

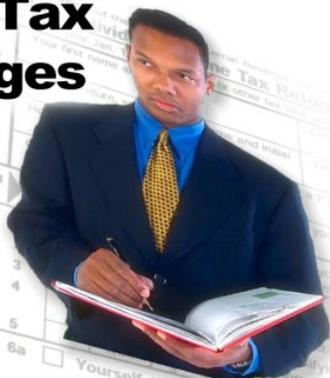
IRS Congressional Update

Published for members of Congress & their staffs

Vol. 2 - No. 1

February 2003

2002 Tax Changes



How Your Constituents Are Affected

The following changes are among the most significant affecting individual taxpayers in the 2003 filing season:

Eased Burden for Interest and Dividend Income – The threshold for filing Schedule B of Form 1040 and Schedule 1 of Form 1040A has been raised to \$1,500. Now only taxpayers with taxable interest or ordinary dividends of more than \$1,500 will have to file these schedules. As a result of this change, the IRS estimates that 15 million fewer taxpayers will need to file these schedules. The previous threshold, in place since 1974, was \$400.

New 10-Percent Tax Rate – The new 10-percent tax rate is reflected in the 2002 Tax Table and Tax Rate Schedules. This new rate applies to the first \$6,000 of taxable income (\$10,000 for a head of household; \$12,000 for married filing jointly or qualifying widow(er)).

Tax Rates Reduced – Tax rates above 15 percent are lower by another one-half a percentage point, reflecting the continuing reduction of rates under the Economic Growth and Tax Relief Reconciliation Act of 2001. Thus, these rates are 27%, 30%, 35% and 38.6% for 2002.

Adoption Credit – The value of this credit, available for qualified adoption expenses, is doubled to \$10,000 for 2002. In addition, more taxpayers will be eligible for this credit as the modified adjusted gross income (AGI) limit was also increased. Now a taxpayer can have a modified AGI of up to \$150,000 without having a reduction in the adoption tax credit. Qualified adoption expenses include reasonable and necessary adoption fees, court costs, attorney fees, travel expenses and other expenses directly related to the adoption of an eligible child.

Clean-Fuel Vehicle Deduction – A deduction of up to \$2,000 is now available for certain hybrid gas-electric motor powered vehicles that have been certified by the IRS as meeting the provisions of the clean-fuel vehicle deduction section of the tax code. Prior to 2002, taxpayers who purchased such hybrid-motor vehicles were uncertain about the amount of the deduction and whether they qualified. Those who purchased such hybrid cars in past years may be eligible to claim the deduction in a prior year by filing an amended return.

Standard Mileage Rates – Taxpayers may deduct 36.5 cents a mile for all business miles driven during 2002. Taxpayers may deduct travel related to qualified medical and moving expenses at a rate of 13 cents a mile.

Student Loan Interest Deduction – The interest paid in 2002 on qualified student loans may now be deducted regardless of the age of the loan. Prior to

Inside

Page 2

IRS Toll-Free Telephone Assistance

Page 3

Offer in Compromise Program Turns A Corner

New “LIFE” at IRS

Page 4

Where’s My Refund?

National Taxpayer Advocate Report Released To Congress

Page 5

Free e-file

Taxpayer Assistance Center Services



Department of the Treasury
Internal Revenue Service
www.irs.gov

“Changes” Continued on Page 2



Telephone Assistance

Toll Free Services From IRS



Individuals

IRS Tax Help for Individuals

800-829-1040

For individual and joint filers who need **procedural or tax law information** and/or help to file their 1040-type returns (including Schedules C and E); **general account information** for Form 1040 Filers.

Refund Hotline (New)

800-829-1954

For 1040-type filers who need to check the **refund status for current year**. Taxpayers can also use the internet (available 24/7) to check on refund status: by clicking "Where's My Refund?" at <http://www.irs.gov/>

Tele-Tax System

800-829-4477

For individuals who need to check the **status of their current year Refund**

Changes



Continued

2002, only payments made in the first 60 months qualified. The modified adjusted gross income limit for this deduction is also increased.

Higher Contribution Limits for Roth and Traditional IRAs

For 2002, taxpayers may contribute up to \$3,000 (\$3,500 if age 50 or older at the end of 2002) to either traditional or Roth IRAs. This figure is an increase from a \$2,000 limit in the prior year.

Contributions for 2002 can be made until the due date for filing your return for that year *not* including extensions. For most taxpayers, this means that contributions must be made by April 15, 2003.

or who want to listen to **recorded tax information**. Available 24/7.

Extension to File - Tele-File System

888-796-1074

For filers who want to submit an **Extension to File** for a 1040-series return via telephone.

Business

Business and Specialty Tax Line (New)

800-829-4933

For small businesses, corporations, partnerships and trusts who need **information and/or help** related to their business returns or business (BMF) accounts. Services cover Employer Identification Numbers (EINs) 94x returns, 1041, 1065, 1120S, excise returns, estate and gift returns, as well as issues related to Federal tax deposits.

Both Individual and Business

Forms and Publications

800-829-3676

For individuals, businesses and tax practitioners who need **IRS tax forms, instructions and related materials and publications**.

Telephone Device for the Deaf (TDD)

800-829-4059

For **hearing impaired taxpayers** who need tax law and/or procedural information relating to filing their returns or who need information and/or assistance relating to filing their accounts.

Electronic Federal Tax Payment System (EFTPS) Hotline

800-555-4477 or 800-945-8400

For taxpayers who want to **pay business or individual taxes** through

electronic funds transfer. The EFTPS toll-free numbers can provide callers with **EFTPS enrollment forms**, instructions and customer assistance.

National Taxpayer Advocate's Help Line

877-777-4778

For taxpayers whose **tax problems are not resolved through normal channels**. Taxpayer Advocate Service (TAS) provides an independent system to assure tax problems are promptly and fairly handled.

TAS operates independently of any other IRS offices and reports directly to Congress through the National Taxpayer Advocate.

Taxpayer Advocacy Panel

888-912-1227

For citizens/taxpayers who want to **provide ideas and suggestions** on how to improve IRS services or want to make recommendations for improvement of IRS systems and procedures.

Other

Tax Exempt - Government Entity (TEGE) Help Line

877-829-5500

For taxpayers who need **tax information or assistance** relating to tax exempt or government entities, tax exempt bonds, employer/employee pension plans or Indian tribal agreements.



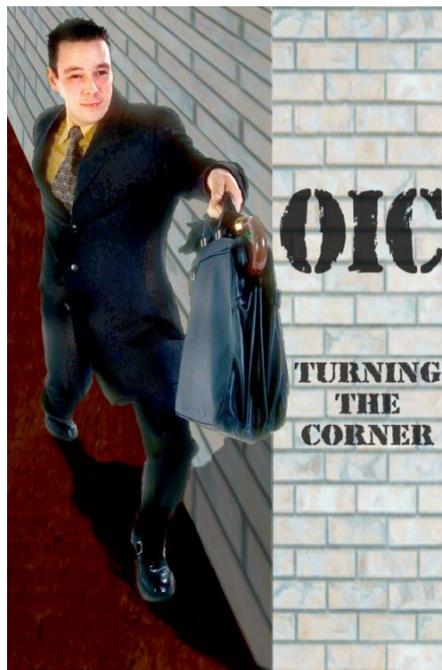
Offers in Compromise Program

Following implementation of the Internal Revenue Service Restructuring and Reform Act of 1998, the IRS began to experience an upsurge of applications in its Offer in Compromise (OIC) program. An Offer in Compromise is an agreement between the taxpayer and the Service to “settle” a tax liability by accepting less than full payment.

In appropriate situations where the taxpayer is not able to fully pay and is not a candidate for an installment agreement, the IRS will explore an offer in compromise as a last resort to resolve the debt. The Service resolves less than 1% of all balance due accounts through the offer program.

To address the growing workload issue the IRS centralized where offers are received and processed into two locations, Brookhaven, New York and Memphis, Tennessee. The centralization into the two IRS Centers offered work efficiencies, as well as the opportunity to better focus training efforts and standardize processing procedures.

Other program enhancements have enabled the IRS to concentrate its resources on those taxpayer accounts where the offer is the most appropriate collection method to resolve a long-standing liability. The agency has accelerated the identification and resolution of inappropriate offers — those where the taxpayer has a clear



ability to full pay the liability, and/or submits an offer solely to delay the collection process. The more complex cases, those requiring assignment to field collection personnel, are now screened much earlier in the process and transferred out to specialists.

These process changes have improved productivity at the consolidated OIC processing sites and the field offices, with a corresponding positive impact on customer service. The inventory is becoming more current and the number

of aged cases — those more than six months old — has decreased. The overall decline in OIC inventory has allowed the IRS to return a large number of offer specialists to other collection priorities.

While productivity gains have contributed to the declining inventory, the IRS has also seen a significant increase in the number of cases that have been closed as “not processable” or “returned.”

Comprehensive case analysis found that a large number of applications were being returned because the taxpayer was not in compliance with other tax obligations or they were found to be in bankruptcy. The Service has now begun an educational effort with taxpayers and tax practitioners to draw attention to the qualifications that appear in the OIC application package.

The IRS continues to view the Offer in Compromise program as an effective tool in resolving tax liabilities for taxpayers who qualify.

While the agency has taken steps to reduce taxpayer burden and improve customer service through work process standardization and reducing the level of financial documentation required from taxpayers, it is now seeking the cooperation of tax practitioners and the general public to ensure that offers are submitted only in appropriate circumstances.

There’s “LIFE” at the IRS

The Internal Revenue Service Large and Mid-Size Business (LMSB) Division is implementing a new streamlined examination process called the Limited Issue Focused Examination, or LIFE.

This initiative will involve a formal agreement between the IRS and taxpayer to govern key aspects of the examination, which will create, with the taxpayer’s assistance, an atmosphere where the examination process is less difficult, less time-consuming, less expensive and less contentious for all involved.

Working together, both the IRS and the taxpayer will focus their

resources and time on the issues most significant to the return under examination.

The LIFE process will be available for taxpayers served by LMSB. The division serves taxpayers with assets in excess of \$10 million.

This new approach represents a major culture shift for LMSB. LIFE is an effort by LMSB to institutionalize “best practices” and provide consistency in the treatment of taxpayers. Training of IRS personnel is currently underway.



Where's My Refund?

A new feature on the IRS.gov web site is "Where's My Refund?" which will be highlighted on the home page.

Taxpayers can easily check the status of their refunds by using the following information found on their return:

Taxpayer's name (on a joint return, the

first listed);

*Social Security Number (on a joint return, the first listed);
Filing status (single, head of household, married filing jointly, married filing separately, or qualifying widow(er) with dependent child);*

Refund amount claimed.

With just a little information, taxpayers can use IRS.gov to track their refund

status. "Where's My Refund?" also can tell taxpayers if the IRS has received their tax return. It can let them know if there is a problem and how to resolve the problem.

For those who do not use direct deposit, the "Where's My Refund?" feature also can tell taxpayers if the IRS was unable to deliver their refund through the mail.

In addition to "Where's My Refund?" on IRS.gov, there is a toll-free refund hotline at 1-800-829-1954. Taxpayers will need the same information as for the Web site to find out the status of their refund.

Taxpayer Advocate

Annual Report Released To Congress

National Taxpayer Advocate Nina Olson has delivered her annual report to Congress. The Fiscal Year 2002 report emphasizes the importance of taxpayer rights in promoting taxpayer respect for and compliance with the tax system. Taxpayer access to IRS information and services is a key ingredient in protecting taxpayer rights. The report identifies navigating the IRS as the number one problem faced by both individuals and business owners.

The three main sections of the report are the Most Serious Problems Encountered by Taxpayers, Legislative Recommendations, and the Most Litigated Tax Issues. After navigating the IRS, the second most serious problem facing taxpayers is the prompt processing of offer-in-compromise cases. This program, while making progress, has yet to fully realize the full implementation of the policy statement. Seven of the top 23 problems encountered by taxpayers involve the Earned Income Tax Credit.

According to the report, other serious problems facing taxpayers include:

Math error authority (IRS notices are deficient in explaining adjustments, hard to reconcile with original return and do not specify how to challenge the adjustment).

IRS information reporting program (the program produces a high number of tax assessments that are later abated).

Processing claims for refunds (refunds claims are often misplaced by the IRS and not processed within the promised timeframe by the IRS).

Earned Income Tax Credit (the intrusiveness, complexity and inconsistency in administering the EITC tax laws place unnecessary burdens on taxpayers).

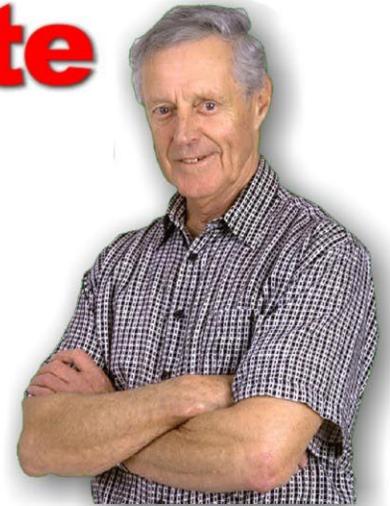
The section listing the most serious problems encountered by taxpayers provides an opportunity for IRS officials to respond to efforts made to fix the problems.

The key legislative recommendations in the report address:

the ability of victims of discrimination to adjust income for attorney fees,

the treatment of married couples co-owning a business,

assessments resulting from math errors,



the independence of the Office of the National Taxpayer Advocate,

the registration, examination, and certification of unenrolled return preparers, and

the taxation of children's income.

The most litigated tax issues over the past year include non-filing/underreporting of income and taxpayers' rights in collection due process hearings. The report, which is required by law, also includes IRS efforts to improve customer service and reduce the burden on taxpayers. It reflects actions taken by the Taxpayer Advocate Service organization to resolve taxpayer problems and identify areas of tax law that impose significant compliance burdens. Copies of the report will be delivered to Capitol Hill offices in early February.

Free

2003 IRS e-file

On October 30, 2002, the Internal Revenue Service and the Department of the Treasury announced a new public-private partnership agreement that permits tax software companies to offer free online tax preparation and e-filing services to at least 60 percent of taxpayers (i.e. 78 million taxpayers). The free service will start on January 16, 2003, and will be available throughout the 2003 filing season. The partnership is known as the Free File Alliance, LLC.

The alliance is a consortium of companies providing tax software and return preparation services that will offer qualifying taxpayers the opportunity to prepare and file tax returns through the Internet without cost. The IRS will

market the services of the alliance and provide a link from our web page.

During the 2002 filing season, 34% (almost 47 million) federal individual income tax returns were filed electronically. The IRS' goal is to have 80% of all tax forms filed electronically by 2007.

Electronic filing provides the following benefits:

Get a fast refund in half the time of a paper return and with direct deposit, it can be as few as 10 days.

Sign electronically and file a completely paperless return.

Receive electronic proof of receipt of your return within 48 hours.

Pay your taxes electronically by authorizing an electronic funds withdrawal from your checking or savings account, or by credit card.

E-filed returns have an error rate of less than 1 percent.

The chance of being selected for an audit is no different whether the return is filed electronically or on paper.

Taxpayers can see if they are eligible for the free Internet services by visiting the Free Internet Filing Homepage beginning January 16, 2003. A link to the web site will be posted on the IRS web site at www.irs.gov.

Taxpayer Assistance Center Services

A number of exciting changes are taking place in IRS' Taxpayer Assistance Centers. Taxpayer Assistance Centers are your constituents' sole source for face-to-face help for account adjustments, account information, and Everyday Tax Solutions.

While taxpayers have many options for obtaining tax forms, tax law information, and return preparation, Taxpayer Assistance Centers are their only alternative for in-person help with account-related issues.

This year, Taxpayer Assistance Centers are implementing several initiatives to enhance customer convenience: increasing resources for resolving customer account issues, extending filing season service hours at many locations, and enhancing return preparation to EITC-eligible taxpayers.

Taxpayers needing face-to-face help solving individual or business tax

problems can get help every business day in every Taxpayer Assistance Center through Everyday Tax Solutions.

This service ensures taxpayer issues are resolved at the earliest stages, which minimizes penalties, interest, and aggravation.

Your constituents can call ahead, via local telephone numbers, for convenient appointments. Local phone numbers are posted at www.irs.gov, under Contact My Local Office.

Many Taxpayer Assistance Centers offer extended hours and Saturday service, making it more convenient to resolve tax problems and get help during the January to April 15 filing season. Many offices will also offer services at alternate, high-traffic locations such as shopping malls. Mobile units and circuit riders will provide service in some smaller, remote communities. Visit www.irs.gov for more information.



Individuals filing basic returns, with wage-based incomes of \$35,000 or less, can get help preparing their returns at Taxpayer Assistance Centers.

Assistance is on a first-come basis, based on availability. Demand frequently exceeds supply and taxpayers should arrive early. Taxpayers who cannot be assisted on the day of their visits will be offered appointments up to five days in advance or other preparation options.

Taxpayers have several return preparation alternatives, including professional preparers, software programs, TeleFile, free online e-file, and IRS-sponsored volunteer programs.