

**Information Reporting Program Advisory Committee**

**Comments To**

**The IRS Oversight Board**

**January 29, 2002**

**“Reducing Taxpayer Burden”**

**Presented By**

**Steven M. Rafsky**

**IRPAC 2001 Chairman**

On behalf of IRPAC's membership, I thank you, Mr. Chairman and members of the IRS Oversight Board, for the opportunity to address our comments regarding taxpayer burden. The Information Reporting Program Advisory Committee (IRPAC) was established at the request of the United States Congress and, as requested, is comprised of representatives of the payer community and practitioners interested in the information reporting program. The Information Reporting Program (IRP) is the cornerstone of our tax system, assuring 1) accurate information return filing by payers, 2) verification of income and deductions reported by taxpayers and 3) identification of non-filers. The IRP is a multi-functional system consisting of several IRS subsystems such as document processing and payer compliance. We (IRPAC) regularly provide constructive observations regarding current and proposed IRS policies, programs and procedures affecting information reporting and IRP operations. With this in mind, I would like to offer the following thoughts.

This past year, IRPAC prioritized the issues it raised with the IRS, based on several key factors, to ensure that resolution of these issues would benefit a large number of taxpayers, reduce taxpayer or IRS burden to comply, encourage self-compliance and/or improve operations. Let me compliment Commissioner Rossotti for his commitment to the IRPAC mission and his entire organization for their professionalism and dedication. We have found the IRS executives to be committed to this process. It is my past year's experience that I base my observations, today.

The issue of burden is an important issue. I will focus my comments, today, on the ability to accommodate the information reporting mandates to the information reporting community, which includes large institutions as well as small business employers. The issue I am addressing is not the method of reporting, but the basic ability to report.

First, let me say that I would like to focus the board on the need to reduce the "perception of burden" as much as the real burdens of complying with IRS procedures by the reporting community. I start with the premise that the information reporting program was designed with two aims...ensuring taxpayers have the necessary information to comply with their obligations to

pay taxes and that the government has the necessary information to promote said compliance. I believe there is widespread support of this stated aim. And the reporting community takes this requirement as an obligation. However, when the reporting requirements go beyond that goal, burden is felt. In addition, when there is not a “buy-in” as to there being a reasonable method of implementation, the burden level is tremendously higher.

A current example of this is a pending provision that requires payers to report information regarding the exercise of nonqualified stock options separately, in box 12 of the W-2 using a new “Code V”. I am raising this issue solely as an example and am not using this time to educate you on the “Code V” issue. I could have used examples of depreciation changes and the impact those changes had on businesses and their practitioners. Or other issues and the impact those issues have on the effected parties.

The initial wave of concern received by IRPAC regarding the “Code V” issue was all centered around challenging the need. But the reality is that the burden with this issue is also real. It is the perception of those affected that this does not support the traditional goal of information reporting, but rather the desire to secure data for the purpose of analysis. Comments coming into IRPAC included:

“Why should our organization have to do this?”

“When will these types of requirements end?”

“If it is not required on a tax return, why are we required to report it?”

“We support data collection for tax reporting, not general information gathering.”

The IRPAC assessment of the “Code V” issue led to two conclusions. That the proposed line item reporting requirement for compensation related to the exercise of nonqualified stock options, Code V, will impose substantial administrative costs and burdens on the public without any offsetting tax or compliance benefits whatsoever. In other words, the request, as we understood it, was outside the stated aim of information reporting and was a tremendous burden

for the information reporting community to comply with, as the information is not currently tracked by the reporting organizations and the implementation time frame was not realistic.

Our initial goal was to advocate the delay of the “Code V” implementation, and that is the direction that was taken. But as this issue is addressed in the future, all involved need to address its appropriateness with regard to information reporting and the ability of the IRP community to comply.

As I have worked with many IRS executives, I have frequently heard about examples where a 2-sentence part of a legislative act equates to a major, if not impossible, effort to implement. I understand that we are not here today to address the legislative process, but I raise this to encourage the IRS to take that comment to the next level. Let’s not let a 2-sentence part of a notice or bulletin do the same to the reporting community, as the “Code V” issue did.

Let’s ensure that all reporting requirements meet three guidelines...1) that all reporting requirements are within the stated purpose of information reporting; 2) that all new reporting requirements are achievable, within reasonable expectations; and 3) that there is a significant revenue impact as a result of any reporting requirement. If met, I believe the reporting community would “buy in” to any requirement, thus avoiding any perception of burden and creating a willingness to comply with a sense of obligation. I believe that the IRS executives are truly aware of these issues and are showing significant sensitivity to this level of burden. We just need to further that process.

Thank you.