June 26, 2018
Alaska Practitioner Liaison Meeting
Virtual Meeting via WebEx
Time: 1:00 pm –3:00 pm Alaska

Attendees:

Internal Revenue Service

- Kristen Hoiby, Stakeholder Liaison, Area 6 Manager
- John Blakeman, Stakeholder Liaison
- Brian Wozniak, Senior Stakeholder Liaison
- Maria Shaddy, Senior Tax Analyst, Automated Underreporter
- Dennis Hills, Supervisory Revenue Officer, Collection
- Doris Marshall, Lead Case Advocate, Taxpayer Advocate Service

Practitioner Representatives

- Therese Sharp, Chair, ASCPA, Alaska Society of CPAs
- Mike Richards, ASCPA
- Christina Passard, ABA, Alaska Bar Association
- Rebekkah Beckstead (for Lisa Rogers, ASCPA)
- John Rogers, ASCPA
- Christy Lee, ABA
- Chuck Schuetze, ABA
- Paula Laurion, ASIA ,Alaska Society of Independent Accountants
- Sherry Whah, NATP, National Association of Tax Professionals
- Karen Ague, ASCPA
- Lavonne Scott, ASIA
- Ryan Beason, ASCPA

Meeting Summary

Kristen Hoiby, Stakeholder Liaison

The Tax Cuts and Jobs Act (TCJA), passed late last December, represents the most sweeping changes to U.S. tax law since the Tax Reform Act of 1986. Implementing the changes from the TCJA has been a major effort for the IRS since it was passed, and will be a priority for months to come. The new law does not generally affect 2017 tax returns, rather, it affects the 2018 returns that will be filed next tax season. So the top priority at the IRS is to ensure taxpayers and tax professionals can navigate and understand these changes.

The Tax Reform Implementation Office (TRIO) was established in early January this year to help with the orderly rollout of these changes. TRIO has centralized responsibility for leading the Service-wide, coordinated implementation of the tax reform provisions.

One of the first actions was revising the withholding tables to take into account changes made by TCJA. The revised withholding tables were released in January. In February we released the revised W-4. We also continue to encourage EVERYONE to do a 'Paycheck Checkup' during this year to make sure they are having their employer withhold the right amount of tax for their situation. The link to the revised Tax Withholding Calculator is on IRS.gov.

Again, we're providing information to the public as it becomes available. IRS is working with Treasury to provide both formal published guidance, such as regulations and notices, and what we call "soft" guidance, such as press releases and Frequently Asked Questions. Stakeholders and taxpayers can find the latest updates on IRS.gov on a new page called Tax Reform .

Brian Wozniak, Stakeholder Liaison

Identity Theft and Data Security:

Significant progress has been made during the past two years. There was a 46% drop in the number of people reporting to the IRS that they were a victim of tax related identity theft from 2015 to 2016 and there is currently a 40% drop from 2016 to 2017. Number of reported incidents has dropped from approximately 700,000 taxpayers in 2015 to approximately 190,000 in 2017.

During the first five months of the 2018, more tax preparers are reporting that their systems were breached and taxpayer data was stolen. There are almost twice as many incidents when compared to the same period in 2017. We are currently receiving 3-5 data loss reports each week from tax professionals.

Always use best security practices:

- Learn to recognize and avoid phishing emails, The IRS is not going to send emails asking for your password. Your tax software provider will not send emails asking for your passwords.
- Use strong security software to protect you from viruses and malware;
- Make sure your software is up-to-date
- Use the security functions that come with your tax pro software;
- Encrypt taxpayer data – especially in emails
- Password protect the files
- Password protect your computer using a strong, unique password that is 12-16 characters
- Use layers of passwords – password for network, password for software, you could have a separate password if using remote access software, and you could even have a separate password for each client file.
- Have your system lock users out when passwords are entered incorrectly (3X – 6X) – to protect against malicious software password breaking programs such as Bruteforce

- You can limit the time your system is available – for example you could block it from 6 at night until 6 in the morning
- You can set the system to block foreign IP addresses

Follow up with your insurance company and make sure you have adequate coverage in case you do experience a breach. There are legal costs to consider, there is the cost of conducting a forensic deep data scan – that alone can easily be $12-15,000 dollars; and in many of the breaches we've been involved with the forensic imaging and deep data scans cost $30-35,000 dollars. And then you also want to make sure you have insurance to cover credit monitoring for the impacted employees and clients that had their personal information compromised.

Have Two Plans:

First, you need an Information Security Plan outlining policy, procedure and what steps you currently take to protect your company and to prevent a data breach. This would cover things like: procedures you have in place to secure data, physical security of rooms, securing computers, securing data on photocopies, securing trash cans, securing any remote access software, disposing of sensitive information, performing background checks on employees, having exit interviews when employees leave, establish Rules of Behavior. Many companies conduct Risk Assessment - usually at least once a year, sometimes twice. The Risk Assessment reviews the current Identity Protection Plan. Some companies hire an outside contractor to conduct a Penetration Test – this is where an IT specialist basically tries to hack into your system to identify potential vulnerabilities and weaknesses.

Then you need a second plan outlining what specific actions you are going to take if you do experience a data theft. That would be your Data Breach Plan. It's critical that you know what to do so you don't waste any time. There are best practice recommendations on the Federal Trade Commission website (www.ftc.gov). This plan would address: which systems will be shut down. Are you going to unplug and disconnect from the internet (probably)? How will you track the data loss, how will you document it, which employees to interview, who will notify police, the IRS and the insurance company? Who will notify clients and other impacted businesses – and what specific information will you share with them. Who will notify state agencies. You may not have ALL the specifics of what actions you would take – but you could have all your points of contact listed there – in addition to general steps (like unplugging from the internet). A list of agencies to contact is on IRS.gov (https://www.irs.gov/individuals/data-theft-information-for-tax-professionals)

John Blakeman, Stakeholder Liaison

Payment Options:

Any time seems a good time to talk about payment options. As always, there are a number of ways one can pay their tax bill: EFTPS, card, cash, check, IRS Direct Pay, and if you can't pay it all now, there are installment plans available too. For payment options, please click the following link: https://www.irs.gov/payments

Remain alert to scams this summer:

The IRS and its Security Summit partners – the state tax agencies and the tax industry – urge taxpayers to remain alert to tax scams year-round, especially immediately after the tax filing season ends. Even after the April deadline passes, the tax scam season doesn't end.

While many of the scams are variations on a theme and tend to evolve over time, taxpayers should be on the lookout for any attempt to get them to disclose personal information like Social Security numbers, account information or passwords. If in doubt, don't give it out. Those receiving such calls should hang up and initiate correspondence with the agency that is purportedly inquiring about their account using a well-known phone number or email address. Clicking on links provided in emails or calling back unfamiliar phone numbers is not recommended.

Phone scams:

The IRS does not call and leave pre-recorded, urgent messages asking for a call back. In this tactic, the victim is told if they do not call back, a warrant will be issued for their arrest. Other variations may include threat of other law-enforcement agency intervention, deportation or revocation of licenses.

Criminals are able to fake or "spoof" caller ID numbers to appear to be anywhere in the country, including from an IRS office. This prevents taxpayers from being able to verify the true call number. Fraudsters also have spoofed local sheriff's offices, state Department of Motor Vehicles, federal agencies and others to convince taxpayers the call is legitimate.

Email phishing scams:

If a taxpayer receives an unsolicited email that appears to be from either the IRS or a program closely linked to the IRS, such as the Electronic Federal Tax Payment System (EFTPS), report it by sending it to phishing@irs.gov. Learn more by going to the Report Phishing and Online Scams page.

The IRS does not initiate contact with taxpayers by email to request personal or financial information. The IRS initiates most contacts through regular mail delivered by the United States Postal Service. However, there are special circumstances in which the IRS will call or come to a home or business, such as when a taxpayer has an overdue tax bill, to secure a delinquent tax return or a delinquent employment tax payment, or to tour a business as part of an audit or during criminal investigations.

Telltale signs of a scam:

The IRS (and its authorized private collection agencies) will never:

- Call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer. The IRS does not use these

methods for tax payments. Generally, the IRS will first mail a bill to any taxpayer who owes taxes. All tax payments should only be made payable to the U.S. Treasury and checks should never be made payable to third parties.
- Threaten to immediately bring in local police or other law-enforcement groups to have the taxpayer arrested for not paying.
- Demand that taxes be paid without giving the taxpayer the opportunity to question or appeal the amount owed.
- Ask for credit or debit card numbers over the phone.

The IRS does not use text messages or social media to discuss personal tax issues, such as those involving bills or refunds. For more information, visit the Tax Scams and Consumer Alerts page on IRS.gov. Additional information about tax scams is also available on IRS social media sites, including YouTube videos.

And when it all comes down to it, consider this simple and effective method for detecting a scam… If the taxpayer is directed to send money to ANYONE but the United States Department of the Treasury… it's a scam.

National Tax Forums:

The IRS hosts the forums to interact with tax pros and provide the latest information on federal and state tax issues. To register, please visit the webpage at: www.irstaxforum.com . The standard rate of $255 is in effect until two weeks before each location's event. Attendees registering less than two weeks before a forum or on-site will pay $370.

Here are the dates and locations for the IRS Nationwide Tax Forums:

- July 10 – 12, Atlanta, Ga.
- July 17 – 19, National Harbor, Md. – the Washington, D.C. area
- Aug. 7 – 9, San Diego, Calif.
- Aug. 21 – 23, Chicago, Ill.
- Sept. 11 – 13, Orlando, Fla.

Up to 18 continuing education credits may be available for enrolled agents, certified public accountants, Annual Filing Season Program participants, certified financial planners and other tax professionals.

Seminars and workshops presented by experts from the IRS and partner organizations will range from data security and identity theft prevention to future IRS digital services.

Paycheck Checkup:

The Tax Cuts and Jobs Act made many changes to the tax law, including increasing the standard deduction, removing personal exemptions, increasing the child tax credit, limiting or discontinuing certain deductions and changing the tax rates and brackets. With this in mind, it is crucial that taxpayers check their Federal Income Tax withholding this year, to make sure it is appropriate for their particular situation, and avoid any unnecessary shocks next filing season. There's an easy way for taxpayers to do this…the IRS Withholding Calculator on IRS.gov.

To use the IRS Withholding Calculator for your "paycheck checkup":

- Gather your most recent pay stub from work. Check to make sure it reflects the amount of federal income tax that you have had withheld so far in 2018 (and the current period's withholding… the withholding that comes out each check).
- Have a completed copy of your 2017 - or possibly 2016 - tax return handy. Information on that return can help you estimate income and other items for 2018. However, note that the new tax law made significant changes to itemized deductions.

Use the results from the Withholding Calculator to determine if you should complete a new W-4 form and, if so, what information to put on it. If you complete a new W-4, you should submit it to your employer as soon as possible. Doing this early means there's more time for tax withholding to take place evenly during the rest of the year. Waiting until later in the year means there are fewer pay periods to make the tax changes – which could have a bigger impact on each paycheck.

For more information, visit www.irs.gov/withholding.

ITIN Renewals:

Under the Protecting Americans from Tax Hikes (PATH) Act, ITINs that have not been used on a federal tax return at least once in the last three consecutive years will expire Dec. 31, 2018. In addition, ITINs with middle digits 73, 74, 75, 76, 77, 81 or 82 will also expire at the end of the year. These affected taxpayers who expect to file a tax return in 2019 must submit a renewal application as soon as possible. To learn more please see the June 14 news release: IR-2018-137 , or visit the ITIN information page at: https://www.irs.gov/individuals/individual-taxpayer-identification-number

Maria Shaddy, Automated Underreporter (AUR)

AUR matches return information with information obtained from third parties… for example, W-2s and 1099s. The matching begins after the original due date of the return, and a case is created when a discrepancy(s) is found. Before contact with the taxpayer, an examiner will attempt to research and resolve the discrepancy.

When a case is created, it is put in suspension, and 'controlled' actions result in removal from suspension. Essentially, the case waits for a response from the taxpayer, and if no response is received, then the next letter (usually the 90 day letter) is automatically sent.

Taxpayers generally have 30 days to respond to the notice/letter. Sometimes, depending on the issue, a CP2501 (preliminary contact letter) is sent before the CP2000 is sent. If the taxpayer does not respond, or disagrees with our determination, the Statutory Notice of Deficiency (90 day letter) is sent.

Remember that cooperation is key to resolving the case, and that it is important to respond timely to these notices. When responding to the notice/letter, please consider the following tips:

- Respond timely!
- Include explanations for any incorrect payer data
- Do not group or net amounts
- Include all back-up schedules
- Include the response page from the letter/notice, even if faxing
- Use the return envelope *[see note below]
- Provide contact information, especially a phone number where you can be reached during the day

*Note: sometimes it is just a fact that the return envelope won't hold all the material that needs to be sent. If this is the case, one can take the front of the return envelope and affix it to the larger envelope (where the address goes). Make sure the bar code is there, as this helps make sure the material sent in gets properly associated with the case.

Practitioners can call AUR via the Practitioner Priority Service (PPS) line – 866-860-4259, and choosing 'option 5' from the phone tree.

Publication 5181, Tax Return Reviews by Mail, also has good information on how to navigate the process.

Dennis Hills, Collection

At this time, there is only one Revenue Officer located in Alaska (that's a lot of territory!), and although they do send folks on temp assignments to help out, they are hoping they'll be able to hire 1 or 2 more in the future.

Private Debt Collection: the best place for information on Private Debt Collection (PDC) is on IRS.gov at: https://www.irs.gov/businesses/small-businesses-self-employed/private-debt-collection , but one of the main criteria for selection is if the case has been in the queue, unassigned, for at least one year without any activity. There are also a number of additional criteria that would prevent a case from being assigned to PDC such as taxpayers in disaster areas, innocent spouse, ID Theft victims, etc. PDC has been primarily concerned with individual taxpayers, but some of the simpler business accounts may also find their way to PDC in the future.

Passport Revocation/Denial: when the taxpayer is selected, notices are sent simultaneously to the taxpayer and the State Department. The State Department holds activity for 90 days to allow the taxpayer time to address the pending tax issues. To learn more about Passport Revocation, please visit the webpage on IRS.gov: https://www.irs.gov/businesses/small-businesses-self-employed/revocation-or-denial-of-passport-in-case-of-certain-unpaid-taxes .

Doris Marshall, Taxpayer Advocate Service (TAS)

Current issues and items 'on the radar' include a higher inventory than last year for their Income Verification Program, and hardship cases, which have always been a priority.

Hardship factors revolving around Passport Revocation are a new concern. *If you have clients facing undue hardship because of this, please send the issue to TAS.*

There continue to be concerns with Private Debt Collection. Particularly, they are concerned that some taxpayers may be 'cajoled' or even strong-armed into installment agreements, when they really cannot afford them.

Sarah DeBurle is the Acting LTA (Local Taxpayer Advocate) for Alaska, and can be reached at 206-946-3040.

Issues & Status

1. We have an open POA on multiple clients, to which we can pull information on the TDS system however, we are receiving no correspondence regarding the tax issues, yet the client brings us correspondence that they receive.

   Wondering if this is a systemic issue or if others are experiencing it as well. In this matter, what is the recommendation to resolve it?

   Answer: There is actually a box to check on the 2848 for the POA to receive correspondence, and more often than not, the reason the POA isn't receiving correspondence is because the box didn't get checked. There is also another caveat regarding 2848s and correspondence. In situations where there are multiple POAs, the IRS will only send correspondence to the first two listed on the form.

2. Tax exempt organization with a calendar year end is required to and does file form 990-EZ electronically on the May 15, 2018 due date. Form 9325 acknowledged the filing on May 15, 2015. Organization receives a CP299 notice dated June 4, 2018 indicating the organization may be required to file a form 990-N. The nature of the wording gives the reader the impression that IRS does not have a record of the organization filing any annual return. The Tax Exempt Organization Search (formerly Select Check) web site is not returning any search results for this organization despite using a variety of search terms and parameters; and, the web site indicates that the "Search All" feature is not working. It appears to me that the search feature is not working at all. It appears there is a systemic problem with erroneous CP299 notices being sent to taxpayers, causing extra anxiety and work for exempt entities and tax preparers.

Can John check into it and see if there is some sort of computer bug? Also, can John check to see what is being done to cure the technical problems with the online Tax Exempt Organization Search tool?

Answer: Kristen and I checked into this a few days before the meeting, and no, it didn't work very well. We did notice that there was a note on the web page that the 'search all' feature was currently not working, but when we tried to look up an organization by name (one of the options), the field, which gives an option for searching either by name or EIN, kept defaulting to '"EIN"… Kristen alerted the folks at TEGE about it, and the morning of our meeting we tried it again, and we were able to search by name of organization'… in fact, we were able to pull up two relatively obscure orgs here in Oregon. So, it seems to be at least somewhat functional now.

Questions 3 and 4 have been referred to the Tax Reform Implementation Office. Just as a note, we've received similar questions from practitioners in Oregon as well…. and across the country, for that matter.

3. I would like our stakeholder liaison to pass on more thoughts on the 20% qualified business income deduction and bifurcating business activity. In an insurance business, part of the business is selling a product and part of the business is servicing the product. IRC Section 199A(d)(2) defines the term specified service trade or business subsection (A) references IRC Section 1202(e)(3)(A), which describes various trades or businesses involving the performance of services. Interestingly, IRC Section 199A(d)(2), in defining a specified service trade or business, does not reference IRC Section 1202(e)(3)(B), which specifically lists the insurance business. Therefore, it would be really helpful if the regulations would make it clear which aspect of an insurance business is or is not a specified service business.

   Can we then presume that the part of the insurance business that is selling a product and earning a commission for doing so is not a specified service business and thus not subject to any limitation on the IRC Section 199A deduction?

4. This is not so much a question as it is identification of an issue. Can you tell me if you see this as an issue? We are all awaiting treasury regulations or other treasury department guidance on the IRC Section 199A deduction for qualified business income. My concern is about businesses that both provide specified services and sell goods. It seems to me that the net income from providing the specified service should be subject to the potential deduction under IRC Section 199A; but, the net income from selling the goods should not be subject to the potential deduction. It would be great if the treasury regulations would allow for a reasonable method of allocating income and deductions for a "combined" business. Or does the business need to be split into two businesses? One that provides services and one that sells goods?

5. There was also a question regarding the validity of letters, particularly the CP01E. The CP01E is a relatively new letter that we started sending out this past January. It is not an alert that someone has filed a fraudulent return, but rather it informs the recipient that someone may have used their SSN for employment purposes.

And as a final note… This time of year is survey time. As you may know, the IRS periodically sends survey letters relating to customer satisfaction, and taxpayer compliance burden reduction, to a random selection of taxpayers and practitioners. So just be aware that those letters are actually from us, and not a scam. If you receive one, and are not sure, just send me an email and I'll check it out: john.w.blakeman@irs.gov

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Next Scheduled Meeting

The date is to be determined.