:** This is a good compromise.

Consensus Decision & Recommendation:

1. The proposed IRS 1099 Matching Program is logical, sensible and would achieve its objective.
2. We recommend that the label "non-employee compensation" be substituted for "contract labor" so that the forms are consistent with the Form 1099 and Form 1096.
3. The Committee is concerned that the two questions as phrased will affect compliant taxpayers as well as non-compliant taxpayers. To avoid unnecessary burden, IRS should eliminate the duty to separately calculate total contract labor costs paid under \$600 per person per year as unnecessarily burdensome.
4. Therefore, we recommend that the two questions be:

Q1: Total Non-Employee Compensation Requiring the Issuance of Form 1099

Q2: Total Non-employee compensation reported on Form 1096

5. We recognize that our two questions will not provide the IRS with the statistical, industry-specific database that the two original questions would provide.

Full Committee Approved Decision & Recommendation, subject to Oatley's later consideration of Issue with other committee members and his right to submit a minority objection to the Approval.

N.B. Oatley does not like the proposal instinctively. He would prefer exemptions for the smaller businesses, i.e., that small business would not have to answer these questions. He wishes to discuss the matter with other members, e.g., Karen Kerrigan, who had to leave the meeting early today.



See the attachment for a summary of the Schedule C Issue Committee recommendations.

Annual Report

The Schedule C Committee discussed the issues under consideration, issues that would be placed in the parking lot for the next year and their accomplishments in 2004 in order to formulate the Committee's Annual Assessment.

Closing/ Assessment

Nagel thanked the members and staff for their participation.

Public Input

None.

NOTE: On August 21st, the meeting was prematurely adjourned at 9:30 am because of the early departure of DFO Ramirez.

NEXT MEETING: Teleconference on September 14, 2004.

Summary of Schedule C Issue Committee Recommendations

A. Form 1099 Matching Program Proposal:

1. The proposed IRS 1099 Matching Program is logical, sensible and would achieve its objective.
2. We recommend the label "non-employee compensation" be substituted for "contract labor" so that the forms are consistent with the Form 1099 and Form 1096.
3. The Committee is concerned that the two questions as phrased will affect compliant taxpayers as well as non-compliant taxpayers. To avoid unnecessary burden, IRS should eliminate the duty to separately calculate total contract labor costs paid under \$600 per person per year as unnecessarily burdensome.
4. Therefore, we recommend that the two questions be:

Q1: Total Non-employee Compensation Requiring the Issuance of Form 1099

Q2: Total Non-employee compensation reported on Form 1096

5. We recognize that our two questions will not provide the IRS with the statistical, industry-specific database that the two original questions would provide.

B. Revisions to Form SS-4, Questions 12 and 13: Strike questions 12 and 13 as is. Create new questions 12a and 12b:

-Q12a: Should be "Are you paying wages currently" Yes/No.

-Q12b: If Yes, state the date wages or annuities were first paid; and, what is the Number of Employees of Each Type Paid: Agriculture-Household-Other?

"Yes" answers trigger IRS computers to send out the standard employment tax "Compliance Packet" including payment coupons, returns, and instructions. "No" answers trigger IRS computers to send out employment tax obligation booklets, with instructions to contact IRS (at designated telephone numbers, URLs, or telefax numbers) when first wages/annuities are scheduled to begin in order to request the Compliance Packet.

C. Schedule C EZ modifications: Expand eligibility for form use by striking the "inventory" exception for eligibility. Allow the \$5,000 expense cap, and the requirement of cash basis tax accounting to keep eligibility within suitable "simplicity" boundaries.



D. W-9 IC Form Proposal: The IRS should develop a new form W-9IC form, patterned after the existing form W-9, so that independent contractors (1) disclose SSNs, addresses, etc. to intended payors; and, (2) receive basic education, due to substance and format of form, as to their federal tax obligations (i.e., self-employment tax, income tax and estimated tax payments) respecting the non-employment compensation they receive.

E. High School/Trade School Tax Literacy Curriculum: The IRS should adopt, for pilot program purposes, the curriculum attached to these minutes, and should solicit the service of local tax preparers/practitioners within the pilot area to act as instructors at the schools.

TAXPAYER LITERACY FOR HIGH SCHOOL AND TRADE SCHOOL STUDENTS

The attached curriculum outline is suggested as a means of delivering tax literacy to high school and trade school students. It is not designed for students who are interested in business-related careers, but rather for those who will hold primarily non-skilled summer and/or part-time jobs.

The I.R.S. has prepared a series of excellent training modules for high school students. These lesson plans are available on IRS.GOV. Unfortunately, due to time and standard curriculum constraints, few teachers have opted to learn and/or teach this material. Many teenagers and young adults learn of their tax liabilities only after they get into trouble with the tax system. Further, it has been shown that many young persons eligible to file the basic 1040EZ form, go unnecessarily to paid preparers when they could be shown to easily file themselves.

AARP's Tax Counselors for the Elderly constitute a large cadre of potential classroom instructors. TCE tax-aides are trained and certified in January and serve at sites from February 1 through April 15. Some might be willing to visit classrooms from September through mid-December. IRS SPEC could supply Teacher Lesson Plans to the volunteer TCE tax-aides (Modules 1:Payroll Taxes and Federal Tax Withholding; 2:Wage and Tip Income; 9:Earned Income Credit; and 12:Self-Employment Income and the Self-Employment Tax) as well as sample forms (1040-EZ, 1040, W-4, C-EZ, SE, W-2 and 1099).

AARP could publicize the education program to it's tax-aides through the AARP monthly magazine and/or tax-aide counselors newsletters.

The writer has presented the suggested program on two separate occasions to two classes at Chicago Prosser High School and once to a college credit Hospitality Industry class for high school students at Roosevelt University (Chicago). Each of the five individual sessions took about 30 minutes.

I respectfully request that this proposal be placed on our June 22, 2004 teleconference agenda for consideration by the SBSE Compliance (Schedule C Non-Filers) Issue Committee.

Richard A. Greenberg
Taxpayer Advocacy Panelist
Hinsdale , IL
5/23/2004

SUGGESTED TAX LITERACY CURRICULUM FOR HIGH SCHOOL AND TRADE SCHOOL STUDENTS

HISTORY OF TAXES IN U.S.

- Articles of Confederation
- Constitution Ratification, 1788
- Whiskey Rebellion
- Abraham Lincoln, the Civil War and the Income Tax



- 16th Amendment, 1913

DYNAMICS OF INCOME TAX LAW AND ENFORCEMENT

- Congress, Treasury Department and the Internal Revenue Service

PAYROLL TAXES AND FEDERAL INCOME TAX WITHHOLDING

- Form W-4
- Wages and Tip Income
- W-2 Form
- Schedule 1040-EZ
- Adjusted Gross Income
 - Can someone claim you as their dependent ?
 - Calculating your deduction
 - Calculating the tax
 - Paying the tax or requesting your refund

INDEPENDENT CONTRACTOR INCOME

- Form C-EZ
- Form 1099
- Form SE
- Form 1040

EARNED INCOME CREDIT

Richard A. Greenberg
Taxpayer Advocacy Panelist
Hinsdale, IL
5/23/04



SB/SE Fair Compliance (Schedule C Non-filers) Committee Meeting Minutes

*August 20 and 21, 2004
Denver, Colorado*

August 20, 2004

Opening of the Meeting

Nagel opened the meeting and indicated that the main purpose of the meeting is to finalize outstanding issues and formulate proposals to be addressed to the Program Owner. Also at this meeting, the members will write their Annual Assessment to be addressed to the Joint Committee. All members agreed to complete an outline, attempt a first draft and assign formal drafting tasks to certain Committee members who will then transmit their assignments to Nagel, Ramirez and Knispel.

Nagel announced that he will step down as chair of the Schedule C Non-Filers Issue Committee in November and thus, the members will have to elect a new chair. He added that he will address the participants at the TAP's Annual Meeting in November and encourage them to join our Committee. He regrets that Castleberry, Fish, Forzano and Kerrigan will not continue as TAP members.

Nagel introduced Howard Swarts as the new Acting Program Manager for the Schedule C Issue Committee and Program Analyst Barbara Loos and asked the members to introduce themselves to the them.

Roll Call

Panel Members Attending

- Patrick Castleberry, Edmond, OK
- Walter Fish, Bellmore, NY
- Chris Forzano, La Center, WA
- Richard Greenberg, Hinsdale, IL
- Edward Hanna, Tampa, FL
- Karen Kerrigan, Oakton, VA, Vice Chair
- Paul Nagel, Glen Cove, NY, Chair
- Owen Oatley, Holly Hill, FL
- Teresa Smedley, Salem, IN

Absent

- Charles Taylor, Los Angeles, CA

Quorum was met.

TAP Staff and IRS Staff Attending

- Tersheia Carter, TAP Program Senior Analyst
- Marisa Knispel, TAP Program Analyst
- Barbara Loos, Program Analyst
- Sandra Ramirez, Brooklyn, NY, DFO
- Howard F. Swarts, Acting SBSE Program Manager



Review and Approval of Minutes

The minutes of the June 22, 2004 meeting will be approved at the September 14, 2004 teleconference.

National Office Report

Ramirez introduced TAP Program Senior Analyst Carter. Carter briefed the members on the TAP's recruitment process and indicated that currently the National Office is conducting phone interviews and background checks. The TAP received over 1,000 applications for membership of which 200 applicants have already been interviewed. The TAP Director expects to fill about forty positions in different states. However, a few resignations were also received in the past couple of weeks. When asked how many members have already been selected, Carter explained that no selections were made yet. The FBI background checks and assessment of tax compliance are underway at this time.

Carter also thanked all the members for their hard efforts and a job well done. She, as well as Director Coston, appreciated the amount of time the members have given to the TAP organization. She added that all exiting members will be receiving a certificate of appreciation in the mail. She would have liked to personally present these certificates at this meeting but they were not ready for distribution.

Program Owner Presentation

New Program Manager Swarts indicated that the IRS is very interested in the Committee's EZ Pay Safe Harbor proposal that is currently being worked by the Taxpayer Education and Communication (TEC). The TEC has presented this proposal for estimated tax payment penalty relief to the National Board of Directors and set up a cross-functional committee to get the proposal implemented by 2006.

Swarts said that the idea is to implement the recommendations of this proposal in tandem with a related proposal that would allow self-employed persons 90 days to fully pay any portion of the tax due after filing their tax return.

Swarts indicated that the Board of Directors had two questions regarding the Committee's proposal: 1) What are the substantive or statistical bases for eligibility caps, namely the \$50,000 gross self-employment income limitation and the \$25,000 AGI limitation? and, 2) Must the two limitations be satisfied for eligibility, or may satisfying either one allow eligibility? - Smedley, Castleberry and Forzano answered these questions. They said that the limitations are alternatives. Satisfying either one will permit eligibility. Both are based on statistical research that was provided to the Committee by IRS personnel. IRS data showed that 90% of the self-employed taxpayers that are most likely to underpay estimated taxes and do not file their returns have either less than \$50,000 of gross income from self-employment or less than \$25,000 AGI. Also, the IRS research showed that if such persons paid in a flat 15% of their self-employment income each month, they would have satisfied their income and self-employment tax obligations by the tax return's due date.

Swarts also explained that the IRS is interested in resolving the problem of reaching self-employed taxpayers that have the ability to fully pay with their tax return but wait until receiving an IRS notice to pay the tax due. The IRS would like to know why these people wait to pay the tax and how the IRS can prod them to pay voluntarily before the notice is sent. How can we make these taxpayers pay within 90 days of filing their return? Oatley said the question should be how to make these taxpayers pay their estimated tax payments timely to avoid late payment? Smedley added that the IRS is incorrect in assuming that these taxpayers have the ability to fully pay the tax due with their tax return and wait until they receive the IRS notice instead. These taxpayers who wait usually are those who have not paid their estimated taxes during the year and are caught short at filing time, Smedley said. Some do not know how much tax, if any, they owe until they prepare their tax return. In these cases, the taxpayer can often raise the money within the 90 days and prefer to do so rather than apply for an installment agreement and pay the \$42 fee. All the members agreed with Smedley's comments. Oatley added that the IRS needs to educate these taxpayers on their tax obligations so that the problem does not become repetitious. We need to educate them on their responsibility to pay income tax and self-employment tax. One way to accomplish this, Oatley suggested is by developing a



new Form W-9 exclusively for independent contractors. The new form could be called W-9IC and it will not only solicit their Social Security Number or Employer Identification Number but will also provide them with important information about paying their tax obligations as well as the benefits of filing their individual income tax returns. Smedley said that since currently copies of the Form W-9 are not sent to the IRS, this idea may necessitate a change in procedures to request that a copy of the Form be sent to the IRS. This would add burden to the taxpayer. Discussion on the issue continued and members took the opportunity to ask questions of Program Manager Swarts.

Hanna asked Swarts whether or not the IRS accepted the Committee's suggestion to promote reducing penalties for those taxpayers who enter into an installment agreement. Swarts was not aware of any decision on the recommendation to reduce penalties that apply for failure to pay from the current 0.05% per month to 0.025% per month. Swarts will inquire with former Program Managers.

Loos reported that the Committee's recommendation to increase the expense cap for Schedule C-EZ from the current \$2,500 to \$5,000 was accepted and the IRS's Burden Reduction Office will adopt this new eligibility rule for the 2004 Schedule C-EZ.

Kerrigan asked Swarts if he had information on the proposals the Committee submitted on the "Benefits of Filing" message and the Notice Response Study. Swarts reported that the first proposal is currently under design. He had no information on the second.

Program Analyst Loos indicated that a cross-functional team was formed to work on the Form SS-4 and its instructions in order to clarify the question(s) of how many employees EIN applicants will have. The questions on the form are those numbered 12 and 13, which ask: "When were wages/annuities first paid, or when shall they be paid?" and "How many employees do you / will you have, and in what categories Household-Agricultural-Other?" respectively. These questions, Loos said, pose a problem to the IRS computers which are programmed to send the taxpayers employment tax coupons and returns when the taxpayer states a date on the Form by which wages will be paid. When the taxpayer does not have employees by the date indicated on the Form and consequently does not comply with the expected tax responsibilities, it creates confusion at the IRS. Castleberry suggested striking these questions from Form SS-4 but Smedley replied that this would have the opposite effect for those taxpayers who do have employees by the date indicated, adding to compliance problems.

Smedley told the members that when she applies for a client's EIN on the internet, she gets a prompt response from the IRS. She wonders if the information sent to the taxpayers who apply for the EIN by phone or mail is the same as that sent to those who apply on-line. Smedley suggests that sending tax information such as the applicant's filing requirements and tax obligations at the same time the EIN is provided would increase compliance and education. In addition, Smedley believes the IRS should send a notice asking the EIN recipient to contact the IRS if and when the business hires employees as these obligations may change. Swarts explained that the IRS Commissioner's modernization incentive addresses this issue which cannot be accomplished with the current system. Loos agreed and said that the ideal solution for the internet applicants is to have an interactive system that would allow questions and responses on the issue of employees.

The Committee discussed the SBSE 1099 Matching Project that Quinton B. Smith previously shared with the members to request their feedback.

IRS is faced chronically with an inability to track those who do not pay tax on self-employment income. The law requires payors of non-employee compensation to issue forms 1099 to each person who receives more than \$600 from such payor in the same tax year. Payors are either unaware of the Form 1099 requirement or simply do not issue the Form due to deliberate disobedience or ignorance. The IRS does not audit the issue well and has determined that 72% of those persons who do not receive a Form 1099 do not report and pay tax on the funds. The IRS has no efficient means currently



to track this problem and the public is aware of it. The IRS proposed to add two questions to the Forms 1120, 1120S, 1065 and Schedule C, namely, (first) "What are your total contract labor costs for the year?;" and, (second) What are total contract costs for which you are required to issue a Form 1099?"

The answers would (i) tie to other answers on the Forms, (ii) would require taxpayer to educate themselves as to the Form 1099 issuing and reporting requirements, (iii) would generate public awareness that the IRS can now match Form 1099 data with particular taxpayers; (iv) would allow the IRS to track the information through computer automation; and, (v) would allow the IRS to develop industry-specific data as to Form 1099 income. The IRS has had increased compliance success with a limited pilot program in the Oklahoma-Arkansas district. The Schedule C Issue Committee decided this was an issue for the Payment Issues Subcommittee to consider.

Subcommittee Breakouts

The Payment Issues Subcommittee and the Education and Outreach Subcommittee met in separate rooms to discuss their issues and formulate proposals.

Public Participation

None.

Closing Assessment

Nagel closed the meeting after reviewing the agenda items for the next day.



SB/SE Fair Compliance (Schedule C Non-filers) Committee Meeting Minutes

June 22, 2004

Opening of the Meeting

Nagel opened the meeting and announced that Susan Leatherman was joining our meeting on behalf of Rebecca Johnson. Nagel spoke about the 1099 Matching Program information package sent to all the members. This Program is an issue for the Payment Issues Subcommittee, he said.

Roll Call

Panel Members Attending

- Patrick Castleberry, Edmond, OK
- Walter Fish, Bellmore, NY
- Chris Forzano, La Center, WA
- Richard Greenberg, Hinsdale, IL
- Karen Kerrigan, Oakton, VA, Vice Chair
- Paul Nagel, Glen Cove, NY, Chair
- Owen Oatley, Holly Hill, FL
- Teresa Smedley, Salem, IN
- Robert Taylor, Pittsburgh, PA

Absent

- Edward Hanna, Tampa, FL
- Charles Taylor, Los Angeles, CA
- Rebecca M. Johnson, SBSE Program Manager

Quorum was met.

TAP Staff and IRS Staff Attending

- Audrey Jenkins, TAP Program Analyst
- Susan Leatherman, Acting SBSE Program Manager
- Sandra Ramirez, Brooklyn, NY, DFO

Review and Approval of Minutes

Greenberg moved to approve the minutes of the February 10th meeting and Fish seconded the motion. Oatley asked that a sentence quoting him on page 4 of the April 22, 2004 minutes be removed. Oatley said that either the attribution to him is incorrect or he may have said more than indicated in the minutes. Pending this correction, all members conceded to approve the April 22nd minutes.

Program Owner Presentation

Again, Nagel introduced Leatherman as the Program Manager for this meeting in Johnson's absence. Leatherman added that Johnson's backup, Barbara Loos, was also unable to join the teleconference due to illness. She stated that she had no information to share with the members but she would gladly answer any of their questions if possible or share them with Johnson for future response.



Nagel reminded everyone that there would be no official teleconference in August due to our face-to-face meeting in Denver. He added that Knispel had made arrangements with a hotel near the IRS building where the meeting will be held. He is working closely with her on the agenda and logistics for this meeting. He also requested that if anyone had suggestions for the agenda to send them to Knispel.

DFO Ramirez reminded all the members that they will be working with Management Assistant Odom to make their travel arrangements for the Denver meeting.

Nagel spoke about the issue of the 1099 Matching Program and writing a proposal on this issue. He added that there will be subcommittee teleconferences in July to follow up on the respective issues. Castleberry explained that he missed the last teleconference of the Payment Issues Subcommittee but remembered that they were working on the issue of the Form SS-4. He believes this issue is very interesting and the Subcommittee should continue its work unless it has already been resolved. Oatley explained this is an issue that is being worked by the Notices Issue Committee. Nagel agreed this issue is not within our scope and added that our new issue is that of creating specific instructions for Form W-9 addressing the independent contractors.

Ramirez asked for clarification on the Committee's specific issue of interest on the Form SS-4 when Nagel said that this Form is beyond the scope of the Committee. When asked for her opinion, Leatherman disagreed and explained that this Form is definitely an issue for the Schedule C Non-Filer Committee to explore. The issue, she said, affects new small business owners applying for an Employer Identification Number (EIN) who may incorrectly state in their application that they will have employees in their business. An incorrect statement on the SS-4 will cause problems when the IRS expects the applicant to fulfill his/her tax filing requirements accordingly. The filing requirements for a small business with employees are different than those for a small business without employees. The IRS wants to avoid this problem. Castleberry added that this is an issue not only affecting Schedule C users but one that extends beyond.

Nagel said that the Outreach & Education Subcommittee was working on revising the Schedule C-EZ. He asked Leatherman if she could suggest any other issues of possible interest for the Committee. Leatherman had none.

Castleberry commended Greenberg on his educational curriculum and said that it would be a great idea for all trade schools to include this type of curriculum within their own curricula as most of their students will probably be self-employed sometime in their future. Fish added that a recent newsletter from the New York State Society of CPAs dealt with the tax professionals' awareness of the current lack of literacy in trade schools. He added that some of these schools (such as those located in Brooklyn, NY) have taken steps to revise their curricula to include educational programs similar to Greenberg's. The question, Fish said, is how to extend the same education nationwide.

Next, Greenberg discussed his educational curriculum. He explained that he was in Atlanta on May 17th attending a meeting of the Volunteer Testing Program for the IRS's VITA and TCE/AARP Programs. While in Atlanta, Greenberg met Elaine Beck, Chief of Education and Product Development for the IRS's SPEC (Stakeholder Partnerships, Education and Communication) organization. Greenberg showed Beck a 30-minute curriculum he has developed using SPEC's educational training modules to deliver tax literacy to high school and trade school students. The curriculum would greatly help students who are employed and unnecessarily pay preparers to file a basic Form 1040EZ when they could easily learn how to prepare and file the Form themselves. Others who work unknowingly as independent contractors also need to learn their tax obligations. Beck has expressed interest in using Greenberg's curriculum as part of the SPEC's program to accomplish this. However, in order to teach this curriculum, volunteers with tax preparation knowledge are needed. Greenberg also approached an AARP representative at this meeting to discuss the curriculum and the possibility of using AARP's 15,000 tax counselors for the elderly as potential classroom instructors. The representative was interested in Greenberg's curriculum and will present the idea to the AARP. Whether or not AARP joins



in the effort of delivering this curriculum to classrooms, Beck has indicated that other organizations may be interested in joining the teaching effort.

Fish added that the Area 1 Committee chair, Jim Grimaldi, is also working on the issue of expanding financial literacy. He is currently working with the Brooklyn Borough President to form a coalition to accomplish this. Fish and Nagel will share the curriculum and its purpose with Grimaldi.

DFO Ramirez asked Greenberg whether his curriculum should be formally presented to the IRS. Greenberg indicated that Beck is interested in the curriculum regardless of whether or not the TAP recommends it - so essentially, the issue has already been presented to the IRS. Ramirez suggested that Greenberg write a formal proposal on this curriculum in order to forward it to the Schedule C Non-Filer Program Owners. Ramirez also asked Greenberg which organizations, other than the AARP, would be interested in the curriculum. Greenberg said Beck mentioned professional organizations and societies like the AICPA might be interested. Fish added that based on the newsletter he referred to previously, CPAs and tax professionals have the expertise to teach this curriculum.

Nagel requested that Ramirez suggest to the TAP Director and TAP Managers the idea of sharing Greenberg's curriculum with the newly selected TAP members that have no tax experience - for example, having a tax workshop for them using this curriculum at the TAP's Annual Meeting. Ramirez promised to share the idea with them at their next staff teleconference. Nagel and Kerrigan also suggested informing NTA Nina Olson of Greenberg's accomplishments in order for him to be recognized for his excellent work.

Subcommittee Reports

Payment Issues Chair Fish suggested the members appoint a new subcommittee chair at the face-to-face meeting in Denver. He also said that the only issue on the subcommittee's table at this time is that of the IRS's 1099 Matching Project. Nagel recommended that the members of this Subcommittee obtain the opinion of non-tax professionals such as those of acquaintances and members of the Outreach & Education Subcommittee on this issue.

Nagel also presented a new issue: The income reporting obligations of E-bay and other e-commerce sellers- Do they know how to file and report their income? With the increasing trend of buying and selling on the net, Nagel wondered if the IRS is educating these people. Leatherman explained that there is a separate IRS office dedicated to e-commerce. She did not know, however, what this office is currently doing. Smedley commented that she was not sure whether or not the IRS could pressure the commercial organizations to inform commercial users of their tax reporting obligations in the absence of a requirement for these organizations to do so. Leatherman suggested that an explanation on reporting the income from casual sales (such as E-bay) is as simple as adding a line to the Form 1040 Instructions. Smedley said that it would be interesting to know what the IRS is currently doing on this issue. A way to educate these e-commerce users, she said, is simply accomplished by the IRS participating in their meetings and conventions. Nagel requested that Knispel research the initiatives and studies accomplished by the IRS's e-commerce office on this issue.

Outreach & Education Kerrigan discussed the suggestions the Subcommittee members made on Nagel's issue of Schedule C-EZ. The Subcommittee will follow up by writing a proposal to be shared and approved with the full Committee and subsequently addressed to the IRS. Kerrigan added that this Subcommittee is interested in revising their original proposal on the FYI box of Form W-9. Although the IRS did not accept their original recommendation, the members feel that a modification to their recommendation might be accepted.

Closing/ Assessment

Nagel asked that the subcommittee finalize their proposals and share them with the full Committee at the Denver meeting in order to achieve consensus and address them to the IRS.



Oatley wants to follow up on the issue of informing filers about alternate means of paying their taxes, such as installment payments, temporary collection stays, offer in compromise, etc. Knispel will follow up on this issue before the subcommittee's teleconference on July 13th.

Nagel reminded the members that although he will remain as TAP member for a third year, the members should re-elect another chair for this Issue Committee.

Public Input

None.

Action Items

Ramirez will share with TAP Director and Managers the Committee's suggestion to share Greenberg's educational curriculum with the TAP members who are not tax professionals- as an educational workshop.

Payment Issues Subcommittee will finalize their comments and recommendations on the 1099 Matching Project.

Outreach & Education Subcommittee will finalize their proposal on revising the Schedule C-EZ.

Greenberg will write a proposal to recommend his educational curriculum.

Knispel will follow up on the Outreach & Education Subcommittee's decision on the alternate ways to pay federal income tax- description of payment information on instructions, publications, etc. before the next Subcommittee's teleconference on July 13th.

Knispel will research the activities of the IRS office that deals with e-commerce. Their education programs, studies, etc.

NEXT MEETING:

Teleconferences on July 13 2004 for:

- Payment Issues Subcommittee at 11:00 AM ET
- Outreach and Filing Subcommittee at 2:00 PM ET.

Face-to-face meeting of the Schedule C Issue Committee in Denver, August 20 and 21, 2004.



SB/SE Fair Compliance (Schedule C Non-filers) Committee Meeting Minutes

April 22, 2004

Opening of the Meeting

Nagel opened the meeting at 11:02 A.M. ET and asked if anyone had any change to the agenda. No one had any. Knispel announced that she would be Acting DFO as Ramirez was unable to attend. She will also take the minutes of the meeting.

Roll Call

Panel Members Attending

- Patrick Castleberry, Edmond, OK
- Richard Greenberg, Hinsdale, IL
- Edward Hanna, Tampa, FL
- Marisa Knispel, Brooklyn, NY, Acting DFO
- Paul Nagel, Glen Cove, NY, Chair
- Owen Oatley, Holly Hill, FL
- Teresa Smedley, Salem, IN
- Robert Taylor, Pittsburgh, PA

Absent

- Walter Fish, Bellmore, NY
- Chris Forzano, La Center, WA
- Karen Kerrigan, Oakton, VA, Vice Chair
- Manning H. Mosley III, Wayne, PA
- Sandra Ramirez, Brooklyn, NY, DFO
- Charles Taylor, Los Angeles, CA

Quorum was met

TAP Staff and IRS Staff Attending

- Rebecca Johnson, SBSE Program Manager
- Marisa Knispel, TAP Program Analyst

Review and Approval of Minutes

Knispel indicated that Program Owner Johnson had some last minute additions to the minutes. Due to lack of time to revise and distribute them, the revised February minutes will be approved at our next full committee meeting.

Knispel added that due to other commitments, Johnson could participate in today's meeting for only an hour and asked members to take advantage of referring any questions to her before 12:00 PM.

Program Owner Presentation

Johnson sent Nagel a letter on March 23, 2004 in response to the Committee's proposal containing four different recommendations: 1) W-9 fyi Box, 2) Benefits of Filing Brochure and /or Messages, 3) IRS Notice Response Study and 4) TAP Awareness of IRS Curriculum Understanding Taxes. Johnson



explained that Filing and Campus Compliance Director Cheryl Gramalia recommended that the IRS implement two of these recommendations.

The first recommendation accepted for implementation is that of the Benefits of Filing that is currently being reviewed to become a component of the IRS's Nonfiler Communication Strategy. The Committee's recommendation is awaiting clearance from the IRS Counsel. The Taxpayer Education and Communication (TEC) is preparing a draft to deliver the message in various ways, such as through partnering organizations, website, etc with incorporated ideas on the benefits of filing. Johnson thanked the Committee for their work.

The second recommendation accepted is the Notice Response Study that the TEC will consider and incorporate as part of their notice study. Johnson indicated that TEC will request the Committee's input as they progress in their work. Again, she thanked the Committee.

Johnson explained that the Program Owners did not accept the recommendation of the FYI' Box on Form W-9 because this is a multi-purpose form used by many businesses and individuals for different reasons. The Program Owners felt that implementing the Committee's recommendation might create confusion for taxpayers for whom the Form was not intended. Nagel asked Johnson what are the other purposes of the Form W-9. Johnson replied that the Form is used by any person or organization to request information from the IRS using a taxpayer identification number. Therefore, since it is a multi-purpose form, the other IRS organizations with whom the Program Owners discussed this recommendation agreed that the recommendation should not be implemented. Hanna disagreed with this decision and said that even though the Form W-9 might be a multi-purpose form, it is a great vehicle to deliver the message. Johnson suggested the Committee think of an alternate vehicle.

Johnson continued with the Awareness of IRS curriculum proposal, also not accepted. The reason is because the TEC and the Stakeholder, Partnership, Education and Communication (SPEC) are currently working together to develop curricula for their audiences. Greenberg stated that it is his opinion that the curriculum developed for the public school system is not adequate. Greenberg has personally developed a sample curriculum, not as a lesson plan, but as a way to deliver tax literacy to high school and trade school students. Greenberg finds that many of these young students are not involved in business development courses, but they do have jobs (part-time or summer) and are required to file a tax return at the end of the year. The outline he developed is a simple outline that could be used to educate this young people, many of whom are Schedule C filers. Greenberg would like to share his curriculum with the Committee at the next face-to-face meeting. Johnson suggested the Committee examine Greenberg's curriculum and compare it to SPEC's existing curriculum and any other in the process of development to provide a more informed approach to a recommendation. Greenberg agreed.

Johnson informed the members that the TEC organization will take ownership of the Committee's EZ-Proposal. She has scheduled a meeting for April 30th to discuss the proposal and layout plans with the TEC team. Johnson will report back on the decisions made at this meeting and also share the contact information at the next Committee meeting. She congratulated all the members for this proposal which she believes may have significant impact with small businesses.

Nagel requested that Johnson research if this would be the appropriate time for the Committee to present their recommendation on modifying the Schedule C-EZ. Johnson presented the idea to the Burden Reduction Office. However, because this office is short-staffed, they have not had a chance to review it. This Office will respond to Johnson by the first week in May and then she will share the information with all Committee members at the next meeting.

Nagel shared the issue that many businesses request that their accountants do not file Form 1099-MISC for various reasons. However, they take advantage of the deduction at the time of filing. The \$100 intentional disregard penalty is not a deterrent to this practice. Nagel proposes that the IRS send



out notices announcing no 1099-MISC filed, no deduction. Johnson explained that currently there is a TEC team developing a 1099 matching component to the tax returns for Schedule C, partnerships and corporations. Johnson suggested inviting the TEC's team lead to participate at the next Payment Issues Subcommittee meeting to share the ideas of this 1099 Matching Project and at the same time to receive feedback from this subcommittee. The members agreed. Hanna supported Nagel's idea of the IRS releasing this type of notice because it will alert the taxpayers that they may be examined if they do not comply. Nagel asked if any member of the Payment Issues Subcommittee had any objections about considering this issue. No objections presented.

Johnson asked if there were any questions about the direction the Committee should take on the issue of Form SS-4. The issue with this Form is that it asks the EIN applicants if they will have employees in the next twelve months. This is misleading and confuses the EIN applicant to say yes. What happens thereafter is that the IRS researches that all filing requirements such as the filing of Form 941 have been met for such applicant. In some cases, these applicants or new businesses file F 941 with \$0. This causes a burden to the IRS. The Form SS-4 should be modified to assist the applicant to answer the question correctly and alert them that filing requirements are different if employees are involved. Johnson indicated that the Payment Issues Subcommittee was interested in following up this issue. Johnson asked if anyone had questions. Oatley asked Johnson if the IRS sends out a periodic notice to these new businesses to inquire if their situation has changed. Johnson said no, the IRS does not send notices and asked the Committee to provide their ideas on this issue, thus eliminating the unnecessary F 941s that are filed. The Payment Issues Subcommittee decided to work on this issue.

Nagel described his idea of creating a simpler Schedule C with fewer lines than the current Schedule. The new Form would have more lines than Sch C-EZ and would be easier to complete than the Sch C. Oatley suggested comparing the qualifications of both Schedules to work on the form. Knispel said that this would create more confusion and some members agreed. Greenberg suggested revising Sch C-EZ by expanding its qualifications and thus making it an alternative to more complicated Schedule C. Nagel agreed and indicated this was another idea: to expand the current Schedule C-EZ by increasing the expense limit from the current limit of \$2,500. Again, the Payment Issue Subcommittee will work on this issue.

On education issues, Nagel asked if the IRS partners with the U.S. Department of Education to disseminate financial and tax literacy to schools nationwide. Johnson explained that the IRS uses national and local coalitions whose members disseminate the information. Since the IRS does not have adequate resources to distribute educational tax material and outreach to schools nationwide, the partnerships use their members and volunteers to do so.

Knispel spoke about a TAP website comment from a Texas taxpayer who recommends that F1099-MISC should have a withholding similar to that of IRAs. Smedley stated that doing this would shift the burden to the payer.

It could also add more burden to the IRS, Nagel said, because it then becomes an enforcement issue to have the payers send these withholdings to the IRS. Johnson suggested working this issue in conjunction with that of Form W-9 to educate payers on their filing requirements. Nagel asked the Outreach & Education Subcommittee members if they would accept this as an issue of consideration. They agreed.

Joint Committee Report

Nagel informed the members that the Joint Committee agreed that it was within this Committee's scope to work on enforcement issues.

New Business

Nagel explained that due to a conflict with a face-to-face meeting, the next Schedule C Nonfiler teleconference would have to be rescheduled. The date of June 22nd was chosen.

**DFO Report**

Knispel explained the current stage of recruitment. She said the TAP received 968 applicants according to the National Office's last report. Two applications were from Puerto Rico .

Public Input

None.

Closing Assessment

Nagel thanked all the members for their participation.

Action Items

Johnson will invite 1099 Matching Project team lead to the next Payment Issues Subcommittee meeting.

NEXT MEETING

Teleconferences on May 11, 2004 for:

- Payment Issues Subcommittee at 11:00 AM ET
- Outreach and Filing Subcommittee at 2:00 PM ET.

Teleconference on Tuesday, June 22, 2004 at 11:00 AM ET for the Schedule C Non-Filer Committee.



SB/SE Fair Compliance (Schedule C Non-filers) Committee Meeting Minutes

February 10, 2004

Opening of the Meeting

Nagel opened the meeting at 11:02 A.M. ET by welcoming members and introducing the new Committee's Program Manager, Rebecca Mack Johnson. He also introduced and welcome guest Joan Pryde of Kiplinger Magazine.

Nagel asked members if they had seen the meeting's agenda and requested any change be made before opening. No changes were made.

Roll Call

Panel Members Attending

- Walter Fish, Bellmore, NY
- Chris Forzano, La Center, WA
- Richard Greenberg, Hinsdale, IL
- Edward Hanna, Tampa, FL
- Karen Kerrigan, Oakton, VA, Vice Chair
- Paul Nagel, Glen Cove, NY, Chair
- Owen Oatley, Holly Hill, FL
- Sandra Ramirez, Brooklyn, NY, DFO
- Robert Taylor, Pittsburgh, PA

Absent

- Patrick Castleberry, Edmond, OK
- Manning H. Mosley III, Wayne, PA
- Teresa Smedley, Salem, IN
- Charles Taylor, Los Angeles, CA

TAP Staff and IRS Staff Attending

- Rebecca Johnson, SBSE Program Manager
- Marisa Knispel, TAP Program Analyst

Quorum was met.

Review and Approval of Minutes

Greenberg requested that page 3 of the minutes from the December 9, 2003 meeting read that SPEC Territory Manager Pat Kirk is responsible for introducing the IRS tax curriculum into the high school business programs. Greenberg's efforts are to extend the curriculum beyond the business programs to people who are employed. He is currently working with Kirk to get the tax curriculum into non-business programs.

Correction is needed on page 4, where Ed Hanna's name was misspelled as Hannah.

Consensus was reached in accepting the minutes pending these corrections.



New Program Owner

Johnson briefed the members on her IRS background and explained that she was chosen to work with this Committee due to her involvement in the EFTPS/FTD Penalty Refund Project during her position as Supervisory Tax Specialist in the IRS's TEC organization. She added that she appreciates the opportunity to work with this group.

Johnson stated that in today's meeting, she would like to speak to the members about this Project, the notices and letters that deal with the non-filer issue and the status of the Committee's EZ Pay Proposal.

The EFTPS/FTD Project's aim is to entice small business owners to use EFTPS instead of paper. EFTPS, she said, is more accurate eliminating 98% of errors that occur with the use of paper coupons. Also EFTPS is a convenient system that may be used 24 hrs. per day, seven days a week and allows for cancellation of payments. She talked about the IRS's current efforts in enticing small business owners to use EFTPS by giving the analogy of Delta Airlines' tactics for their customers to use electronic ticketing. When a small business owner who never used EFTPS signs up to make all his deposits with this system, she said, and he proves to be consistent in using it, the IRS will abate a penalty from the past year.

The incentive was tested on a control group and the IRS found that there was an increase in enrollment and compliance. Based on this data, the IRS decided to roll out the program nationwide. The IRS did not want to use the media to promote the program; instead, they wanted to promote it through the practitioner community. However, media advertising of the program will now begin on April 19th.

Johnson said that Kiplinger expressed interest in advertising this program in their newsletter. Pryde agreed and said that a subscriber was interested and asked how to enroll. Johnson offered phone numbers of the services to contact to enroll in EFTPS: the Business and Specialty Hotline at 1-800-829-4933 and the EFTPS Customer Service at 1-800-555-4477. Fish suggested promoting the program via the penalty notices sent to taxpayers. Johnson said it was a good idea.

Hanna asked if any other forms besides the Form 941 may be filed using EFTPS; Johnson replied not yet. Greenberg asked what is the amount of deposits that the taxpayer must make in order to be granted penalty abatement. Johnson could not recall the amount of the deposits for mandatory use. Note: Later today, the staff researched the information and found that for 2004, mandatory use of EFTPS is required when: 1) the total deposits in 2002 were more than \$200,000 or 2) when the taxpayer was required to use EFTPS in 2003.

Johnson indicated that the Program Owners were considering the Committee's EZ Pay Proposal and that this proposal could work in conjunction with the EFTPS Project. She said that Gramalia sent a letter to the Committee members thanking them for their recommendations. Nagel read the letter aloud.

Johnson has discussed the Proposal with TEC and IRS Counsel and will be meeting again this Friday with the former to further discuss and develop something similar to the EFTPS concept. She will report their efforts back to this committee because she feels that stakeholder input, mainly that of practitioners, is crucial for the project's success. Ramirez reminded Johnson that the Committee is not solely composed of tax practitioners.

Fish concurred that the EFTPS Project would work well in conjunction with the EZ Pay Proposal since there is a probability that a first year filer would have incurred a penalty.

On that note, Johnson began to speak about the notices/letters that Knispel had previously faxed to them. CP 515 and CP 518 are computer-paragraph letters sent to non-filers.



Kerrigan briefed Johnson on the Education and Outreach Subcommittee's interest on these notices. She said that the previous Program Manager Leatherman suggested they tackled these notices and simplify them. Oatley requested the entire package aimed to non-filers including publications such as Publication 594 and any other enclosures should be considered for review and simplification.

Nagel asked, "Do you believe that a non-filer might be overwhelmed with all this information?" Kerrigan said that this was Leatherman's concern.

Johnson asked the Education & Outreach Subcommittee members if they would object to inviting Sid Gardner to participate at their next meeting. Gardner is a TEC Analyst who could better explain these notices. All subcommittee members agreed to invite him.

Subcommittee Reports

Payment Issues

Fish said that the subcommittee is currently looking for issues to consider. He mentioned that at their last meeting an issue that surfaced was whether the TAP is supposed to advocate for taxpayers or assist the IRS with its enforcement efforts. Nagel asked DFO Ramirez for her input. Ramirez was not privy to the Program Owner's recommendations to the subcommittee, but from what she learned of this issue from emails, she suggests that the subcommittee follow the Program Owner's directions on assignments.

Hanna expressed his objection to assisting in enforcement issues by saying that his understanding was that the TAP is to encourage the public's tax compliance and advocate for the taxpayer. He feels that assisting the IRS in enforcement is the antithesis to this. Kerrigan clarified for Ramirez that the Program Owner made no specific recommendation on enforcement or that any assignment was given; she only asked for ideas on encouraging equality in compliance. Kerrigan agreed with Hanna that the TAP's mission is not aligned with assisting the IRS in enforcement issues.

Fish suggested that the Program Manager/Owner give this subcommittee members a specific assignment. Johnson said that she understood that the communication was two-way whereby the Program Owner would give the Committee assignments and the Committee would give the Program Owner grassroots communication. She added that she would not like the Committee to be entirely directed by the Program Owner.

Outreach and Filing

Kerrigan briefed the members on Oatley's suggestions on the OIC Program and its effects on non-filers. Oatley said that he would like the OIC Program offer clear and concise language on the payment options offered to non-filers. This issue, Kerrigan noted, may be of interest to both subcommittees. Nagel said that he is currently working with Knispel on researching OIC language.

Kerrigan also mentioned Nagel's idea to increase the Schedule C-EZ income limitation as a possible issue.

Greenberg has been very busy spreading the word of tax compliance to high school programs and works closely with SPEC's Chicago Territory Manager Pat Kirk and her office to accomplish this. On February 24th, he will be meeting with a group of high school students at Roosevelt University to speak about the different tax returns and educate them on the responsibilities of reporting wage and tip income as well as income reported on the Schedule C. These high school students are currently taking a human resources college course geared for the hospitality industry. If Greenberg's efforts are successful with this group, future educational possibilities to educate other students will be available. Through a contact to Kirk's office, Greenberg has also scheduled another educational opportunity to students of Curie High School on April 7th. He will teach these students how to complete Form 1040 EZ and educate them on other forms including Schedule C and C-EZ. These high school students are



the future independent contractors and entrepreneurs and tax compliance education is essential. Greenberg noted that he appreciates the cooperation and assistance of Pat Kirk and her office in scheduling these educational opportunities.

Admiring Greenberg's educational efforts, Hanna asked Greenberg for his recommendations to be shared with other Committee members so that they all have the success of bringing tax compliance and education to their local communities.

Ramirez reminded members to market the TAP Program in their outreach.

New Business

Nagel asked that the new issue was whether we should advocate for the IRS or the taxpayer? Oatley expressed his opinion saying that the TAP is independent. If we get involved in enforcement, we lose that independence. Fish does not think that the issue should be avoided altogether. Kerrigan added that the TAP's mission clearly states what we must do. Discussion ensued.

Nagel requested that Johnson participate at the next subcommittees' meetings next month.

Johnson presented a new issue to the members: Sometimes Schedule C non-filers who apply for an EIN indicate on the SS4 that they will have employees because of fear that the application might be rejected if they do not indicate this. The IRS tracks these applications and spends much time and money to find that many applicants never had employees and thus never needed EINs. The question is how to eliminate the confusion of these new business owners and indicate that there is no need to have employees to apply for an EIN? - Johnson wants to avoid the IRS's efforts to track these applicants who never had the filing requirements of an employer.

DFO Report

It was decided at the last Joint Committee meeting, Ramirez said, that those members who volunteered to remain in the TAP for a third year will do so. Recruitment will soon begin in those states where vacancies are planned. Currently, the National Office is working on the TAP website and other recruitment efforts such as the list of alternate members. She asked that all Schedule C Non-Filer Issue Committee members diffuse the word of the TAP recruitment in their local communities and to people they know.

Public Input

Pryde thanked the members for allowing her to participate. She noted that it was a very interesting meeting on a very interesting topic and added that many of Kiplinger's subscribers are concerned with this issue.

Closing Assessment

Nagel thanked all the members for their participation and motioned to close the meeting. Hanna seconded this motion.

Action Items

Johnson will invite Sidney Gardner to participate at the next Outreach & Filing Subcommittee meeting.

NEXT MEETING

Teleconferences on March 9, 2004 for:

- Payment Issues Subcommittee at 11:00 AM ET
- Outreach and Filing Subcommittee at 2:00 PM ET.

Teleconference on Tuesday, April 13, 2004 at 11:00 AM ET for the Schedule C Non-Filer Committee.