

IMRS Issue - Estimated Tax Payments

The Cause: The state of Ohio has a graduated individual income tax rate. For those taxpayers who are married, with two incomes, it is generally more advantageous to file a separate return to take advantage of the lower portions of the graduated tax rate. In order to file a separate return with Ohio, you **MUST** file separate returns with the IRS. It is not always to their advantage to file separately, however, so the decision needs to be made anew each year.

The issue: For those taxpayers who make estimated payments, generally those payments are posted under the primary social security number. At year end, should the taxpayers elect to file separate returns, they need to separate those estimated tax payments. The IRS system will look only to the primary social security number in the case of a joint payment, and matches that to the tax return bearing the primary social security number. That taxpayer will frequently receive a refund, and the taxpayer filing with the secondary social security number will generally receive a balance due notice and estimated tax penalties.

If the taxpayers make separate payments during the year, and then elect to file a joint return at year end, they still have a problem, because the payments made to the secondary account do not match up with the 1040 filed under the primary number.

In prior years, when the Ohio returns were filed at the Cincinnati Service Center, the Center developed a yellow flag sheet which the tax professionals used to alert the center that there was an adjustment needed for the estimated tax payments. When the IRS began moving the submission centers for taxpayers, **AND**, with the advent of electronic filing, the problem became worse.

Recommendation: Practitioners should ask for the allocation of the appropriate share of estimated tax payments before submitting the couple's tax return. This Pre-filing Initiative will prevent the issuance of a balance notice or a refund when married taxpayers want to split their estimated tax payments.

An authorized statement from the primary taxpayer can be faxed or mailed to the Practitioner Priority Service Line or the Submission Process Campus prior to submitting the tax return. The statement must include both names and taxpayer identification numbers, the estimated tax payments and dates, amounts and dates of estimated tax payments to be transferred to the secondary account, and a daytime and nighttime telephone number.

Also, the statement must have the primary taxpayer's signature to authorize the transfer. In the situation where the payments are being transferred from a married filing joint

REASON:

- Joint payments to separate accounts (taxpayers filing separate)
- Separate payments to joint account
- Deceased taxpayer's payments

Executor/Executrix signature: _____

Date: _____

Burden Reduction Issue - Standardization of Form 1099 Series

Issue:

At a Pennsylvania Practitioner Liaison Meeting, a proposal was made that IRS require filers of Forms 1098, 1099, 5498, W-2G, and 1042-S to conform to standardization of Copies B and C of these information returns for the recipients.

Background:

Revenue Procedure 2004-58, *General Rules and Specifications for Substitute Forms 1096, 1098, 1099, 5498, W-2G, and 1042-S*, contains the guidelines for the layout and content of information returns and the Form 1096 Transmittal. Paper substitutes for Copy A (the copy of the information returns submitted to IRS) of the listed information returns must be an exact replica of the official IRS form with respect to layout and content per Section 2.1. Failure by the filer of these returns to conform to the required specifications may result in penalties for failure to file a correct information return. The specifications include such items as font types, color and paper quality, printing on the forms, spacing of words, and layout on sheet (three Forms 1098, 1099 or 5498 on a sheet except for Forms 1099-B, 1099-DIV, 1099-MISC, 1099-R, and 1042-S, which contain two documents per page).

The filers of these returns can issue these official formatted information returns to the recipients. They can also furnish acceptable substitute statements to the recipients by complying with the criteria listed in Section 4.1. These acceptable substitute statements can be consolidated on one sheet, which is considered a composite substitute statement per Section 4.2 of Revenue Procedure 2004-58. There are requirements as to wording, bold-faced type on certain line items and areas, the type of payment and

recipient's tax obligation with respect to the payment must be as clear as if each required statement were furnished separately on an official form along with other items.

Although Copy A, IRS Copy, of Forms 1096, 1098, 1099, 5498, W-2G, and 1042-S must conform to the official IRS form for layout and content, Copies B and C for the recipients can be the official form or they may be acceptable substitute statements and the information from multiple 1099's can be consolidated on to a composite substitute statement as long as the requirements of Section 4.2 of Revenue Procedure 2004.58 are met.

Impact:

Tax practitioners sense much confusion when consolidated or composite information returns are issued to the recipient. Their clients often fail to realize that this consolidated statement contains the information necessary to complete their tax return, even though IRS regulations require that the envelope containing the information statements must indicate that important tax information is enclosed. They forget to take the documents to their preparer, which results in additional contacts between the preparer and client or in income omitted from the returns. The preparers also feel there is excessive information contained in the composite substitute statements and it's difficult to locate the information for the returns.

The impact of clients not providing tax preparers with the necessary documents to prepare a complete return for them results in underreporting of income and subsequently additional correspondence from IRS.

The practitioners feel it is a burden to search through the variety of consolidated information return statements issued by brokerage firms and financial institutions with their various layouts to obtain the information with ease. Practitioners want to locate payer information quickly.

Recommendation:

Require filers of information returns to standardize the format of Copies B and C for the recipients without allowing so much latitude in design of the statements as provided in Revenue Procedure 2004-58. Even though this recommendation may reduce the burden for tax practitioners, it may cause a burden for the brokerage firms and financial institutions in reprogramming the record layouts and content of the information returns.