

GAO

Report to the Honorable  
J.J. Pickle, Chairman, Subcommittee on  
Oversight, Committee on Ways and  
Means, House of Representatives

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April 1993

# TAX ADMINISTRATION

## Selected IRS Forms, Publications, and Notices Could Be Improved



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**General Government Division**

B-253216

April 30, 1993

The Honorable J.J. Pickle  
Chairman, Subcommittee on Oversight  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we (1) assess the accuracy of commonly used Internal Revenue Service (IRS) forms, publications, and notices and (2) examine the usefulness of taxpayer assistance telephone numbers IRS provides on these documents.

We examined 17 selected forms and publications to see if they conformed with current legal requirements as stated in the Internal Revenue Code and Treasury Regulations. We examined 21 notices for consistency with the purposes established by IRS guidance. Where appropriate, we also looked for consistency with IRS revenue rulings, revenue procedures, and other IRS documents, including other forms and publications. We also considered whether more specific language, consistent use of terminology, and *appropriate references to other forms and publications* could make these items more understandable to the taxpayers. Appendix I contains further details on our objectives, scope, and methodology.

IRS publishes almost 400 forms and accompanying instructions, approximately 100 publications, and estimates an inventory of over 3,000 notices. Revising these documents and creating new ones is a continuous process. Many of these forms and related instructions, publications, and notices contain telephone numbers of IRS units that answer taxpayer questions and provide other assistance. A toll-free telephone system is the primary means by which taxpayers contact IRS. In fiscal year 1991, IRS responded to almost 64 million calls.

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**Results in Brief**

Our review of selected IRS forms, publications, and notices did not identify any instances in which the documents did not conform with current legal requirements or IRS guidance. We did identify 54 changes that could be made to improve the understandability and usefulness of these forms and publications to taxpayers. We suggested changes to 5 of the 21 notices we reviewed. Generally the changes we suggested were directed toward the use of more specific language, consistent terminology, and inclusion of *appropriate references to other forms and publications*. To implement

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some of our suggested changes to notices, IRS will need to complete its computer program changes and acquire new printing equipment over the next several years. IRS generally agreed with or is considering the changes we suggested. Our suggested changes to the forms, publications, and notices we reviewed and IRS' responses are listed in appendix II of this report. The specific changes we suggested regarding forms and publications are contained in appendixes III through VII. Details of our specific suggested changes regarding notices are provided in appendix VIII.

Taxpayer assistance telephone numbers provided on the forms and publications we reviewed were those of IRS' taxpayer assistance offices, which should be able to respond to taxpayers' questions and related matters. In one instance, a form omitted a taxpayer assistance telephone number that IRS agreed to add to the form. Notices generally included the IRS' toll-free taxpayer assistance telephone number or that of a local IRS office.

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## Background

Since 1980, the Internal Revenue Code has been amended more than 100 times, resulting in numerous modifications to existing tax forms and the development of nearly 100 new ones. Many forms are revised annually; all forms are considered for revision at least once every 3 years. The development and revision of tax forms, accompanying instructions and publications, is the responsibility of IRS' Tax Forms and Publications Division, which includes the Forms and Publications branches and the Notice Clarity Unit, initially part of IRS' Ombudsman's office as the Notice Clarity Task Force. This unit reviews both new and existing notices. Notices are composed of a series of standard paragraphs prepared by responsible IRS functional units that initiate IRS communications with taxpayers about tax problems.

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## Forms and Publications Development and Revision

Tax forms and accompanying instructions are written by tax law specialists in the Forms Branch. Proposed new forms are reviewed by IRS' Tax Forms Coordinating Committee (TFCC), which represents all functional units in IRS. Forms are approved by IRS' Chief Counsel and the Office of Management and Budget (OMB). Revisions also typically require the Chief Counsel's approval and sometimes OMB's as well. In addition to changes in forms mandated by law, IRS considers suggestions to revise forms from a wide variety of external and internal IRS sources. These include various professional organizations representing tax professionals

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and preparers, communications from taxpayers, and employee suggestions. All suggestions received from both external and internal sources are referred to the appropriate tax law specialist for consideration during a document's next scheduled revision.

A continuing IRS forms improvement project, staffed by national office and field personnel, is analyzing how IRS develops, produces, and delivers tax forms and publications to recommend improvements. Project personnel thoroughly review instructions and line items on high-volume forms and instructions for both individual and business taxpayers. A key objective of this review is to eliminate or simplify parts of the forms and instructions, thereby reducing taxpayer burden. In February 1993, project personnel either were reviewing or had reviewed 25 forms, according to IRS officials.

Tax law specialists in the Publications Branch write and revise publications. Some publications are designed to supplement specific forms, while others provide general information that relates to a variety of forms. Publications are generally reviewed by the Publications Branch staff and are not subject to TFCC review or OMB approval. Each year, some publications are substantively revised through an intensive review by a team that includes the tax law specialist, writer-editor, and technical reviewer associated with the publication's subject matter.

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## Notice Development and Revision

Notices are a written communication from IRS to taxpayers concerning the status of their accounts with IRS. Notices are composed of standard paragraphs that are written by many IRS functional units, such as Returns Processing, Examination, and Collection. The paragraphs for each notice are then programmed for computers and available for use based on a taxpayer's particular situation. Changes to notices often take some time to implement because the computer programs that control the printing of the notices must also be revised. For example, notices may either request payment or information or provide further instructions related to account settlement. A computer may generate a notice based on an automated master file analysis or as a result of transaction posting.

The Notice Clarity Unit revises notices to ensure that they are clear and understandable and that information is presented logically. Each quarter, the unit reviews at least 20 high-volume or problematic notices and letters as well as new and revised notices. By February 1993, the unit had reviewed over 1,700 notices and letters.

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## Telephone Services

IRS' toll-free telephone system is the primary means of assisting taxpayers who contact IRS. About 90 percent of all fiscal year 1991 taxpayer contacts were by telephone. IRS' Taxpayer Service Division manages the agency's taxpayer assistance programs, including the toll-free telephone assistance system. This division designates the telephone numbers placed on forms, publications, and notices that taxpayers should call to obtain assistance. These toll-free telephone numbers may connect taxpayers with local district offices, 1 of 32 IRS locations that respond to telephone inquiries, or 1 of 3 publication distribution centers. Notices usually provide the telephone number of an IRS service center, district office, or toll-free call site.

The Taxpayer Service Division also provides specialized telephone assistance to taxpayers and tax practitioners. The "practitioner hotline" provides account-related information to tax professionals authorized by the taxpayer. Temporary hotlines may be set up to assist taxpayers with unique problems, such as military personnel who could not file timely tax returns because of their participation in Operation Desert Storm. Another specialized telephone assistance service responds to questions regarding magnetic media filing from businesses and financial institutions. This pilot telephone assistance program has been established in the North Atlantic and Central Regions to respond to questions concerning information returns. IRS officials said they expect the program will operate nationwide in 1993.

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## Forms and Publications Can Be Improved

The 13 forms and 4 publications we reviewed were generally accurate. We found no inconsistencies between these documents and the relevant requirements contained in the Internal Revenue Code. We identified some instances, however, in which the forms and publications we reviewed could be revised to make them easier for taxpayers to understand and use. Officials of IRS' Forms and Publications Division agreed with most of the changes we suggested and agreed to incorporate them as each form or publication is revised. Five of the 54 changes we suggested remain under consideration. (See apps. III through VII for our suggested changes to forms and publications.)

One change we suggested relates to the 1991 instructions accompanying Form 2119, Sale of Your Home. The instructions did not clearly define the term "sold" as it relates to the date of sale. We suggested that sold may be interpreted as either the date a seller accepted a contract from a prospective buyer or the date the title was transferred from seller to buyer.

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IRS agreed this term needed clarification and revised the instructions accompanying the 1992 version of this form. The new instructions provide a specific definition of sold and advise taxpayers that they may receive Form 1099-S, Proceeds From Real Estate Transactions, bearing this date. Generally, the individuals responsible for closing the transaction furnish the Form 1099-S.

Another change we suggested concerns Form 941, Employer's Quarterly Federal Tax Return. We noted that there was no reference made to an option available to sole proprietors filing Form 941, who employ household help. According to Circular E, Employer's Tax Guide, sole proprietors may report wages paid to household help on Form 941 rather than file an additional form, Form 942, Employer's Quarterly Tax Return for Household Employees. Although this information was provided in Circular E, it was not mentioned on Form 941 or the accompanying instructions. At our suggestion, IRS agreed to include this information in the instructions.

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## IRS Forms Improvement Efforts

To measure the general level of difficulty in reading IRS forms and publications, we analyzed instructions for three IRS forms and related publications. This analysis relied on two commonly used computer programs that measure reading difficulty. According to this analysis, the reading levels of these forms and publications ranged from the sixth to the tenth grade. IRS officials said that these reading level assessments are only one consideration, because other factors such as the logical presentation, layout, and visual appearance of a document are important but not considered by computer programs. In a continuing effort to develop better communications, IRS is studying other factors that contribute to a taxpayer's ability to understand written material.

IRS regularly seeks the views of organizations representing tax professionals and taxpayers and considers their views when revising forms and publications. IRS plans to establish a similar dialogue with these groups concerning notices. These groups include the American Bar Association, the American Institute of Certified Public Accountants, and organizations representing payroll professionals. IRS consults with some of these groups on a routine basis and addresses many of their concerns during meetings or through written responses. We found these interactions to have a generally positive effect on the development and revision processes.

Further, IRS routinely solicits suggestions for improvements from taxpayers by including requests for their comments and suggestions in major tax packages and some publications. IRS also actively seeks additional feedback from taxpayers by holding town meetings in cities around the country and conducting focus group testing on selected forms.

## Notice Language Can Be Improved

We reviewed 21 frequently used notices. The notices were consistent with their purposes as explained in the Taxpayer Service Handbook and the Catalog of Federal Tax Forms, Form Letters and Notices. We suggested revising five notices to enhance their understandability. The changes suggested include language clarification and some rearrangement of the tax material presented in the notice. (See app. VIII for our suggested changes to notices.)

We also suggested a new format for displaying taxpayer account information, which often appears as a section called Your Tax Statement, an important part of many different notices. The format we suggested more clearly compares data reported on the taxpayer's return with IRS' proposed adjustment. In our suggested format, information would be extracted from a taxpayer's return and shown alongside IRS' proposed adjustment. Figure 1 shows an example of IRS' present format, while figure 2 shows our suggested revision.

Figure 1: Example of a Current IRS Version of Your Tax Statement

YOUR TAX STATEMENT			
Adjusted Gross Income on Return	\$nn,nnn,nnn.nn	Overpayment of Taxes	\$nn,nnn,nnn.nn
Adjusted Gross Income as Corrected	nn,nnn,nnn.nn	Less:	
Taxable Income on Return	nn,nnn,nnn.nn	Late Filing Penalty	nn,nnn,nnn.nn
Taxable Income as Corrected	nn,nnn,nnn.nn	Estimated Tax Penalty	nn,nnn,nnn.nn
Tax Withheld	nn,nnn,nnn.nn	Bad Check Penalty	nn,nnn,nnn.nn
Estimated Tax Payments	nn,nnn,nnn.nn	Late Payment Penalty	nn,nnn,nnn.nn
Other Credits	nn,nnn,nnn.nn	Missing SSN Penalty	nn,nnn,nnn.nn
Other Payments	nn,nnn,nnn.nn	Interest	nn,nnn,nnn.nn
Total Payments & Credits (Less IRA)	nn,nnn,nnn.nn	Amount Applied to Next Year's	
Total Tax on Return (Less IRA Tax)	nn,nnn,nnn.nn	Estimated Tax	nn,nnn,nnn.nn
Corrected Tax on Return	\$nn,nnn,nnn.nn	Applied to Other federal Taxes	
		(See below)	nn,nnn,nnn.nn
		Total Subtracted	nn,nnn,nnn.nn
		AMOUNT OF REFUND - If you owe no	
		other taxes	\$nn,nnn,nnn.nn
		(Any interest due you will be added)	

Figure 2: Suggested Revision to Your Tax Statement

	Per your return	As corrected
Adjusted Gross Income	\$ nnnnn	\$ nnnnn
Taxable Income	nnnn	nnnn
Tax Withheld	nn	nn
Estimated Tax Payments	nn	nn
Other: Credits	n	n
Payments	nn	nn
Total Credits and Payments	nn	nn
Total Tax	\$ nn	nn
Overpayment of Taxes		n
Less: Late Filing Penalty	a	n
Estimated Tax Penalty	a	n
Bad Check Penalty	a	n
Late Payment Penalty	a	n
Missing SSN Penalty	a	n
Interest	a	n
Amount Applied to Next		n
Year's Estimated Tax		
Total Subtracted		n
Amount of Refund		\$ n

\*Not part of taxpayer's initial return.

We believe that our suggested format allows a taxpayer to identify the information from his/her return and compare it to IRS' proposed adjustment more readily than the current data arrangement does. IRS' Notice Clarity Unit officials agreed to attempt to incorporate the tax statement format we suggested where possible. They said that revisions will be made to the extent permitted by IRS' present system of computers,

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printers, and related equipment. They said that our suggested tax statement format is now being tested at a service center. These officials also said that IRS would consider the printing and computing capabilities needed to implement our suggested tax statement when establishing requirements for new equipment.

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**Opportunity to Improve Notice Quality**

Notice Clarity Unit officials said that the potential capabilities of new printing equipment planned for the service centers in 1993 and 1994 will give IRS a chance to further standardize notices and improve their quality and appearance. A task force sponsored by the Notice Clarity Unit summarized its concerns with notice format and content in a June 1992 draft report. That report recommended that IRS (1) develop a handbook for written communication standards to guide IRS personnel who prepare notices, (2) increase the standardization of notice content and format, and (3) establish a single point of control for all IRS correspondence to ensure adherence to standards.

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**Telephone Assistance Numbers Provided Were Appropriate**

The forms, publications, and notices we examined that contained telephone numbers all correctly referred taxpayers to an IRS unit responsible for answering questions or providing other assistance related to a form or publication. The IRS units most often referenced were taxpayer assistance sites responsible for answering general taxpayer questions concerning forms or publications and referring the call to a taxpayer service representative who could discuss specific taxpayer accounts. Taxpayer assistance personnel are also expected to explain how to secure a taxpayer identification number, file by magnetic media, and order additional forms and publications. We noted one form on which the taxpayer service telephone number was not provided. IRS officials agreed to add a telephone number to the form.

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**Call Site Purpose Sometimes Misunderstood**

In August 1991, IRS established the Information Returns Program (IRP) Call Site as a pilot project at the Martinsburg Computing Center, in Martinsburg, West Virginia. The pilot call site serves the North Atlantic and Central Regions and responds to questions from the financial community concerning the magnetic media filing of annual information returns, such as Forms 1099. The call site also is to provide assistance concerning tax law, return preparation, filing requirements and related matters for information returns. The call site is expected to operate nationwide in the near future.

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According to pilot call site staff and payroll professionals, some employers and payroll preparers may have mistakenly believed that the IRP call site was intended to address employment tax matters. This mistaken belief may have led to misdirected calls that the IRP call site assistants did not answer satisfactorily, thus frustrating callers. IRS officials said that taxpayers seeking employment tax guidance should contact either the general taxpayer services' telephone number or the practitioner hotline. The assistants at both of those locations are trained in employment tax matters and can also retrieve specific tax account data from IRS computerized records, which IRP call site assistants cannot access.

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## Conclusions

Our review of selected IRS forms, publications, and notices did not identify any instances in which the documents did not conform with current legal requirements or IRS guidance. The notices we reviewed were consistent with their purpose as explained in the Taxpayer Service Handbook and the Catalog of Federal Tax Forms, Form Letters and Notices. We did identify a number of changes that could be made to improve the understandability and usefulness of the forms, publications, and notices to taxpayers. The taxpayer assistance telephone numbers provided on the forms and publications that we reviewed were those of IRS taxpayer assistance offices that should be able to respond to taxpayers' questions and related matters. The notices we reviewed generally included the telephone number of an IRS service center, district office, or toll-free taxpayer call site.

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## Agency Comments

We discussed the contents of this report with responsible IRS officials, who generally agreed with the information presented. The specific changes we suggested to the forms, publications, and notices we reviewed and IRS's responses are provided in appendixes III through VIII of this report.

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As agreed with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days from the date of the report. At that time, we will make copies available upon request. The major contributors to this report are listed in appendix X. If you or your staff have any questions concerning the report, please call me on (202) 512-5407 or Bob McArter, Assistant Director, on (202) 272-7904.

Sincerely yours,



Jennie S. Stathis  
Director, Tax Policy and  
Administration Issues

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**Abbreviations**

BMF	Business Master File
EIC	Earned Income Credit
EIN	Employer Identification Number
GST	Generation-Skipping Transfer
IMF	Individual Master File
IRA	Individual Retirement Account
IRP	Information Reporting Program
IRS	Internal Revenue Service
OMB	Office of Management and Budget
SSA	Social Security Administration
SSN	Social Security Number
TFCC	Tax Forms Coordinating Committee

# Objectives, Scope, and Methodology

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Our objectives were to (1) assess the accuracy of frequently used IRS forms, publications, and notices and (2) determine the usefulness of the taxpayer assistance telephone numbers placed on these documents.

We reviewed 13 forms and their accompanying instructions, 4 publications, and 21 notices. IRS categorizes forms as individual, corporate, miscellaneous, and conduit.<sup>1</sup> We reviewed forms from each category. We reviewed both annual use forms, which are revised every year, and continuous use forms, which are revised a minimum of every 3 years. The forms we reviewed were selected subjectively on the basis of extent of use and potential problems identified by organizations representing tax professionals or taxpayers. Each of the forms we selected had at least 100,000 filed during a recent year. With one exception, we excluded forms that were undergoing a major IRS revision at the time of our review. The publications we selected were related to the forms we reviewed.

To analyze forms, instructions, and publications for accuracy, we compared them to applicable sections of the Internal Revenue Code, regulations, revenue rulings, and revenue procedures. To identify ways of enhancing a form's understandability, we considered whether more specific language, consistent use of terminology, and appropriate references to other forms and publications could make these documents more understandable to taxpayers. Details of our suggested changes are contained in appendixes III through VII.

We selected frequently issued notices from IRS' Individual Master File (IMF) or Business Master File (BMF), histories of transactions maintained by IRS. The Notice Clarity Unit reviewed and approved 14 of the 21 notices we selected for review.

To analyze the understandability of notices, we considered whether the message IRS was attempting to convey to taxpayers was evident from a notice's standard paragraphs. We used the purpose statements of notices found in IRS' Taxpayer Service Handbook and the Catalog of Federal Tax Forms, Form Letters and Notices to judge understandability. We also considered whether a notice's title and attached response stubs were consistent with the notice's intent. We did not attempt to determine whether the notices we reviewed were appropriate given a taxpayer's particular circumstances. Details of our suggested changes are contained in appendix VIII.

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<sup>1</sup>A conduit form is used by an entity that does not pay taxes itself but passes its tax attributes on to its owners.

While we attempted to review the documents we selected in a comprehensive manner, we could not anticipate all situations that could lead to problems or confusion for the taxpayer. In conducting our work, we obtained the views of organizations representing tax professionals, tax preparers, and taxpayers on forms and publications. But it should not be inferred that these groups necessarily agree with our suggestions or support our conclusions. Appendix IX contains a list of organizations we contacted. We also discussed our concerns and suggestions with IRS on an ongoing basis.

We reviewed the usefulness of IRS' telephone assistance services by verifying that the toll-free telephone numbers found on the forms and publications we examined were correct and would connect taxpayers with an appropriate IRS taxpayer assistance representative. Because telephone numbers on notices may include both local and toll-free numbers, we did not verify their accuracy. However, we discussed IRS procedures for ensuring that notices provide appropriate telephone numbers. We also obtained selected training and reference materials used by taxpayer service staff—including telephone assistors—to ensure that these staff members could easily access key documents and research questions for both individual taxpayers and businesses. We did not conduct test calls to assess the effectiveness of taxpayer telephone assistance service or to determine whether questions from taxpayers were answered accurately.

We did our work at IRS' National Office in Washington, D.C. We discussed the contents of this report with responsible IRS officials who generally agreed with the information presented. We did our work from May through December 1992 in accordance with generally accepted government auditing standards. The specific changes we suggested to the forms, publications, and notices that we reviewed and IRS's responses to our suggested changes are contained in appendixes III through VIII of this report.

# GAO-Suggested Changes to IRS Forms, Notices, and Publications Reviewed

IRS form		GAO concern GAO suggestion	IRS response <sup>a</sup>	Reference
<b>Individual forms</b>				
Form 2106 - Employee Business Expenses	1	▲ Specific language	To be revised in 1993	Appendix III
	2	★ Clear reference	To be revised in 1993	Appendix III
	3	★ Clear reference	To be revised in 1993	Appendix III
	4	★ Clear reference	To be revised in 1993	Appendix III
	5	▲ Specific language	To be revised in 1993	Appendix III
Form 2119 - Sale of Your Home	1	▲ Specific language	Revised in 1992	Appendix III
	2	▲ Specific language	Revised in 1992	Appendix III
	3	▲ Specific language	Revised in 1992	Appendix III
	4	★ Clear reference	To be revised in 1993	Appendix III
	5	★ Clear reference	To be revised in 1993	Appendix III
	6	■ Consistent terminology	To be revised in 1993	Appendix III
	7	▲ Specific language	To be revised in 1993	Appendix III
	8	★ Clear reference	Under consideration	Appendix III
	9	★ Clear reference	Under consideration	Appendix III
	10	★ Clear reference	To be revised in 1993	Appendix III
	11	▲ Specific language	Under consideration	Appendix III
	12	★ Clear reference	To be revised in 1993	Appendix III
	13	▲ Specific language	To be revised in 1993	Appendix III
Form 8829 - Expenses for Business Use of Your Home	1	▲ Specific language	To be revised in 1993	Appendix III
	2	▲ Specific language	To be revised in 1993	Appendix III
<b>Corporate form</b>				
Form 5500EZ - Annual Return of One-Participant (Owners and Their Spouses) Pension Benefit Plan	1	▲ Specific language	To be revised in 1993	Appendix IV
	2	★ Clear reference	To be revised in 1993	Appendix IV
	3	■ Consistent terminology	To be revised in 1993	Appendix IV
<b>Miscellaneous forms</b>				
Form SS-4 - Application for Employer Identification Number	1	★ Clear reference	To be revised in 1994	Appendix V
	2	★ Clear reference	To be revised in 1994	Appendix V
	3	★ Clear reference	To be revised in 1994	Appendix V
	4	★ Clear reference	To be revised in 1994	Appendix V
	5	▲ Specific language	To be revised in 1994	Appendix V
Form W-2 - Wage and Tax Statement	1	▲ Specific language	Revised in 1993	Appendix V
	2	▲ Specific language	Revised in 1993	Appendix V
Form W-2c - Statement of Corrected Income and Tax Amounts	1	★ Clear reference	Revised in 1992	Appendix V
Form 941 - Employer's Quarterly Federal Tax Return	1	▲ Specific language	Revised in 1993	Appendix V
	2	★ Clear reference	Revised in 1993	Appendix V
	3	▲ Specific language	Revised in 1993	Appendix V
	4	▲ Specific language	Revised in 1993	Appendix V

**Appendix II  
GAO-Suggested Changes to IRS Forms,  
Notices, and Publications Reviewed**

IRS form	GAO concern	GAO suggestion	IRS response <sup>a</sup>	Reference
<b>Miscellaneous forms (cont.)</b>				
Form 1098 - Mortgage Interest Statement	1	▲ Specific language	Revised in 1993	Appendix V
Form 1099-DIV - Dividends and Distributions	1	▲ Specific language	Revised in 1993	Appendix V
	2	■ Consistent terminology	To be revised in 1994	Appendix V
Form 1099-MISC - Miscellaneous Income	1	▲ Specific language	Revised in 1993	Appendix V
<b>Conduit form</b>				
Form 709 - United States Gift (and Generation-Skipping Transfer) Tax Return	1	▲ Specific language	To be revised in 1993	Appendix VI
	2	▲ Specific language	To be revised in 1993	Appendix VI
	3	★ Clear reference	To be revised in 1993	Appendix VI
	4	★ Clear reference	To be revised in 1993	Appendix VI
	5	★ Clear reference	To be revised in 1993	Appendix VI
	6	★ Clear reference	To be revised in 1993	Appendix VI
	7	★ Clear reference	To be revised in 1993	Appendix VI
	8	★ Clear reference	To be revised in 1993	Appendix VI
	9	★ Clear reference	To be revised in 1993	Appendix VI
	10	▲ Specific language	To be revised in 1993	Appendix VI
	11	? Requirement questioned	Under consideration	Appendix VI
	12	? Requirement questioned	Under consideration	Appendix VI
<b>Publications</b>				
Publication 523 - Selling Your Home	1	★ Clear reference	To be revised in 1993	Appendix VII
	2	▲ Specific language	To be revised in 1993	Appendix VII
Publication 587 - Business Use of Your Home	1	▲ Specific language	To be revised in 1993	Appendix VII
<b>Notices</b>				
CP 16 - We Changed Your Return and Used Your Refund to Pay Other Taxes You Owe	1	▲ Specific language	Under consideration	Appendix VIII
CP 49 - Overpaid Tax Applied to Other Taxes You Owe	1	▲ Specific language	Under consideration	Appendix VIII
CP 138 - We Applied Your Overpayment to Other Taxes You Owe	1	★ Clear reference	Under consideration	Appendix VIII
CP 253 - Request for Forms W-2 Not Filed With the Social Security Administration	1	▲ Specific language	Under consideration	Appendix VIII
CP 267 - Overpayment Notice	1	▲ Specific language	Under consideration	Appendix VIII

**Type of change**

- ▲ Specific language
- ★ Appropriate reference
- Consistent terminology
- ? Requirement questioned

<sup>a</sup> The IRS response column indicates IRS' response to our suggestions and, if applicable, the year IRS has agreed to adopt our suggestion.

# Individual Forms

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## Form 2106, Employee Business Expenses

This is an annual form for individual use. We analyzed the 1991 version and remain concerned by some aspects of the 1992 revision. Therefore, we cite the 1992 version.

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### 1992 Form 2106, Line 2

#### GAO Concern 1

It is not clear that line 2 is for local travel expenses only. However, line 3 clearly refers to "travel expenses while away from home overnight." We suggested that IRS make a distinction between local and overnight travel.

#### IRS Response

IRS agreed to specify that line 2 is for local travel expenses by revising it to read, "Parking fees, tolls, and transportation, including train, bus, etc., that did not involve overnight travel." IRS agreed to make this revision in the 1993 version of Form 2106.

**Appendix III  
Individual Forms**

**Figure III.1: Details of 1992 and Suggested 1993 Form 2106**

<u>1992 Form</u>		Column A		Column B
<b>STEP 1 Enter Your Expenses</b>		Other Than Meals and Entertainment		Meals and Entertainment
1	Vehicle expense from line 22 or line 29 . . . . .	1		
2	Parking fees, tolls, and local transportation, including train, bus, etc. . . . .	2		
3	Travel expenses while away from home overnight, including lodging, airplane, car rental, etc. <b>Do not</b> include meals and entertainment . . . . .	3		
<u>Suggested 1993 Form</u>		Column A		Column B
<b>STEP 1 Enter Your Expenses</b>		Other Than Meals and Entertainment		Meals and Entertainment
1	Vehicle expense from line 22 or line 29 . . . . .	1		
2	Parking fees, tolls, and transportation, including train, bus, etc., <u>that did not involve overnight travel</u> .	2		
▲	3 Travel expenses while away from home overnight, including lodging, airplane, car rental, etc. <b>Do not</b> include meals and entertainment . . . . .	3		

▲ Specific language

**1992 Form 2106, Line 8**

**GAO Concern 2**

The note does not direct taxpayers to the line number on which excess reimbursements should be reported as income. Although this information is included in the line 8 instructions, we suggested it also be placed on the form.

**IRS Response**

IRS agreed to add the appropriate line number to the note in the 1993 version of Form 2106.

(See next page.)

**Figure III.2: Details of 1992 and Suggested 1993 Form 2106**

**1992 Form**

**STEP 3 Figure Expenses To Deduct on Schedule A (Form 1040)**

8	Subtract line 7 from line 6 . . . . .	8				
	<i>Note: If both columns of line 8 are zero, stop here. If Column A is less than zero, report the amount as income and enter -0- on line 10, column A. See instructions for how to report.</i>					
9	Enter 20% (.20) of line 8, Column B . . . . .	9				

**Suggested 1993 Form**

**STEP 3 Figure Expenses To Deduct on Schedule A (Form 1040)**

8	Subtract line 7 from line 6 . . . . .	8				
	<i>Note: if both columns of line 8 are zero, stop here. If Column A is less than zero, report the amount as income on Line 7 (Form 1040) and enter -0- on line 10, column A. See instructions for how to report.</i>					
★						
9	Enter 20% (.20) of line 8, Column B . . . . .	9				

★ Appropriate reference

1992 Form 2106,  
Instructions, Page 2, Line 3

**GAO Concern 3**

The instructions do not specify the types of lodging and transportation expenses that can be deducted. The instructions also do not indicate that personal travel expenses incurred while the taxpayer is away from home on business are nondeductible. This information is found in Publication 463, Travel, Entertainment, and Gift Expenses. We suggested that IRS include a reference to this publication.

IRS Response

IRS agreed to refer to Publication 463 to provide taxpayers with more information and will incorporate this reference in the 1993 version of Form 2106.

Figure III.3: Details of 1992 and Suggested 1993 Instructions for Form 2106

**1992 Instructions**

**Line 3.**—Enter expenses for lodging and transportation connected with overnight travel away from your **tax home**. Do not include expenses for meals and entertainment.

**Suggested 1993 Instructions**

**Line 3.**—Enter expenses for lodging and transportation connected with overnight travel away from your **tax home**. Do not include expenses for meals and entertainment. **★** See Pub. 463 for more information about business travel.

★ Appropriate reference

1992 Form 2106,  
Instructions, Page 2, Line 4

GAO Concern 4

The instructions do not mention the limits on the deductions for business gifts. A taxpayer cannot deduct more than \$25 for business gifts given directly or indirectly to any one person during the tax year. This information is found in Publication 463, Travel, Entertainment, and Gift Expenses but not mentioned in the instructions.

IRS Response

IRS agreed to reference Publication 463 to advise taxpayers where to obtain more information and will incorporate the reference in the 1993 version of Form 2106.

(See next page.)

Figure III.4: Details of 1992 and Suggested 1993 Instructions for Form 2106

**1992 Instructions**

**Line 4.**—Enter other job-related expenses not listed on any other line on this form. Include expenses for business gifts, education (tuition and books), home office, trade publications, etc. If you are deducting home office expenses, get Pub. 587 for special instructions on how to report your expenses. If you are deducting depreciation on a cellular telephone or other similar telecommunications equipment, a home computer, etc., get **Form 4562**, Depreciation and Amortization, to figure the depreciation. Enter the depreciation on line 4.

**Suggested 1993 Instructions**

**Line 4.**—Enter other job-related expenses not listed on any other line on this form. Include expenses for business gifts, education (tuition and books), home office, trade publications, etc. **★ (See Pub. 463 for more information.)** If you are deducting home office expenses, get Pub. 587 for special instructions on how to report your expenses. If you are deducting depreciation on a cellular telephone or other similar telecommunications equipment, a home computer, etc., get **Form 4562**, Depreciation and Amortization, to figure the depreciation. Enter the depreciation on line 4.

★ Appropriate reference

1992 Form 2106,  
Instructions, Page 3, Lines  
13 and 15

GAO Concern 5

The computation of business use of a car appears to be calculated differently for taxpayers who changed jobs during the year and then began using a car for business than it is for taxpayers who did not change jobs but began to use a car for business during the year.

IRS Response

IRS officials said that it is not IRS' intention to treat these taxpayers differently. IRS will change the language in the instructions to indicate that the relevant issue is the date the vehicle is converted to business use, regardless of whether the taxpayer changed jobs. This change will be incorporated in the 1993 version of Form 2106.

Figure III.5: Details of 1992 and Suggested 1993 Instructions for Form 2106

**1992 Instructions**

**Line 13.**—Enter the total miles each vehicle was driven for all purposes during the year. If you changed your job during the year to one in which you started using a vehicle for business, enter only the total miles for the months you used your vehicle for business in the new job.

**Line 14.**—Do not include commuting miles on this line; commuting miles are not considered business miles. See the line 16 instructions for the definition of commuting.

**Line 15.**—Divide line 14 by line 13 to figure your business use percentage. If you changed your job during the year to one in which you started using your vehicle for business, multiply this percentage by the number of months you used your vehicle for business in the new job and divide the result by 12.

**Suggested 1993 Instructions**

**Line 13.**—Enter the total miles each vehicle was driven for all purposes during the year. If you first started using your vehicle for personal use and later converted it to business use, enter only the total miles for the months the vehicle was used for business.

**Line 14.**—Do not include commuting miles on this line; commuting miles are not considered business miles. See the line 16 instructions for the definition of commuting.

**Line 15.**—Divide line 14 by line 13 to figure your business use percentage. If you first used your vehicle for personal use and later converted it to business use, multiply this percentage by the number of months the car was used for business and divide the result by 12.

▲ Specific language

**Form 2119, Sale of  
Your Home**

This is an annual form for individual use. We analyzed the 1991 version, and while several of our concerns were addressed, we remain concerned by some aspects of the 1992 revision. Some of the changes agreed to by IRS were made in the 1992 version. Others are planned for either the 1993 or 1994 version as cited. We cite both the 1991 and 1992 versions in our concerns.

1991 Form 2119,  
Instructions, Page 2, Line  
1a

GAO Concern 1

It is not clear whether "sold" refers to the date a contract with a prospective buyer was accepted by the seller or the date the title changed hands.

IRS Response

IRS agreed with our concern and added an explanation of sold in the line 1 instructions and a reference to this explanation in the Purpose of Form section. IRS made this change on the 1992 instructions for Form 2119.

Figure III.6: Details of 1991 and 1992 Instructions for Form 2119

<u>1991 Instructions</u>	<u>1992 Instructions</u>
<p><b>Line 1a.-</b> No instructions were included for line 1a concerning the date former home was sold.</p>	<p><b>General Instructions</b> <b>Purpose of Form</b> ▲ <u>Date of Sale.</u> See the instructions for line 1 on page 2.</p> <p><b>Line Instructions</b> ▲ <u>Line 1.</u> Enter the date of sale. If you received a <b>Form 1099-S, Proceeds From Real Estate Transactions</b>, the date should be shown in box 1. If you didn't receive a Form 1099-S, the date of sale is the earlier of (a) the date title transferred or (b) the date the economic burdens and benefits of ownership shifted to the buyer.</p>
▲ Specific language	

1991 Form 2119,  
Instructions, Page 2, Line  
11—Fixing-Up Expenses

GAO Concern 2

It is unclear whether “contract date” refers to the date the seller contracts with the realtor to sell the home or the date there is a contract with a prospective buyer.

IRS Response

IRS agreed and clarified that the “contract date” is the date there is a valid contract with a buyer. IRS has incorporated the clarification into the 1992 instructions for Form 2119.

Figure III.7: Details of 1991 and 1992 Instructions for Form 2119

**1991 Instructions**

**Line 11—Fixing-up Expenses.**—Enter the amount paid for work performed on your old home in order to help sell it. Do not include amounts that are otherwise deductible, or selling expenses included on line 5. The expenses must be for work performed within 90 days before the contract to sell the home was signed and paid within 30 days after the sale. Do not include expenses for permanent improvements or replacements, which should be added to the basis of the property sold.

**1992 Instructions**

**Line 18.** (formerly Line 11) Enter the amount paid for work done on your old home in order to help sell it. The expenses must be--

- For work done during the 90-day period ending on the day you signed the contract to sell your home (not the day you signed the listing contract with the realtor), and
- Paid no later than 30 days after the date of sale.

Do not include amounts that are otherwise deductible or selling expenses included on line 6.

Also, do not include expenses for permanent improvements or replacements, which should be added to the basis of the property sold.

▲ Specific language

1991 Form 2119,  
Instructions

GAO Concern 3

There are no instructions addressing the situation of unmarried people who jointly own and sell a home. It is unclear how they are to postpone their gain and elect the one-time exclusion, if eligible.

IRS Response

IRS officials agreed and incorporated a section addressing this situation in the 1992 instructions for Form 2119 under Purpose of Form. A reference has also been added to Publication 523, Selling Your Home.

Figure III.8: Details of 1991 and 1992 Instructions for Form 2119

**1991 Instructions**

No instructions were included addressing how unmarried people were to postpone gain or elect the one-time exclusion, if eligible, in situations where they jointly owned and sold a house.

**1992 Instructions**

**General Instructions  
Purpose of Form**

- ▲ More Than One Owner. If you owned the old home jointly with a person other than your spouse, you may postpone gain or elect the one-time exclusion only on your ownership interest in the home. For more details, see Pub. 523.

▲ Specific language

**1992 Form 2119, Line 6,  
Expense of Sale**

**GAO Concern 4**

The list of items shown on line 6, Expense of Sale, is not all inclusive. We suggested deleting the phrase, "Include sales commissions, advertising, legal, etc.," and replacing it with "see instructions." The instructions provide a more complete list of expenses of a sale, including those mentioned on the form.

**IRS Response**

IRS officials agreed to adopt this suggestion. The change will be incorporated in the 1993 version of Form 2119.

(See next page.)

**Figure III.9: Details of 1992 and Suggested 1993 Form 2119**

**1992 Form**

**Part II Gain on Sale (Do not include amounts you deduct as moving expenses.)**

5.	Selling price of home. Do not include personal property items that you sold with your home.....	5		
6.	Expense of sale. Include sales commissions, advertising, legal, etc.....	6		
7.	Amount realized. Subtract line 6 from line 5.....	7		
8.	Basis of home sold (see instructions).....	8		

**Suggested 1993 Form**

**Part II Gain on Sale (Do not include amounts you deduct as moving expenses.)**

5.	Selling price of home. Do not include personal property items that you sold with your home.....	5		
★ 6.	Expense of sale. <u>(see instructions)</u> .....	6		
7.	Amount realized. Subtract line 6 from line 5.....	7		
8.	Basis of home sold (see instructions).....	8		

★ Appropriate reference

1992 Form 2119,  
Instructions, Page 1

GAO Concern 5

The term "replacement period" is used seven times before it is defined on the second page.

IRS Response

IRS officials agreed to provide a definition where the term is first used in the 1993 version of the Form 2119 instructions.

Figure III.10: Details of 1992 and Suggested 1993 Instructions for Form 2119

<u>1992 Instructions</u>	<u>Suggested 1993 Instructions</u>
<p><b>When and Where to File</b> <b>Additional Filing Requirements.</b> If you have not replaced your home but plan to do so within the replacement period (defined on page 2), you will also have to complete a second Form 2119.</p>	<p><b>When and Where to File</b> <b>Additional Filing Requirements.</b> If you have not replaced your home but plan to do so within the replacement period you will also have to complete a second Form 2119. <u>Generally the replacement period starts 2 years before and ends 2 years after the date you sell your old main home. The replacement period may be longer if you are on active duty in the U.S. Armed Forces for more than 90 days or if you live and work outside the United States. For more details, see Pub. 523.</u></p>
<p>★ Appropriate reference</p>	<p>★</p>

1992 Form 2119,  
Instructions, Page 2, Line  
21b

GAO Concern 6

Two terms (cost of capital improvements and capital expenses) appear to be used synonymously, but it is not clear whether this is IRS' intention. Under the line 8 instructions, the term capital improvements is used, while under line 21b, capital expenses is used.

IRS Response

IRS officials agreed to select one term and use it consistently throughout the instructions. The revision will be incorporated in the 1993 version of the Form 2119 instructions.

(See next page.)

Figure III.11: Details of 1992 and Suggested 1993 Instructions for Form 2119

<u>1992 Instructions</u>	<u>Suggested 1993 Instructions</u>
<p><b>Line 21b.</b> The cost of your new home includes one or more of the following:</p> <ul style="list-style-type: none"><li>• Cash payments,</li><li>• The amount of any mortgage or other debt on the new home,</li><li>• Commissions and other purchase expenses you paid that were not deducted as moving expenses, and</li><li>• Any capital expenses incurred within the replacement period (defined on this page).</li></ul> <p>If you built your new home, include the cost of the land and all construction costs incurred within the replacement period. Do not include the cost of land purchased before or after the replacement period or land acquired other than by purchase. Also, do not include the value of your own labor.</p> <p><b>Note:</b> If line 23 of Form 2119 shows a taxable gain and you incur capital expenses after you file it but within the replacement period, you should refigure your taxable gain. If including the capital expenses in the cost of your new home reduces the gain you originally reported, file Form 1040X to correct your 1992 tax return.</p>	<p><b>Line 21b.</b> The cost of your new home includes one or more of the following:</p> <ul style="list-style-type: none"><li>• Cash payments,</li><li>• The amount of any mortgage or other debt on the new home,</li><li>• Commissions and other purchase expenses you paid that were not deducted as moving expenses, and</li><li>■ • Any <u>cost of capital improvements</u> incurred within the replacement period (defined earlier).</li></ul> <p>If you built your new home, include the cost of the land and all construction costs incurred within the replacement period. Do not include the cost of land purchased before or after the replacement period or land acquired other than by purchase. Also, do not include the value of your own labor.</p> <p><b>Note:</b> If line 23 of Form 2119 shows a taxable gain and you incur <u>costs for capital improvements</u> after you file it but within the replacement period, you should refigure your taxable gain. If including the <u>costs of capital improvements</u> in the cost of your new home reduces the gain you originally reported, file Form 1040X to correct your 1993 tax return.</p>
■ Consistent terminology	

1992 Form 2119,  
Instructions and Form

GAO Concern 7

The taxpayer is not advised on either the form or instructions to save a copy of Form 2119 for his/her records. This is an important form for home owners because it is needed to determine the basis of property and a copy

should always be kept. We suggested it should be retained longer than the 3 years usually recommended.

IRS Response

IRS officials agreed to adopt this suggestion. They plan to add a statement either in the 1993 version of Form 2119 or in the accompanying instructions advising the taxpayer the form should be retained longer than other tax records, perhaps indefinitely.

Figure III.12: Details of 1992 and Suggested 1993 Instructions for Form 2119

<u>1992 Instructions</u>	<u>Suggested 1993 Instructions</u>
No instructions were included regarding the importance of retaining Form 2119 longer than other tax records.	<b>General Instructions</b> <b>Purpose of Form</b> ▲ <u>Note: The information contained on this form will be required in computing gain or loss on any future sale of the house. It may be necessary to retain the form longer than other tax records, perhaps indefinitely.</u>
▲ Specific language	

1992 Form 2119, Line 9

GAO Concern 8

To enhance Form 2119 and provide a stronger distinction between the two bullets for line 9, we suggested revising the second bullet to, "If line 9 is greater than zero and line 3 is YES, you must go to Part III or Part IV, whichever applies. If line 3 is NO, go to line 10."

IRS Response

IRS officials are still considering this suggestion. IRS is conducting its own study of Form 2119, which may affect this decision. This study is due in (See next page.)

the spring of 1993. Depending on the results of the report, IRS may adopt the suggestion for 1993 or 1994.

**Figure III.13: Details of 1992 and Suggested Form 2119**

**1992 Form**

**Part II Gain on Sale** (Do not include amounts you deduct as moving expenses.)

5.	Selling price of home. Do not include personal property items that you sold with your home.....	5		
6.	Expense of sale. Include sales commissions, advertising, legal, etc.....	6		
7.	Amount realized. Subtract line 6 from line 5.....	7		
8.	Basis of home sold (see instructions).....	8		
9.	<b>Gain on sale</b> , Subtract line 8 from line 7..... * . If line 9 is zero or less, <b>stop here</b> and attach this form to your return. * If line 3 is "Yes," you <b>must</b> go to Part III or Part IV, whichever applies. Otherwise, go to line 10.	9		

**Suggested 1993 or 1994 Form**

**Part II Gain on Sale** (Do not include amounts you deduct as moving expenses.)

5.	Selling price of home. Do not include personal property items that you sold with your home.....	5		
6.	Expense of sale. (see instructions).....	6		
7.	Amount realized. Subtract line 6 from line 5.....	7		
8.	Basis of home sold (see instructions).....	8		
9.	<b>Gain on sale</b> , Subtract line 8 from line 7..... * . If line 9 is zero or less, <b>stop here</b> and attach this form to your return. * <u>If line 9 is greater than zero and line 3 is "Yes," you <b>must</b> go to Part III or Part IV, whichever applies. If line 3 is NO go to line 10.</u>	9		

★

★ Appropriate reference

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**1992 Form 2119, Line 17**

**GAO Concern 9**

To enhance Form 2119 and provide a stronger distinction between the first two bullets of line 17, we suggested changing the second bullet to, "If line 17 is greater than zero and line 3 is YES, go to line 18 now." This would give both bullets the same format.

**IRS Response**

IRS officials are still considering this suggestion. IRS is conducting its own study of Form 2119, which may affect this decision. This study is due in the spring of 1993. Depending on the results of the report, IRS may adopt the suggestion for 1993 or 1994.

(See next page.)

Figure III.14: Details of 1992 and Suggested Form 2119

**1992 Form**

**Part IV Adjusted Sales Price, Taxable Gain and Adjusted Basis of New Home**

17 Subtract line 16 from line 9.....

17		
----	--	--

- If line 17 is zero, stop here and attach this form to your return.
- If line 3 is "Yes" go to line 18 now.
- If you are reporting this sale on the installment method, stop here and see the line 2 instructions.
- All others, stop here and enter the amount from line 17 on Schedule D, line 2 or line 10.

**Suggested 1993 or 1994 Form**

**Part IV Adjusted Sales Price, Taxable Gain and Adjusted Basis of New Home**

17 Subtract line 16 from line 9.....

17		
----	--	--

- If line 17 is zero, stop here and attach this form to your return.
- If line 17 is greater than zero and line 3 is "Yes" go to line 18 now.
- If you are reporting this sale on the installment method, stop here and see the line 2 instructions.
- \* All others, stop here and enter the amount from line 17 on Schedule D, line 2 or line 10.

★ Appropriate reference

**1992 Form 2119,  
Instructions, Page 1,  
One-Time Exclusion for  
People Age 55 or Older**

**GAO Concern 10**

We found the next to the last sentence in the paragraph after test 3 unclear. We were unsure if IRS intended living in a nursing home to be the same as living in the main home or whether IRS expected the person to physically reside in the main home for 1 year.

**IRS Response**

IRS officials agreed to revise this section to conform with a clearer explanation contained in the revised 1992 version of Publication 523, *Selling Your Home*. The revision will be incorporated into the 1993 Form 2119 instructions.

(See next page.)

Figure III.15: Details of 1992 and Suggested 1993 Instructions for Form 2119

**1992 Instructions**

**One-Time Exclusion for People  
Age 55 or Over**

Generally, you can elect to exclude from your income up to \$125,000 (\$62,500 if married filing a separate return) of the gain from one sale of any main home you choose. But for sales after July 26, 1978, the exclusion is available only once. To make the election for this sale, complete Part III and answer "Yes" on line 13. You can make the election if **all three** of the following apply:

1. You or your spouse were age 55 or older on the date of sale.
2. Neither you nor your spouse have ever excluded gain on the sale of a home after July 26, 1978.
3. The person who was age 55 or older owned and lived in the home for periods adding up to at least 3 years within the 5-year period ending on the date of sale.

For purposes of 3 above, if you were physically or mentally unable to care for yourself, count as time living in your main home any time during the 5-year period that you lived in a facility such as a nursing home. The facility must be licensed by a state (or political subdivision) to care for people in your condition. For this rule to apply, you must have owned and used your residence as your main home for a total of at least 1 year during the 5-year period. See Pub. 523 for more details.

**Suggested 1993 Instructions**

**One-Time Exclusion for People  
Age 55 or Over**

Generally, you can elect to exclude from your income up to \$125,000 (\$62,500 if married filing a separate return) of the gain from one sale of any main home you choose. But for sales after July 26, 1978, the exclusion is available only once. To make the election for this sale, complete Part III and answer "Yes" on line 13. You can make the election if **all three** of the following apply:

1. You or your spouse were age 55 or older on the date of sale.
2. Neither you nor your spouse have ever excluded gain on the sale of a home after July 26, 1978.
3. The person who was age 55 or older owned and lived in the home for periods adding up to at least 3 years within the 5-year period ending on the date of sale.

★ For purposes of 3 above, there is an exception, if you become physically or mentally unable to care for yourself at any time during the 5-year period. This exception applies to sales after September 30, 1988. You qualify for this exception to the use test if, during the 5-year period before the sale of your home:

- 1) You owned and lived in your home as your main home for a total of at least one year, and
  - 2) You became physically or mentally unable to care for yourself.
- Under this exception you are considered to live in your home during any time that you reside in a facility (including a nursing home) that is licensed by a state or political subdivision to care for persons in your condition.

★ Appropriate reference

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Form 2119, Part III

GAO Concern 11

The statement, "If you are not taking the exclusion, go to Part IV now," follows the title of Part III. The question is asked again on line 13. We wonder why the question is asked on line 13 when the taxpayer has already been instructed in the title note to go to Part IV if he/she is not taking the one-time exclusion. The taxpayer should be filling out Part III only if he/she is electing to take the one-time exclusion. We suggest reordering and revising the questions in Part III as shown in the suggested revision. We further suggest deleting the title note, "If you are not taking the exclusion, go to Part IV now," from the Part III title note.

IRS Response

IRS officials are considering this suggestion. IRS is conducting its own study of Form 2119, which may affect this decision. This study is due in the spring of 1993. Depending on the results of the report, IRS may adopt the suggestion for 1993 or 1994.

(See next page.)

**Appendix III  
Individual Forms**

**Figure III.16: Details of 1992 and Suggested Form 2119**

**1992 Form**

**Part III One-Time Exclusion of Gain for People Age 55 or Older** (If you are not taking the exclusion, go to Part IV now.)

11	Who was age 55 or older on date of sale?..... <input type="checkbox"/> You <input type="checkbox"/> Your Spouse <input type="checkbox"/> Both of you		
12	Did the person who was age 55 or older own and use the property as his or her main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale? If "No," go to Part IV now..... <input type="checkbox"/> Yes <input type="checkbox"/> No		
13	If line 12 is "Yes," do you elect to take the one-time exclusion? If "No," go to Part IV now..... <input type="checkbox"/> Yes <input type="checkbox"/> No		
14	At time of sale, who owned the home?..... <input type="checkbox"/> You <input type="checkbox"/> Your Spouse <input type="checkbox"/> Both of you		
15	Social security number of spouse at time of sale if you had a different spouse from the one above at time of sale. If you were not married at time of sale, enter "None".....	15	
16	<b>Exclusion.</b> Enter the smaller of line 9 or \$125,000 (\$62,500, if married filing separate return). Then, go to line 17.....	16	

**Suggested 1993 or 1994 Form**

**▲ Part III One-Time Exclusion of Gain for People Age 55 or Older** (If you are not taking the exclusion, go to Part IV now.)

11	<u>Do you elect to take the one-time exclusion?</u> <u>If "Yes," go to line 12. If "No," go to Part IV.....</u> <input type="checkbox"/> Yes <input type="checkbox"/> No		
12	Who was age 55 or older on date of sale?..... <input type="checkbox"/> You <input type="checkbox"/> Your Spouse <input type="checkbox"/> Both of you		
13	Did the person who was age 55 or older own and use the property as his or her main home for a total of at least 3 years (except for short absences) of the 5-year period before the sale? If "No," go to Part IV now..... <input type="checkbox"/> Yes <input type="checkbox"/> No		
14	At time of sale, who owned the home?..... <input type="checkbox"/> You <input type="checkbox"/> Your Spouse <input type="checkbox"/> Both of you		
15	Social security number of spouse at time of sale if you had a different spouse from the one above at time of sale. If you were not married at time of sale, enter "None".....	15	
16	<b>Exclusion.</b> Enter the smaller of line 9 or \$125,000 (\$62,500, if married filing separate return). Then, go to line 17.....	16	

▲ Specific language

**1992 Form 2119,  
Instructions, Page 2,  
Applying Separate Gain to  
Basis of New Home**

**GAO Concern 12**

**This section does not completely explain the proper allocation and related requirements when taxpayers incur a gain on the sale of their old home and their new home is to be held under a different form of ownership. We suggested a reference to Publication 523, Selling Your Home, which provides a more detailed explanation including examples.**

**IRS Response**

**IRS officials agreed to add a reference to Publication 523. They will incorporate it in the 1993 Form 2119 instructions.**

**(See next page.)**

Figure III.17: Details of 1992 and Suggested 1993 Instructions for Form 2119

**1992 Instructions**

**Applying Separate Gain to Basis of New Home.** If you are married and the old home was owned by only one spouse but you and your spouse own the new home jointly, you and your spouse may elect to divide the gain and the adjusted basis. If you owned the old home jointly but you now own new homes separately, you may elect to divide the gain to be postponed. In either situation, you both must:

1. Use the old and new homes as your main homes, and
2. Sign a statement that says, "We agree to reduce the basis of the new home(s) by the gain from selling the old home." This statement can be made in the bottom margin of Form 2119 or on an attached sheet.

If you both do not meet these two requirements, you must report the gain in the regular way without allocation.

**Suggested 1993 Instructions**

**Applying Separate Gain to Basis of New Home.** If you are married and the old home was owned by only one spouse but you and your spouse own the new home jointly, you and your spouse may elect to divide the gain and the adjusted basis. If you owned the old home jointly but you now own new homes separately, you may elect to divide the gain to be postponed. In either situation, you both must:

1. Use the old and new homes as your main homes, and
2. Sign a statement that says, "We agree to reduce the basis of the new home(s) by the gain from selling the old home." This statement can be made in the bottom margin of Form 2119 or on an attached sheet.

If you both do not meet these two requirements, you must report the gain in the regular way without allocation.

★ See Pub. 523 for more details and examples.

★ Appropriate reference

1992 Form 2119,  
Instructions, Page 2, Line 4

GAO Concern 13

We could not determine whether both the Form 2119, Sale of Your Home, and the Form 4797, Sales of Business Property, or the Form 2119 alone should be filed if part of a home was rented out or used for business in years before the year of sale but not in year of sale. Publication 523, Selling Your Home, suggests it should be reported only on Form 2119.

IRS Response

IRS agreed to incorporate clarifying language and a reference to Publication 523 in the 1993 Form 2119 instructions. The manner in which the property is used in the year of sale is the determining factor.

Figure III.18: Details of Current and Suggested 1993 Instructions for Form 2119

**1992 Instructions**

**Line 4.** If any part of either home was rented out or used for business for which a deduction is allowed, answer "Yes" on line 4.

• If part of your old main home was rented out or used for business and in the year of sale, you were entitled to deduct expenses for the part that was rented or used for business, treat the sale as two separate sales. Report the part of the sale that applies to the rental or business use on Form 4797. Report only the part of the sale that represents your main home on Form 2119. You must allocate the sales price, expenses of sale, and the basis of the property sold between Forms 2119 and 4797.

**Note:** Only the part of the fixing-up expenses that applies to your main home may be included on line 18. These amounts are not allowed on Form 4797.

Attach a statement showing the total selling price of the property and the method used to allocate the amounts between Forms 2119 and 4797. You cannot postpone or take the one-time exclusion on the part of the gain that is reported on Form 4797.

• If part of your new main home is rented out or used for business, enter on line 21b only the part of the total cost of the property that is allocable to your new main home. Attach a statement showing the total cost of the property and the allocation between the part that is your new main home and the part that is rented out or used for business.

**Suggested 1993 Instructions**

**Line 4.** If any part of either home was rented out or used for business for which a deduction is allowed, answer "Yes" on line 4.

• If part of your old main home was rented out or used for business and in the year of sale, you were entitled to deduct expenses for the part that was rented or used for business, treat the sale as two separate sales. Report the part of the sale that applies to the rental or business use on Form 4797. Report only the part of the sale that represents your main home on Form 2119. You must allocate the sales price, expenses of sale, and the basis of the property sold between Forms 2119 and 4797.

**Note:** Only the part of the fixing-up expenses that applies to your main home may be included on line 18. These amounts are not allowed on Form 4797.

Attach a statement showing the total selling price of the property and the method used to allocate the amounts between Forms 2119 and 4797. You cannot postpone or take the one-time exclusion on the part of the gain that is reported on Form 4797.

▲ • If part of your old main home was rented out or used for business in prior years but not in the year of sale, treat the sale as one sale and report on Form 2119.

• If part of your new main home is rented out or used for business, enter on line 21b only the part of the total cost of the property that is allocable to your new main home. Attach a statement showing the total cost of the property and the allocation between the part that is your new main home and the part that is rented out or used for business.

▲ See Pub 523 for additional details.

▲ Specific language

## Form 8829, Expenses for Business Use of Your Home

This is an annual form for individual use. We analyzed the 1991 version and remain concerned with the 1992 revision. Therefore, we cite the 1992 version below.

1992 Form 8829,  
Instructions, Page 2, Line  
40

GAO Concern 1

We suggested revising the first paragraph of the line 40 instructions so they state how a taxpayer should calculate depreciation and on which line this amount should be recorded.

IRS Response

IRS agreed to make this revision for the 1993 version of Form 8829.

Figure III.19: Details of 1992 and Suggested 1993 Instructions for Form 8829

### 1992 Instructions

**Line 40.**—Include on line 40 depreciation on additions and improvements placed in service after you began using your home for business. See Pub. 534 to figure the amount of depreciation allowed on these expenditures. Attach a schedule showing how you figured depreciation on any additions or improvements. Write "See attached" below the entry space.

### Suggested 1993 Instructions

▲ **Line 40.**—If no additions and improvements have been placed in service since you began using your home for business multiply line 38 by the percentage on line 39. Enter the result on lines 40 and 28. If additions and improvements have been placed in service since you began using your home for business include the applicable depreciation on line 40. See Pub. 534 to figure the amount of depreciation allowed on these expenditures. Attach a schedule showing how you figured depreciation on any additions or improvements. Write "See attached" below the entry space.

▲ Specific language

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1992 Form 8829,  
Instructions, Page 2, Line  
40

GAO Concern 2

We suggested IRS provide more guidance on depreciating homes used for business as well as any additions and improvements placed in service at a later date.

IRS Response

IRS has agreed to revise the instructions to advise taxpayers to multiply the business part of the cost or other basis of current year additions and improvements by the percentage shown in the line 39 instructions—Depreciation percentage—for the month placed in service. The instructions will advise taxpayers with other post-1986 additions and improvements to multiply the business part of the cost or other basis by 3.175 percent. If the taxpayer's business use began before 1987, the taxpayer will be referred to Publication 534, Depreciation. IRS will make this revision in the 1993 version of Form 8829.

▲ Specific language

# Corporate Form

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## Form 5500EZ, Annual Return of One-Participant (Owners and Their Spouses) Pension Benefit Plan

This is an annual form for corporate use. We analyzed the 1991 version. The changes we suggested are expected to be included in the 1993 version of the instructions.

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### 1991 Instructions, Page 2, Lines 3a-3c

#### GAO Concern 1

The general instructions for lines 3a-3c refer to an "opinion letter." However, the separate instructions for line 3b and lines 3b and 3c on the form refer to a "determination letter." Although there is a difference between these letters, this distinction is not explained. An opinion letter is a letter of qualification issued by IRS to a plan sponsor, such as a large financial institution, permitting the sale of its plan to employers. A determination letter is a letter of qualification issued by IRS directly to employers who have developed and will manage their own pension plans. We suggested that IRS provide more detailed instructions.

#### IRS Response

IRS has agreed to provide more detailed instructions and will replace the general instructions for lines 3a-3c with an explanation of opinion and determination letters. This change will be incorporated in the 1993 version of the Form 5500EZ instructions.

Figure IV.1: Details of 1991 and Suggested 1993 Instructions for Form 5500EZ

<u>1991 Instructions</u>	<u>Suggested 1993 Instructions</u>
<p><b>Lines 3a-3c.</b> If you have adopted a master or prototype plan, enter "N/A" on lines 3a and 3c and enter the date of the sponsor's most recent IRS opinion letter on line 3b.</p> <p><b>Line 3a.</b> Enter "N/A" if no amendments have been adopted.</p> <p><b>Line 3b.</b> Enter "N/A" if no determination letter has been received.</p>	<p>▲ <u>Qualification Letters.</u> After qualification has been determined by the IRS, sponsors who administer qualified prototype plans will receive opinion letters. If you developed your own qualified plan you will receive a determination letter from the IRS.</p> <p>▲ <b>Line 3a.</b> Enter "N/A" if no amendments have been adopted. If you have a master or prototype plan, enter "N/A" here and on line 3c.</p> <p>▲ <b>Line 3b.</b> Enter the date of the most recent IRS determination letter or opinion letter. Enter "N/A" if no determination letter or opinion letter has been received.</p>

▲ Specific language

1991 Form 5500EZ,  
Instructions, Page 3, Line 7

GAO Concern 2

The instructions indicate "individuals generally must begin to receive distributions from qualified plans by April 1 of the calendar year following the calendar year in which they become age 70½ or (except in the case of a 5% owner) retire, whichever is later." An Internal Revenue Code citation is also provided, but an explanation of the exception is lacking. If IRS believes this reference should be retained, an explanation of the exception should be provided.

IRS Response

IRS' Chief Counsel and Employee Plans Division determined the 5 percent owner exception is not applicable to 5500EZ filers. IRS will delete the reference in the 1993 version of 5500EZ, which is to be filed in 1994.

(See next page.)

Figure IV.2: Details of 1991 and Suggested 1993 Instructions for Form 5500EZ

**1991 Instructions**

**Line 7.** In general, distributions received by a participant from any qualified plan prior to attainment of age 59½, death, or disability will be subject to a 10% tax on the amount of the distributions. In addition, individuals generally must begin to receive distributions from qualified plans by April 1 of the calendar year following the calendar year in which they become age 70½ or (except in the case of a 5% owner) retire, whichever is **later**. See sections 72(m)(5), 72(t), and 401(a)(9) for the specific rules that apply for these situations.

**Suggested 1993 Instructions**

**Line 7.** In general, distributions received by a participant from any qualified plan prior to attainment of age 59½, death, or disability will be subject to a 10% tax on the amount of the distributions. In addition, individuals generally must begin to receive distributions from qualified plans by April 1 of the calendar year following the calendar year in which they become age 70½ or ~~(except in the case of a 5% owner)~~ retire, whichever is **later**. See sections 72(m)(5), 72(t), and 401(a)(9) for the specific rules that apply for these situations.

★ Appropriate reference

1991 Form 5500EZ,  
Instructions, Page 3, Line  
11c

GAO Concern 3

The Line 11c instructions regarding the minimum coverage test and the related material in the instructions' Purpose of Form section rely on inconsistent terminology that is confusing. We questioned why the Line 11c instructions refer to "your business's only employees" while the Purpose of Form section refers to a plan that is not combined with coverage for "other employees" of your business. We suggested that this information be presented in either a single place or in a consistent manner in both places.

IRS Response

IRS agreed to clarify the instructions in the 1993 version of the Form 5500EZ.

Figure IV.3: Details of 1991 and Suggested 1993 Instructions for Form 5500EZ

**1991 Instructions**

**Purpose of Form, 3.** The plan must meet the minimum coverage requirements of section 410(b) without being combined with any other plan you may have covering other employees of your business (see instructions for line 11c).

**Line 11c.** For purposes of Form 5500EZ, your plan meets the coverage test if your business's only employees (other than the owners and their spouses) are:

1. covered by a collective bargaining agreement,
2. nonresident aliens who receive no earned income from United States sources, or
3. not eligible because they do not meet the minimum age or years-of-service requirements of the plan.

**Suggested 1993 Instructions**

**Purpose of Form, 3.** The plan must meet the minimum coverage requirements of section 410(b) ~~without being combined with any other plan you may have covering other employees of your business~~ (see instructions for line 11c).

- **Line 11c.** In order to file Form 5500EZ, your plan must meet the minimum coverage test of section 410(b). Your plan meets this test for purposes of Form 5500EZ if your business's only employees (other than the owners and their spouses) are:
  1. covered by a collective bargaining agreement,
  2. nonresident aliens who receive no earned income from United States sources, or
  3. not eligible because they do not meet the minimum age or years-of-service requirements of the plan.

- Consistent terminology

# Miscellaneous Forms

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## Form SS-4, Application for Employer Identification Number

This is a miscellaneous continuous use form. We analyzed the version revised in April 1991. The changes we suggested are expected to be included in the next revision of this form in 1994.

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## Form SS-4, Instructions, Pages 2 and 3

### GAO Concern 1

While many references to the Internal Revenue Code and regulations are made, the taxpayer is not told how to obtain this information. Thus, everyone required to fill out this form may not have ready access to this information.

### IRS Response

IRS agreed to delete some references that may not be needed and will incorporate these changes in the next revision of Form SS-4, which is scheduled for 1994.

★ Appropriate reference

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## Form SS-4, Instructions, Page 2, Who Must File

### GAO Concern 2

The paragraph concerning individuals who file Schedule C or Schedule F is lacking a bullet. It is, therefore, difficult to determine whether this paragraph is part of the preceding section or is intended to stand alone.

### IRS Response

IRS agreed that this paragraph is a separate discussion from the preceding paragraph. IRS will either move the paragraph or add a bullet during the 1994 revision of Form SS-4.

Figure V.1: Details of Current and Suggested Instructions for Form SS-4

<u>Current Instructions</u>	<u>Suggested Instructions</u>
<p><b>Who Must File</b></p> <p>•You are required to withhold taxes on income, other than wages, paid to a nonresident alien (individual, corporation, partnership, etc.). For example, individuals who file <b>Form 1042</b>, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, to report alimony paid to nonresident aliens must have EINs.</p> <p>Individuals who file <b>Schedule C</b>, Profit or Loss From Business, or <b>Schedule F</b>, Profit or Loss From Farming, of <b>Form 1040</b>, U.S. Individual Income Tax Return, must use EINs if they have a Keogh Plan or are required to file excise, employment, or alcohol, tobacco, or firearms returns.</p>	<p><b>Who Must File</b></p> <p>•You are required to withhold taxes on income, other than wages, paid to a nonresident alien (individual, corporation, partnership, etc.). For example, individuals who file <b>Form 1042</b>, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, to report alimony paid to nonresident aliens must have EINs.</p> <p>★ <u>Individuals who file <b>Schedule C</b>, Profit or Loss From Business, or <b>Schedule F</b>, Profit or Loss From Farming, of <b>Form 1040</b>, U.S. Individual Income Tax Return, must use EINs if they have a Keogh Plan or are required to file excise, employment, or alcohol, tobacco, or firearms returns.</u></p>

★ Appropriate reference

Form SS-4, Instructions,  
Page 2, Who Must File

GAO Concern 3

The term "plan administrator" is not defined when first used. The definition is located on the following page. We suggested that a reference to the definition be inserted immediately after the term is first used.

IRS Response

IRS agreed to add a reference to the definition during the 1994 revision of Form SS-4.

(See next page.)

Figure V.2: Details of Current and Suggested Instructions for Form SS-4

<u>Current Instructions</u>	<u>Suggested Instructions</u>
<p><b>Who Must File</b></p> <ul style="list-style-type: none"><li>•Corporations</li><li>•Nonprofit organizations (churches, clubs, etc.)</li><li>•Farmers' cooperatives</li><li>•Plan administrators</li></ul>	<p><b>Who Must File</b></p> <ul style="list-style-type: none"><li>•Corporations</li><li>•Nonprofit organizations (churches, clubs, etc.)</li><li>•Farmers' cooperatives</li><li>★ •Plan administrators, <u>(see page 3 for definition)</u></li></ul>
<p>★ Appropriate reference</p>	

Form SS-4, Instructions,  
Page 3, Line 8a

GAO Concern 4

The term "withholding agent" is not defined. It appears that the third bullet on page 2 may be the definition, although it is not identified as such.

IRS Response

IRS agreed that the third bullet on page 2 is the definition of a withholding agent. IRS agreed to clarify this terminology by including the term withholding agent in the third bullet on page 2. This change will be made during the 1994 revision of Form SS-4.

Figure V.3: Details of Current and Suggested Instructions for Form SS-4

<u>Current Instructions</u>	<u>Suggested Instructions</u>
<p><b>Who Must File</b></p> <p>•You are required to withhold taxes on income, other than wages, paid to a nonresident alien (individual, corporation, partnership, etc.). For example, individuals who file <b>Form 1042</b>, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, to report alimony paid to nonresident aliens must have EINs.</p>	<p><b>Who Must File</b></p> <p>★ •Withholding agents are required to withhold taxes on income, other than wages, paid to a nonresident alien (individual, corporation, partnership, etc.). For example, individuals who file <b>Form 1042</b>, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, to report alimony paid to nonresident aliens must have EINs.</p>
<p>★ Appropriate reference</p>	

Form SS-4, Instructions,  
Page 3, Line 9

GAO Concern 5

The phrase "DO NOT apply if you already have an EIN" is not used in the paragraph "purchased going business," although this phrase is used in similar paragraphs in the section.

IRS Response

IRS agreed to add this phrase to this example during the 1994 revision of Form SS-4.

(See next page.)

Figure V.4: Details of Current and Suggested Instructions for Form SS-4

<u>Current Instructions</u>	<u>Suggested Instructions</u>
<p><b>Line 9.</b>—Check only one box. Do not enter N/A.</p> <p><i>Started new business.</i>—Check this box if you are starting a new business that requires an EIN. If you check this box, enter the type of business being started. <b>DO NOT</b> apply if you already have an EIN and are only adding another place of business.</p> <p><i>Changed type of organization.</i>—Check this box if the business is changing its type of organization, for example, if the business was a sole proprietorship and has been incorporated or has become a partnership. If you check this box, specify in the space provided the type of change made, for example, "from sole proprietorship to partnership."</p> <p><i>Purchased going business.</i>—Check this box if you acquired a business through purchase. Do not use the former owner's EIN. If you already have an EIN, use that number.</p> <p><i>Hired employees.</i>—Check this box if the existing business is requesting an EIN because it has hired or is hiring employees and is therefore required to file employment tax return for which an EIN is required. <b>DO NOT</b> apply if you already have an EIN and are only hiring employees.</p>	<p><b>Line 9.</b>—Check only one box. Do not enter N/A.</p> <p><i>Started new business.</i>—Check this box if you are starting a new business that requires an EIN. If you check this box, enter the type of business being started. <b>DO NOT</b> apply if you already have an EIN and are only adding another place of business.</p> <p><i>Changed type of organization.</i>—Check this box if the business is changing its type of organization, for example, if the business was a sole proprietorship and has been incorporated or has become a partnership. If you check this box, specify in the space provided the type of change made, for example, "from sole proprietorship to partnership."</p> <p><i>Purchased going business.</i>—Check this box if you acquired a business through purchase. Do not use the former owner's EIN. <b>DO NOT</b> apply if you already have an EIN.</p> <p><i>Hired employees.</i>—Check this box if the existing business is requesting an EIN because it has hired or is hiring employees and is therefore required to file employment tax return for which an EIN is required. <b>DO NOT</b> apply if you already have an EIN and are only hiring employees.</p>

▲ Specific language

**Form W-2, Wage and  
Tax Statement**

This is a miscellaneous annual use form. Our analysis was done on the draft 1993 version. The revisions IRS agreed to were made on the 1993 version.

**Draft 1993 Form W-2,  
Instructions, Page 2, Box  
1—Wages, Tips, Other  
Compensation**

**GAO Concern 1**

Item 3, total tips reported, does not clearly indicate what is to be included as tips.

**IRS Response**

IRS added an explanation that total tips reported in Box 1 should not include allocated tips, which are reported in Box 8.

**Figure V.5: Details of Draft 1993 and 1993 Instructions for Form W-2**

**Draft 1993 Instructions**

**Box 1—Wages, tips, other compensation.**

Show in Box 1 (excluding elective deferrals, except section 501(c)(18) contributions), before any payroll deductions, the following items:

- (1) Total wages, prizes and awards paid during the year. For example, if the employee worked from December 24, 1992, through January 4, 1993, and the wages for that period were paid on January 7, 1993, include those wages on the 1993 Form W-2;
- (2) Total noncash payments (including fringe benefits);
- (3) Total tips reported;

**1993 Instructions**

**Box 1—Wages, tips, other compensation.**

Show in Box 1 (excluding elective deferrals, except section 501(c)(18) contributions), before any payroll deductions, the following items:

- (1) Total wages, prizes and awards paid during the year. For example, if the employee worked from December 24, 1992, through January 4, 1993, and the wages for that period were paid on January 7, 1993, include those wages on the 1993 Form W-2;
- (2) Total noncash payments (including certain fringe benefits);
- ▲ (3) Total tips reported by employee to employer (not allocated tips);

▲ Specific language

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**Draft 1993 Form W-2,  
Instructions, Page 4, Box  
15—Deceased**

**GAO Concern 2**

The instructions are inconsistent with IRS Revenue Ruling 86-109 regarding payment of wages to a deceased employee's estate. They indicate that wages paid to the employee's estate in the year of death are reported on Form W-2, while wages paid in a year after death are reported on Form 1099-MISC. The revenue ruling states that wages paid during the year of death are reportable on Form W-2 for social security and medicare purposes and on Form 1099-MISC for income tax purposes. It further states that wages paid in a year after the year of death are reportable on Form 1099-MISC.

**IRS Response**

IRS revised the instructions to explain that both Forms W-2 and 1099-MISC should be prepared when reporting wages to a deceased employee's estate in the year of death. The explanation that only Form 1099-MISC is to be used for payments made in a year after the year of death will remain.

Figure V.6: Details of Draft 1993 and 1993 Instructions for Form W-2

<u>Draft 1993 Instructions</u>	<u>1993 Instructions</u>
<b>Box 15 - Check the boxes that apply.</b>	<b>Box 15 - Mark the boxes that apply.</b>
Deceased - Check this box if the employee is now deceased. If an employee is deceased, you must report wages or other compensation for services he or she performed and that were paid in the year of death to the estate or beneficiary. In addition, such wages received in a year after the year of death may be reportable on <b>Form 1099-Misc</b> , Miscellaneous Income. For information on how to report, see Rev. Rul. 86-109, 1986-2 C.B. 196.	Deceased - Mark this box if the employee is now deceased. If an employee is deceased, you must report wages or other compensation for services he or she performed and that were paid in the year of death to the estate or beneficiary. <b>▲ Report wages paid after the date of death that are not subject to Federal income tax withholding on Form 1099-MISC, Miscellaneous Income. In addition, such wages received in a year after the year of death may be reportable on Form 1099-MISC. For information on how to report, see Rev. Rul. 86-109, 1986-2 C.B. 196.</b>
▲ Specific language	

**Form W-2c, Statement of Corrected Income and Tax Amounts**

This is a miscellaneous continuous use form. Our analysis was done on the 1991 version of this form. The revision agreed to by IRS was made on the 1992 version.

**1991 Notice to Employee**

GAO Concern 1

The third paragraph repeats a statement made in the first paragraph regarding the filing of Form 1040X if any corrections change the employee's tax liability.

IRS Response

IRS deleted the second reference to Form 1040X in the Form W-2c.

(See next page.)

Figure V.7: Details of the 1991 and 1992 Notices to Employee for Form W-2c

**1991 Notice to Employee**

This is a corrected version of the Form W-2 or W-2P (for tax years 1990 and prior only) for the tax year shown on the front of this form. If you have already filed an income tax return for the year shown, you may have to file an amended return for that year. Compare information reported on this form with amounts reported on your income tax return. If the corrected amounts change your income tax liability, file Form 1040X and attach a copy of this Form W-2c to amend your filed return.

If you have not yet filed an income tax return for the year shown, attach a copy of the original Form W-2 that you received from your employer, along with a copy of this Form W-2c, to your return.

If boxes 7 or 8 have any checkboxes marked, box 7 will show how it was reported originally and box 8 will show the corrections. If there are any corrections that will change your tax liability, file Form 1040X.

**1992 Notice to Employee**

This is a corrected version of the Form W-2 for the tax year shown on the front of this form. This form can also be used to correct Form W-2P for tax years 1990 and prior. If you have already filed an income tax return for the year shown, you may have to file an amended return for that year. Compare information reported on this form with amounts reported on your income tax return. If the corrected amounts change your income tax liability, file Form 1040X and attach a copy of this Form W-2c to amend you filed return.

If you have not yet filed an income tax return for the year shown, attach a copy of the original Form W-2 that you received from your employer, along with a copy of this Form W-2c, to your return.

If boxes 7 or 8 have any checkboxes marked, box 7 will show how it was reported originally and box 8 will show the corrections. ~~If there are any corrections that will change your tax liability, file Form 1040X.~~

★ Appropriate reference

**Form 941, Employer's  
Quarterly Federal Tax  
Return**

This is a miscellaneous quarterly form. We analyzed the January 1992 version and the draft revision for 1993. Some of our concerns had not been addressed, therefore we are citing both the January 1992 version and the 1993 draft revision.

**1992 Form 941,  
Instructions, Page 2, Who  
Must File**

**GAO Concern 1**

The instructions did not mention that sole proprietors had the option of including their household employees on Form 941 instead of filing Form

942. Circular E provided this information, but Form 941 instructions did not.

IRS Response

IRS added language to the Form 941 instructions, consistent with Circular E, specifying that sole proprietors filing a Form 941 may also include household employees in lieu of filing a Form 942. IRS incorporated this change in the first quarter, 1993 revision of Form 941.

Figure V.8: Details of 1992 and 1993 Instructions for Form 941

<u>1992 Instructions</u>	<u>1993 Instructions</u>
<p><b>Who Must File</b></p> <ul style="list-style-type: none"><li>• Employers who report wages on household employees, see <b>Form 942</b>, Employer's Quarterly Tax Return for Household Employees, and Circular E.</li></ul>	<p><b>Who Must File</b></p> <ul style="list-style-type: none"><li>• Employers who report wages on household employees, see <b>Form 942</b>, Employer's Quarterly Tax Return for Household Employees, and Circular E.</li></ul> <p>▲ <u>However, if you are a sole proprietor and file Form 941 for business employees, you may include taxes for household employees on your Form 941. For a domestic service in a college club, fraternity, or sorority, file Form 941. These services are not considered to have been performed in a private home.</u></p>
▲ Specific language	

Draft 1993 Form 941,  
Instructions, Pages 2 and 4

GAO Concern 2

The discussion concerning Form W-5 and the instructions for line 15 refer taxpayers to Publication 596, Earned Income Credit (EIC), for more information. Additional information describing the employer's requirements regarding the EIC is provided in Circular E. We suggested both documents be referenced.

IRS Response

IRS agreed to refer to both the Publication 596 and Circular E and incorporated these references in the 1993 revision of Form 941.

(See next page.)

Figure V.9: Details of Draft 1993 Instructions and 1993 Instructions for Form 941

**Draft 1993 Instructions**

**Form W-5.**—This form must be filed by each eligible employee wishing to receive any advance earned income credit (EIC) payments. The employer's requirement to notify certain employees about the EIC can be met by giving each eligible employee **Notice 797**, Possible Federal Tax Refund Due to the Earned Income Credit (EIC). See **Pub. 596**, Earned Income Credit, for more information.

**Line 15—Advance earned income credit (EIC) payments made to employees.**—Enter advance EIC payments made to employees, if any. Your eligible employees may elect to receive the EIC as an advance payment. Eligible employees must provide you with a written certification or Form W-5 stating that they qualify for the EIC. Once the employee provides you with an advance payment certificate, you must make the advance EIC payments. The advance EIC payments made to eligible employees are generally made from withheld income, social security, and Medicare taxes. See **Pub. 937**, Employment Taxes and Information Returns, and **Pub. 596**, for more information on advance EIC payments and eligibility requirements.

★ Appropriate reference

**1993 Instructions**

**Form W-5.**—This form must be filed by each eligible employee wishing to receive any advance earned income credit (EIC) payments. The employer's requirement to notify certain employees about the EIC can be met by giving each eligible employee **Notice 797**, Possible Federal Tax Refund Due to the Earned Income Credit (EIC). See **Pub. 596**, Earned Income Credit, and **Section 18 of Circular E** for more information.

**Line 15—Advance earned income credit (EIC) payments made to employees.**—Enter advance EIC payments made to employees, if any. Your eligible employees may elect to receive the EIC as an advance payment. Eligible employees must provide you with a written certification or Form W-5 stating that they qualify for the EIC. Once the employee provides you with an advance payment certificate, you must make the advance EIC payments. The advance EIC payments made to eligible employees are generally made from withheld income, social security, and Medicare taxes. See **Pub. 937**, Employment Taxes and Information Returns, **Pub. 596**, and **Section 18 of Circular E** for more information on advance EIC payments and eligibility requirements.

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**1992 Form 941,  
Instructions, Page 4, Line 4**

**GAO Concern 3**

The instructions do not explain how to make adjustments to income tax withheld in prior years. Line 4 instructions only explain how to make current year adjustments.

**IRS Response**

IRS added language explaining that administrative errors made in a prior calendar year can be corrected on line 4. A definition of an administrative error is also provided. IRS incorporated this change in the first quarter, 1993 revision of the form.

(See next page.)

Figure V.10: Details of 1992 and 1993 Instructions for Form 941

### 1992 Instructions

**Line 4—Adjustment of withheld income tax.**—Use line 4 to correct errors in income tax withheld from wages paid in earlier quarters of the same calendar year. Explain any amount on **Form 941c**, Statement to Correct Information, or attach a statement that shows (a) what the error was, (b) quarter in which the error was made, (c) the amount of the error for each quarter, (d) quarter in which you found the error, and (e) how you and your payees have settled any overcollection or undercollection. Do not use this line to adjust income tax withholding for earlier years.

### 1993 Instructions

**Line 4—Adjustment of withheld income tax.**—Use line 4 to correct errors in income tax withheld from wages paid in earlier quarters of the same calendar year. Because any amount shown on line 4 increases or decreases your tax liability, the adjustment must be included on line 20, Monthly Summary of Federal Tax Liability, or on **Schedule B (Form 941)**, Employer's Record of Federal Tax Liability. Your deposit requirements determine which liability report is used (see **instructions for line 20** on page 4). Include the adjustment in the report entry area that corresponds with the date on which the error was found.

Explain any amount on **Form 941c**, Supporting Statement to Correct Information, or attach a statement that shows (a) what the error was, (b) quarter in which the error was made, (c) the amount of the error for each quarter, (d) date on which you found the error, and (e) how you and your payees have settled any overcollection or undercollection.

▲ Do not adjust income tax withholding for quarters in earlier years unless it is to correct an administrative error. An administrative error would be any error that does not change the amount of income tax that was actually withheld or deducted from an employee. For example, if the total income tax actually withheld was incorrectly reported due to a mathematical error, this would be an administrative error. You may not adjust or claim a refund or credit for any overpayment of income tax that you withheld or deducted from an employee in a prior year. This is because the employee uses the amount shown on Form W-2 as a credit when filing their income tax return (Form 1040, etc.).

▲ Specific language

1992 Form 941,  
Instructions, Page 4, Line 7

GAO Concern 4

The Line 7 instructions do not mention sick pay as a type of compensation subject to the Medicare portion of the social security tax. Circular E mentions that sick pay is subject to Medicare tax, and sick pay is also mentioned as a taxable compensation for social security taxes on Line 6a.

IRS Response

IRS agreed to add language clarifying that sick pay is subject to Medicare tax and should be reported on this line. This was incorporated in the first quarter, 1993 revision of Form 941.

Figure V.11: Details of 1992 and 1993 Instructions for Form 941

**1992 Instructions**

**Line 7—Taxable Medicare wages and tips.**—Use this line to report all wages and tips subject to the Medicare portion of social security. Stop reporting when an employee's wages and tips reach \$130,200 for 1992. **If none of the payments are subject to Medicare tax, enter zero and attach a statement explaining why the wages are not subject to the Medicare tax.**

**1993 Instructions**

**Line 7—Taxable Medicare wages and tips.**—Use this line to report all wages and tips subject to the Medicare portion of social security. **Also include any sick pay and taxable fringe benefits subject to Medicare taxes. See section 6 of Circular E for information on types of wages and other compensation subject to Medicare taxes. Stop reporting an employee's wages (including tips) when they reach \$135,000 for 1993. If none of the payments are subject to Medicare tax, enter -0- and attach a statement explaining why the wages are not subject to the Medicare tax.**

▲ Specific language

**Form 1098, Mortgage  
Interest Statement**

This is a miscellaneous annual use form. We analyzed the 1991 version and remain concerned by an aspect of the 1992 revision. Therefore, we cite the 1992 version below.

1992 Form 1098,  
Instructions, Page 8; Who  
Must File; Foreign Interest  
Recipient

GAO Concern 1

An Internal Revenue Code reference is cited for the definition of a U.S. person. We suggested that the applicable definition be included in the instructions.

IRS Response

IRS officials agreed and included the definition of a U.S. person in the 1993 instructions for Form 1098.

Figure V.12: Details of 1992 and 1993 Instructions for Form 1098

1992 Instructions

**Who Must File**

**Foreign interest recipient.-**

If you are not a U.S. person, as defined in section 7701(a)(30), you must file Form 1098 if the interest is received in the United States. If the interest is received outside the United States, you must file Form 1098 if (1) you are a controlled foreign corporation, or (2) at least 50% of your gross income from all sources for the 3-year period ending with the close of the tax year preceding the receipt of interest (or for such part of the period as you were in existence) was effectively connected with the conduct of a trade or business in the United States.

1993 Instructions

**Who Must File**

**Foreign interest recipient.-**

If you are not a U.S. person you must file Form 1098 if the interest is received in the United States. A U.S. person is a citizen or resident of the United States, a domestic partnership or corporation, or a non-foreign estate, or trust.

If the interest is received outside the United States, you must file Form 1098 if (1) you are a controlled foreign corporation, or (2) at least 50% of your gross income from all sources for the 3-year period ending with the close of the tax year preceding the receipt of interest (or for such part of the period as you were in existence) was effectively connected with the conduct of a trade or business in the United States.

▲ Specific language

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**Form 1099-DIV,  
Dividends and  
Distributions**

This is miscellaneous annual use form. We analyzed the 1991 version and remain concerned by some aspects of the 1992 revision. Therefore, we cite the 1992 version below. IRS agreed to revise the instructions based on our concerns. One change was made in the 1993 revision; the other will be made in the 1994 version.

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**1992 Form 1099-DIV,  
General Instructions,  
Pages 5 and 6, Section H,  
Statements to Recipients**

**GAO Concern 1**

It was unclear whether the instructions concerning permitted enclosures, detailed in the subsection on Statement Mailing, applied to the mailings outlined in the Other Payments subsection.

**IRS Response**

IRS agreed to clarify the instructions by specifying that mailing requirements do not apply to other payments and incorporated this change in the 1993 version of the instructions.

(See next page.)

Figure V.13: Details of 1992 and 1993 Instructions for Form 1099-DIV

**1992 Instructions**

**Interest, dividend, and royalty payments.**

**Statement mailing.-**

In addition to Forms W-8, W-9, or other 1098, 1099, and 5498 statements, the following enclosures are permitted in a statement mailing: (1) a check, (2) a letter explaining why no check is enclosed, and (3) a statement of the person's account reflected on Form 1099. You also may include Forms W-2. A letter limited to an explanation of the tax consequences of the information shown on a payee statement also may be included. A payee statement may be perforated to a check with respect to the account reported on the payee statement or to a statement of the payee's specific account if payments on such account are reflected on the payee's statement. The enclosure to which the payee statement is perforated must contain, in a bold and conspicuous type, the legend "Important Tax Return Document Attached." No additional enclosures, such as advertising, promotional material, or a quarterly or annual report, are permitted. Even a sentence or two on the year-end statement describing new services offered by the payer is not permitted. However, logos are permitted on the envelope and on any enclosures.

▲ Specific language

**1993 Instructions**

**Statement mailing requirement for Forms 1099-DIV, 1099-INT, 1099-OID, and 1099-PATR only.-**

▲ The statement mailing requirements apply only to Forms 1099-DIV (except for section 404(k) dividends), 1099-INT (except for interest reportable under section 6041), 1099-OID, and 1099-PATR. In addition to Forms W-2, W-8, W-9, or other 1098, 1099, and 5498 statements, the following enclosures are permitted in a statement mailing: (1) a check, (2) a letter explaining why no check is enclosed, (3) a statement of the person's account reflected on Form 1099, and (4) a letter limited to an explanation of the tax consequences of the information shown on a recipient statement.

A recipient statement may be perforated to a check with respect to the account reported on the recipient statement or to a statement of the recipient's specific account if payments on such account are reflected on the recipient's statement. The check or account statement to which the recipient statement is perforated must contain, in a bold and conspicuous type, the legend "Important Tax Return Document Attached."

No additional enclosures, such as advertising, promotional material, or a quarterly or annual report, are permitted. Even a sentence or two on the year-end statement describing new services offered by the payer is not permitted. However, logos are permitted on the envelope and on any enclosures.

**1992 Instructions** (continued)

**Other Payments.-**

Statements to recipients for Forms 1098, 1099-A, 1099-B, 1099-G, 1099-MISC, 1099-R, 5498, W-2G, 1099-DIV only for section 404(k) dividends reportable under section 6047, or 1099-INT only for interest reportable under section 6041 need not be, but can be, a copy of the paper form filed with the IRS. If you do not use a copy of the paper form, all information required to be reported must be titled on the substitute in substantially the same manner as on the official form. Appropriate instructions to the recipient, similar to those on the official form, must be provided to aid in the proper reporting of the items on the recipient's income tax return.

You may combine the statements with other reports or financial or commercial notices, or expand them to include other information of interest to the recipient. Be sure that all copies of the forms are legible.

For additional requirements for paper substitutes, see Pub. 1179.

**1992 Form 1099-DIV,  
Instructions for Recipient,  
Box 1d**

**GAO Concern 2**

We suggested that IRS delete the term "return of capital" and replace it with the phrase "return of your cost (or other basis)." This language would be consistent with terminology used in the Form 1040 instructions.

**IRS Response**

IRS officials agreed to adopt this suggestion in the 1994 version.

(See next page.)

Figure V.14: Details of 1992 and Suggested 1994 Instructions for Form 1099-DIV

**1992 Instructions**

**Box 1d.** - These distributions are not currently taxable because they are usually a return of capital that reduce your basis in the stock. If you dispose of the stock, your basis for figuring your gain or loss is reduced by the amount in box 1d. If your basis has been reduced to zero, then you must report nontaxable distributions as a capital gain even though the payer lists them as nontaxable. This amount is included in box 1a. For more information, see **Pub. 550**, Investment Income and Expenses.

**Suggested 1994 Instructions**

**Box 1d.** - These distributions are not currently taxable because they are usually a return of your cost (or other basis) that reduce your basis in the stock. If you dispose of the stock, your basis for figuring your gain or loss is reduced by the amount in box 1d. If your basis has been reduced to zero, then you must report nontaxable distributions as a capital gain even though the payer lists them as nontaxable. This amount is included in box 1a. For more information, see **Pub. 550**, Investment Income and Expenses.

■ Consistent terminology

**Form 1099-MISC,  
Miscellaneous Income**

This is a miscellaneous annual use form. We analyzed the 1991 version. When we reviewed the 1992 instructions, we found that our concern had not been addressed; therefore, we cite the 1992 version.

**1992 Form 1099-MISC,  
Instructions, Page 14,  
Wages Paid to Estate or  
Beneficiary**

**GAO Concern 1**

This paragraph stated that wages or other compensation of a deceased employee must be reported in box 3 (prizes and awards). This corresponds to previous guidance provided to employers by IRS. The 1992 instructions were inconsistent with Revenue Ruling 86-109, which was referenced. The revenue ruling states that it should be reported as nonemployee compensation (box 7). Citing the revenue ruling is unnecessary and confusing.

**IRS Response**

IRS officials agreed to tell taxpayers to disregard the instructions in Revenue Ruling 86-109 stating that this amount is to be reported in box 7

(nonemployee compensation), and to report it in box 3 instead (Prizes, awards, etc.) IRS retained the reference to Revenue Ruling 86-109 because it provides other needed information. This revision was made in the 1993 version of Form 1099-MISC instructions. In addition, IRS will consider including other elements of Revenue Ruling 86-109 in the 1994 revision of Publication 15 and Form 1099-MISC and W-2 instructions.

Figure V.15: Details of 1992 and 1993 Instructions for Form 1099-MISC

**1992 Instructions**

**Wages Paid to Estate or Beneficiary.**- Payments to an estate or beneficiary for wages or other compensation of a deceased employee must be reported in Box 3 on Form 1099-MISC. In addition, they may be reportable on Form W-2 if paid in the year of death. See Rev. Rul. 86-109, 1986-2 C.B. 196, for the reporting requirements.

**1993 Instructions**

**Wages Paid to Estate or Beneficiary.**- Payments to an estate or beneficiary for wages or other compensation of a deceased employee must be reported in box 3 on Form 1099-MISC. Enter the name and TIN of the payment recipient on Form 1099-MISC. For example, if the recipient is an individual, enter the name and SSN of the individual. If the recipient is the estate, enter the name and EIN of the estate. In addition, they may be reportable on Form W-2 if paid in the year of death. See Rev. Rul. 86-109, 1986-2 C.B. 196, for the reporting requirements. However report the payment in box 3 rather than in box 7 (as specified in the revenue ruling).



▲ Specific language

# Conduit Form

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## Form 709, United States Gift (and Generation-Skipping Transfer) Tax Return

This is a continuous use conduit form. We analyzed the version revised November 1991. The changes we suggested are expected to be included in the 1993 revision.

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### Form 709, Page 1, Part 2

#### GAO Concern 1

It appears that Generation-Skipping Transfer (GST) taxes are double counted in determining total taxes. GST tax is added on part 2, Tax Computation, line 16 and also on Schedule A, part 3, line 14.

#### IRS Response

IRS explained that GST taxes are not double counted. GST tax may be paid by either the donor or recipient of the gift. GST tax paid by the donor is considered part of the gift for tax purposes and must be factored into the total tax computation. IRS agreed to add explanatory language describing the circumstances that would require GST tax entries on both part 2 and Schedule A during the 1993 revision of Form 709.

▲ Specific language

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## Form 709, Page 2, Schedule A, Computation of Taxable Gifts, Part 3

#### GAO Concern 2

Schedule A, part 3 is titled Gift Tax Reconciliation. However, taxes are not reconciled in part 3. The purpose of part 3 is to determine the amount of taxable gifts and deductions.

#### IRS Response

IRS agreed to retitle part 3 to more accurately reflect its purpose during the 1993 revision of Form 709.

**Appendix VI  
Conduit Form**

**Figure VI.1: Details of Current and Suggested Form 709**

**Current Form**

<b>Part 3.—Gift Tax Reconciliation</b>			
1	Total value of gifts of donor (add column E of Parts 1 and 2) . . . . .	1	
2	One-half of items.....attributable to spouse (see instructions) . . . . .	2	
3	Balance (subtract line 2 from line 1) . . . . .	3	
4	Gifts of spouse to be included (from Schedule A, Part 3, Line 2 of spouse's return-see instructions). If any of the gifts included on this line are also subject to the generation-skipping transfer tax, check here <input type="checkbox"/> and enter those gifts also on Schedule C, Part 1.	4	
5	Total gifts (add lines 3 and 4) . . . . .	5	
6	Total annual exclusions for gifts listed on Schedule A (including line 4,above) (see instructions) . . . . .	6	
7	Total included amount of gifts (subtract line 6 from line 5) . . . . .	7	

**Suggested Form**

<b>▲ Part 3.—Gift <del>Tax</del> Reconciliation</b>			
1	Total value of gifts of donor (add column E of Parts 1 and 2) . . . . .	1	
2	One-half of items.....attributable to spouse (see instructions) . . . . .	2	
3	Balance (subtract line 2 from line 1) . . . . .	3	
4	Gifts of spouse to be included (from Schedule A, Part 3, Line 2 of spouse's return-see instructions). If any of the gifts included on this line are also subject to the generation-skipping transfer tax, check here <input type="checkbox"/> and enter those gifts also on Schedule C, Part 1.	4	
5	Total gifts (add lines 3 and 4) . . . . .	5	
6	Total annual exclusions for gifts listed on Schedule A (including line 4,above) (see instructions) . . . . .	6	
7	Total included amount of gifts (subtract line 6 from line 5) . . . . .	7	

▲ Specific language

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**Form 709, Page 3,  
Schedule A, Computation  
of Taxable Gifts, Line 16**

**GAO Concern 3**

**The taxpayer is directed to see instructions. However, there are no specific instructions for line 16. We found the appropriate instructions included with those for Schedule A, line 8.**

**IRS Response**

**IRS agreed the appropriate instructions were those found on line 8 and will change the reference during the 1993 revision of Form 709.**

Figure VI.2: Details of Current and Suggested Form 709

Current Form

**SCHEDULE A** Computation of Taxable Gifts (continued)

**16 Terminable Interest (QTIP) Marital Deduction. (See instructions)**

If a trust (or other property) meets the requirements of qualified terminable interest property under section 2523(f), and

- a. the trust (or other property) is listed on Schedule A, and
- b. the value of the trust (or other property) is entered in whole or in part as a deduction on line 8, Part 3 of Schedule A,

then the donor shall be deemed to have made an election to have such trust (or other property) treated as qualified terminable interest property under section 2523(f).

Suggested Form

**SCHEDULE A** Computation of Taxable Gifts (continued)

★ **16 Terminable Interest (QTIP) Marital Deduction. (See Line 8 instructions)**

If a trust (or other property) meets the requirements of qualified terminable interest property under section 2523(f), and

- a. the trust (or other property) is listed on Schedule A, and
- b. the value of the trust (or other property) is entered in whole or in part as a deduction on line 8, Part 3 of Schedule A,

then the donor shall be deemed to have made an election to have such trust (or other property) treated as qualified terminable interest property under section 2523(f).

★ Appropriate reference

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**Form 709, Instructions**

GAO Concern 4

The instructions currently lack IRS's toll-free telephone number to order the forms and publications mentioned in the instructions.

IRS Response

IRS has agreed to add its toll-free number during the 1993 revision of Form 709.

This section was taken from the draft 1993 Form W-2.

**Draft 1993 Form**

**How to Get Forms and Publications**—You can receive any of the forms and publications mentioned in these instructions by calling IRS at 1-800-TAX-FORM (1-800-829-3676).

★ Appropriate reference

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**Form 709, Instructions**

GAO Concern 5

Technical terms are used frequently with the definitions interspersed throughout the instructions. We suggested that a detailed glossary would be helpful.

IRS Response

IRS agreed to include a glossary in the 1993 revision of Form 709 if there is enough space.

★ Appropriate reference

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**Form 709, Instructions,  
Pages 1 and 4**

GAO Concern 6

The Form 709-A, the short-form version of the 709, is first mentioned on page 1 but is not fully explained until page 4. Because Form 709-A may be easier to complete for some married taxpayers, its availability should be explained earlier in the instructions.

IRS Response

IRS agreed to place a specific reference to the Form 709-A discussion on the first page of the instructions. This change will be made during the 1993 revision of Form 709.

Figure VI.3: Details of Current and Suggested Instructions for Form 709

Current Instructions

If you are filing this form solely to elect gift-splitting for gifts of not more than \$20,000 per donee, you may be able to use Form 709-A, United States Short Form Gift Tax Return, instead of this form. See the instructions for "Who Must File" on page 2.

Suggested Instruction

If you are filing this form solely to elect gift-splitting for gifts of not more than \$20,000 per donee, you may be able to use Form 709-A, United States Short Form Gift Tax Return, instead of this form (see page 4 for more information). See the instructions for "Who Must File" on page 2.

★ Appropriate reference

Form 709, Instructions,  
Pages 2 and 7

GAO Concern 7

The term "inter vivos" is first used by IRS on page 2 of the instructions but is not defined until page 7.

IRS Response

IRS agreed to move the definition of inter vivos to page 2, where the term is first used for the 1993 revision of Form 709.

(See next page.)

Figure VI.4: Details of Current and Suggested Instructions for Form 709

<u>Current Instructions</u>	<u>Suggested Instructions</u>
<p><b>Transfers Subject to the Generation-Skipping Transfer Tax</b></p> <p>The GST tax to report on Form 709 is that imposed on inter vivos direct skips made after September 25, 1985. (See Temp. Regs. section 26.2662-1(b), for instructions on how to report other generation-skipping transfers.) An <i>inter vivos direct skip</i> is a transfer of an interest in property that is: (1) subject to the gift tax; and (2) made to a skip person. (see page 4.)</p>	<p><b>Transfers Subject to the Generation-Skipping Transfer Tax</b></p> <p>The GST tax to report on Form 709 is that imposed on inter vivos direct skips made after September 25, 1985. (See Temp. Regs. section 26.2662-1(b), for instructions on how to report other generation-skipping transfers.) An <i>inter vivos direct skip</i> is a transfer of an interest in property <u>made during the donor's life</u> that is: (1) subject to the gift tax; and (2) made to a skip person. (see page 4.)</p>

★ Appropriate reference

Form 709, Instructions,  
Pages 2 and 7

GAO Concern 8

The term "marital deduction" is first used on page 4 of the instructions. However, its definition, while found on page 2, is not clearly labeled.

IRS Response

IRS agreed to refer to the definition and its page number when the term is first used for the 1993 revision of Form 709.

Figure VI.5: Details of Current and Suggested Instructions for Form 709

<u>Current Instructions</u>	<u>Suggested Instructions</u>
<p><b>Deductions</b></p> <p><b>Line 8</b>—Enter on line 8 all of the gifts to your spouse which you listed on Schedule A and for which you are claiming a marital deduction. <b>Do not enter any gift that you did not include on Schedule A.</b> On the dotted line on line 8, indicate which numbered items from Schedule A are gifts to your spouse for which you are claiming the marital deduction.</p>	<p><b>Deductions</b></p> <p><b>Line 8</b>—Enter on line 8 all of the gifts to your spouse which you listed on Schedule A and for which you are claiming a marital deduction <u>(See page 2 for definition)</u>. <b>Do not enter any gift that you did not include on Schedule A.</b> On the dotted line on line 8, indicate which numbered items from Schedule A are gifts to your spouse for which you are claiming the marital deduction.</p>
★ Appropriate reference	★

Form 709, Instructions,  
Page 5

GAO Concern 9

The examples appearing under the caption, Generation Assignment Where Intervening Parent is Dead, are not compatible with the caption's title.

IRS Response

IRS will either clarify the narrative before the examples or insert a new caption during the 1993 revision of Form 709.

(See next page.)

Figure VI.6: Details of Current and Suggested Instructions for Form 709

**Current Instructions**

**Generation Assignment Where Intervening Parent is Dead**

If you made a gift to your grandchild and at the time you made the gift, the grandchild's parent (who is your or your spouse's or your former spouse's child) is dead, then for purposes of generation assignment, your grandchild will be considered to be your child rather than your grandchild. Your grandchild's children will be treated as your grandchildren rather than your greatgrandchildren.

This rule is also applied to your lineal descendants below the level of grandchild. For example, if your grandchild is dead, your greatgrandchildren who are lineal descendants of the dead grandchild are considered your grandchildren for purposes of the GST tax.

The rules above can be illustrated by the following examples:

★ Appropriate reference

**Suggested Instructions**

**Generation Assignment Where Intervening Parent is Dead**

If you made a gift to your grandchild and at the time you made the gift, the grandchild's parent (who is your or your spouse's or your former spouse's child) is dead, then for purposes of generation assignment, your grandchild will be considered to be your child rather than your grandchild. Your grandchild's children will be treated as your grandchildren rather than your greatgrandchildren.

This rule is also applied to your lineal descendants below the level of grandchild. For example, if your grandchild is dead, your greatgrandchildren who are lineal descendants of the dead grandchild are considered your grandchildren for purposes of the GST tax.

★ The rules concerning gifts subject to both gift and GST taxes can be illustrated by the following examples:

Form 709, Instructions,  
Page 2, Transfers Subject  
to an Estate Tax Inclusion  
Period

GAO Concern 10

The term "transferor" appears in this section but is not defined. However, transferor is replaced with the term "donor", which is used throughout the rest of the instructions.

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IRS Response

IRS has tentatively agreed to change the term transferor to the term donor, pending final approval from Chief Counsel during the 1993 form revision process.

▲ Specific language

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Form 709, Instructions,  
Page 4

GAO Concern 11

In the discussion of "Consent of Spouse," a reference is made to the availability of Form 709-A. Form 709-A is used by certain married couples to report nontaxable gifts that they consent to split. Because no revenue is collected through this form, its usefulness to IRS is questionable, and the burden imposed by it may be unnecessary.

IRS Response

IRS agreed to study the elimination of this form in greater detail. However, IRS could not eliminate this form without legislative approval from Congress.

? Requirement questioned

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Form 709, Instructions,  
Line 11, Pages 6 and 7,  
Deductions

GAO Concern 12

The filing requirement for donors making gifts to charitable organizations may not be necessary because no tax is paid on these gifts. Therefore, we believe the need for reporting these gifts is questionable.

IRS Response

IRS agreed to study the elimination of this filing requirement in greater detail. However, IRS could not eliminate this filing requirement without legislative approval from Congress.

? Requirement questioned

# Publications

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## Publication 523, Selling Your Home (For Use in Preparing 1992 Returns)

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### Page 11, Worksheet for Postponement of Gain

#### GAO Concern 1

We suggested that the worksheet lines from which information gets transferred to Form 2119, Sale of Your Home, include specific references indicating the appropriate lines on Form 2119 on which to enter the information.

#### IRS Response

IRS officials agreed to adopt this suggestion and will incorporate it in the version of Publication 523 for use in preparing 1993 returns.

★ *Appropriate reference*

#### GAO Concern 2

Because of the numerous technical terms used throughout the publication, we suggested that IRS include a glossary.

#### IRS Response

IRS officials agreed to adopt this suggestion and will incorporate it in the 1993 version of Publication 523. Because most terms are already defined, IRS believed that a glossary may not result in a substantial increase in the length of the publication.

▲ *Specific language*

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**Publication 587,  
Business Use of Your  
Home (For Use in  
Preparing 1992  
Returns)**

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**Recordkeeping, Page 5**

**GAO Concern 1**

Because depreciation affects a taxpayer's basis in the business portion of the home, it should be stressed that Form 8829, Expenses for Business Use of Your Home, should be retained longer than the usual 3-year period. This information will be required by the taxpayer for determining gain/loss when the house is sold.

**IRS Response**

IRS officials agreed to adopt this suggestion and will incorporate a statement in the version of Publication 587 that is to be used in preparing 1993 returns that records should be kept longer than 3 years for determining gain/loss on the sale of the house.

(See next page.)

Figure VII.1: Details of 1992 and Suggested 1993 Publication 587

**1992 Publication**

**Recordkeeping**

You do not have to use a particular method of recordkeeping, but you must keep records that provide the information needed to figure your deductions for the business use of your home. You should keep canceled checks, receipts, and other evidence of expenses you paid.

Your records must show:

- 1) The part of your home you use for business,
- 2) That you use this part of your home exclusively and regularly for business as either your principal place of business or as the place where you meet or deal with clients or customers in the normal course of your business (however, see the earlier discussion, *Exceptions to Exclusive Use*), and
- 3) The depreciation and expenses for the business part of your home.

You must keep your records for as long as they are important for any Internal Revenue law. This is usually 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later.

For more information on recordkeeping, see Publication 583.

**Suggested 1993 Publication**

**Recordkeeping**

You do not have to use a particular method of recordkeeping, but you must keep records that provide the information needed to figure your deductions for the business use of your home. You should keep canceled checks, receipts, and other evidence of expenses you paid.

Your records must show:

- 1) The part of your home you use for business,
- 2) That you use this part of your home exclusively and regularly for business as either your principal place of business or as the place where you meet or deal with clients or customers in the normal course of your business (however, see the earlier discussion, *Exceptions to Exclusive Use*), and
- 3) The depreciation and expenses for the business part of your home.

You must keep your records for as long as they are important for any Internal Revenue law. This is usually 3 years from the date the return was due or filed, or 2 years from the date the tax was paid, whichever is later. However, in the case of business use of your home you should keep the records until the home is sold in order to determine any gain or loss on the part used for business.

For more information on recordkeeping, see Publication 583.

▲ Specific language

# Notices

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## Individual Master File Notices

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### CP 16—We Changed Your Return and Used Your Refund to Pay Other Taxes You Owed

#### GAO Concern 1

We reviewed a draft version of this notice (that the Notice Clarity Unit approved) rather than the one already in use. We found the reference made to Individual Retirement Account (IRA) taxes on this notice confusing. Specifically, the notice states, "We applied \$nnn to your IRA taxes. We keep your income tax account separate from your Individual Retirement Account." We questioned the significance of this statement as well as the reason it was not included in the "How We Applied Your Overpayment to Other Federal Taxes You Owed" statement on the second page of the notice.

#### IRS Response

IRS' Notice Clarity Unit officials agreed that this reference, in its present form, is confusing. The officials said they have suggested revisions to the IRS group responsible for this notice. These revisions are not expected to be implemented until 1995 because of the time needed to make the necessary computer program changes.

▲ Specific language

**Appendix VIII  
Notices**

**Figure VIII.1: Example of a Draft Version of Notice CP 16**

CP16 Notice layout

**WE CHANGED YOUR RETURN AND USED YOUR REFUND TO PAY OTHER TAXES YOU OWED**

We changed your 1977 return because:  
(space for 10 lines of math errors if IRA statement needed,  
13 lines if no IRA) (current 14" notice has room for 8 lines)

**CHECK OVER YOUR ENTIRE RETURN TO SEE IF THESE CHANGES AFFECT OTHER ITEMS.**

You have overpaid your 1977 taxes. However, our records show that you owe other federal taxes. We have applied your overpayment to those taxes as listed at the end of this notice. You are still due a REFUND of \$nn,nnn,nnn.nn if you owe no other taxes. If you think we made a mistake, please write to us, enclosing the bottom part of this notice with your reply. If you haven't already received your refund, it should arrive within 6 weeks.

(OR)

You have overpaid your 1977 taxes. However, our records show that you owe other federal taxes. We have applied your overpayment to those taxes as listed at the end of this notice. Your account still shows a refund of \$nn,nnn,nnn.nn, but we can't give you this refund because the statute of limitations for issuing a refund in your case has expired. If you think we're wrong about the refund period, please write to us, enclosing the bottom part of this notice.

**YOUR TAX STATEMENT**

Adjusted Gross Income on Return	\$nn,nnn,nnn.nn	Overpayment of Taxes	\$nn,nnn,nnn.nn
Adjusted Gross Income as Corrected	nn,nnn,nnn.nn	Less:	
Taxable Income on Return	nn,nnn,nnn.nn	Late Filing Penalty	nn,nnn,nnn.nn
Taxable Income as Corrected	nn,nnn,nnn.nn	Estimated Tax Penalty	nn,nnn,nnn.nn
• Tax Withheld	nn,nnn,nnn.nn	Bad Check Penalty	nn,nnn,nnn.nn
• Estimated Tax Payments	nn,nnn,nnn.nn	Late Payment Penalty	nn,nnn,nnn.nn
Other Credits	nn,nnn,nnn.nn	Missing SSN Penalty	nn,nnn,nnn.nn
Other Payments	nn,nnn,nnn.nn	Interest	nn,nnn,nnn.nn
Total Payments & Credits (Less IRA)	nn,nnn,nnn.nn	Amount Applied to Next Year's	
Total Tax on Return (Less IRA Tax)	nn,nnn,nnn.nn	Estimated Tax	nn,nnn,nnn.nn
Corrected Tax on Return	\$nn,nnn,nnn.nn	Applied to Other federal Taxes	
		(See below)	nn,nnn,nnn.nn
		Total Subtracted	nn,nnn,nnn.nn
		<b>AMOUNT OF REFUND - If you owe no</b>	
		other taxes	\$nn,nnn,nnn.nn
		(Any interest due you will be added)	

• We applied nn,nnn,nnn.nn to your IRA taxes. We keep your income tax account separate from your Individual Retirement Account (IRA). (printed only if IRA indicator is present)

(end of page one)

Appendix VIII  
Notices

(interim page 2)

See Codes nn,nn,nn,nn,nn,nn on the enclosed Notice 746 for an explanation of penalty and interest charges listed in YOUR TAX STATEMENT.

(printed if penalty/interest apply AND Notice 746 is still referenced)

Because your return required additional processing, we are issuing your refund by check rather than by direct deposit. (printed only if direct deposit indicator is present)

We must verify your Social Security Number before we can send your refund. To do this, we will soon send you a request for verification to complete and return. (printed only if invalid SSN)

• HOW WE APPLIED YOUR OVERPAYMENT TO OTHER FEDERAL TAXES YOU OWED

Form	Tax Period	Amount Applied	Balance Remaining
nnnnnnn	ssvv nn, 19yy	\$nn,nnn,nnn.nn	\$nn,nnn,nnn.nn
	(up to 8 offsets)		

The total amount applied includes interest of \$nn,nnn,nnn.nn on your overpayment.  
(printed only if interest applied)

You will receive a separate notice for any remaining amounts you owe on your other taxes.  
Unless you have questions, no response to this notice is needed.  
(printed only if balance remains on the offset accounts)

---

**CP 49—Overpaid Tax  
Applied to Other Taxes You  
Owe**

**GAO Concern 1**

The notice states, "We applied \$nnn of the overpaid tax on your 19XX tax return to the unpaid balance of other federal taxes which our records show you owe. You may still be due a refund if we applied only part of your overpayment to other taxes. . . ."

We questioned why the notice does not more specifically address the taxpayer's particular situation. We also found it illogical that the taxpayer might not be due a refund if only part of the overpayment had to be applied to cover the other taxes owed. We also questioned why the taxpayer wouldn't be due the part of the overpayment that was left after the other taxes were paid.

We suggested that IRS change the language in this notice to more specifically address both the taxpayer's account and IRS' actions. We also suggested that IRS not send this notice until it has determined whether a taxpayer owes additional taxes. Thus, a taxpayer would receive a notice describing all discrepancies and how IRS plans to resolve them.

**IRS Response**

IRS' Notice Clarity Unit officials agreed that clarification to this notice is needed. They said that they are working with IRS groups responsible for this notice. One possibility under consideration is the creation of optional computer-generated paragraphs designed to make notices more specific. The officials do not anticipate any revision to be implemented before 1995.

▲ **Specific language**

**Appendix VIII  
Notices**

**Figure VIII.2: Example of a Current Version of Notice CP 49**

8901294



Department of the Treasury  
Internal Revenue Service  
ANDOVER, MA 01921

Date of this notice: **JAN. 11, 1993**  
Taxpayer Identifying Number  
Form: 1840 Tax Period: **DEC. 31, 1991**



For assistance you may  
call us at:

Or you may write to us at  
the address shown at the  
left. If you write, be  
sure to attach the bottom  
part of this notice.

**OVERPAID TAX APPLIED TO OTHER TAXES YOU OWE**

WE APPLIED \$2,474.00 OF THE OVERPAID TAX ON YOUR 1991 TAX RETURN TO THE UNPAID BALANCE OF OTHER FEDERAL TAXES WHICH OUR RECORDS SHOW YOU OWE.

YOU MAY STILL BE DUE A REFUND IF WE APPLIED ONLY PART OF YOUR OVERPAYMENT TO OTHER TAXES. YOU ALSO MAY BE DUE A REFUND IF YOU RECENTLY MADE A PAYMENT AGAINST THE OTHER TAXES THAT WE HAD NOT CREDITED WHEN WE APPLIED YOUR OVERPAYMENT. IN EXTRA CASE, YOU WILL RECEIVE A CHECK FOR ANY REFUND DUE YOU AS LONG AS THE AMOUNT IS GREATER THAN ONE DOLLAR. YOU MUST REQUEST A REFUND OF LESS THAN ONE DOLLAR.

THE FIGURES BELOW SHOW OUR CALCULATION:

**HOW WE APPLIED YOUR OVERPAYMENT**

AMOUNT OF OVERPAID TAX ON YOUR RETURN.....	\$2,474.00
AMOUNT OF INTEREST YOU EARNED.....	0.00
TOTAL AMOUNT DUE YOU.....	\$2,474.00
TOTAL AMOUNT APPLIED.....	\$2,474.00
AMOUNT YOU WILL RECEIVE AS A REFUND.....	0.00
(ANY INTEREST DUE YOU WILL BE ADDED)	

**WHERE WE APPLIED YOUR OVERPAYMENT**

FORM(S)	TAX PERIOD(S)	AMOUNT(S) APPLIED	BALANCE REMAINING
1299	DEC. 31, 1989	\$2,474.00	\$2,991.18

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens to telephone calls.

Keep this part for your records.

Circle 6 Form 9499 914

Return this portion to us with your inquiry or with your check if you have a balance due.

Your telephone number  
( ) -

Best time to call

TA SIDI 90 0 8912



INTERNAL REVENUE SERVICE  
ANDOVER, MA 01921



99971-347-29422-2

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## Business Master File Notices

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### CP 138—We Applied Your Overpayment to Other Taxes You Owe

#### GAO Concern 1

We reviewed a draft version of this notice (that the Notice Clarity Unit approved) rather than the one already in use. The text of this draft notice indicates that the taxpayer will receive a bill for the balance due on his/her account. However, the attached stub directs the taxpayer to remit payment with the stub to the address provided. We suggested that IRS either delete the reference to a forthcoming bill in the notice or remove the stub, because these conflicting directions could confuse taxpayers and possibly hinder the processing of payments.

#### IRS Response

IRS' Notice Clarity Unit officials agreed these instructions were conflicting and will either revise the directive on the stub or remove the stub entirely. The unit is working on additional changes to the notice. They do not anticipate any revision to be implemented before 1995.

★ Appropriate reference

Appendix VIII  
Notices

Figure VIII.3: Example of a Draft Version of Notice CP 138

Department of the Treasury	Number of Notice: [ CP-138 ]
Internal Revenue Service	Date of this notice: [ ]
PHILADELPHIA, PA 19255	Taxpayer Identifying Number: [ ]
	Form: [ ]
	Tax Period: [ ]

Bar Code Bar Code

We Applied Your Overpayment To Other Taxes You Owe

Our records show you owe other federal taxes, so we are applying \$( ) of your overpayment on your Form [ ] for the tax period [ ] to your unpaid account. The figures below show the amounts we applied to the tax you owe and the status of your account.

If you made a payment that we have not subtracted from any account listed below, we will refund it if you owe no other taxes. You should receive the refund in six to eight weeks.

We will send you a bill for the remaining balance on any of the accounts listed below.

Tax Statement

Overpayment shown on your tax return	[ ]
Amount of overpayment applied	[ ]
Amount of interest on overpayment applied	[ ]
Total amount applied (see below)	[ ]
Amount to be refunded	[ ]
(Interest due you will be added)	

We applied your overpayment to these accounts listed under taxpayer identifying number [ ]:

<u>Form</u>	<u>Tax Period</u>	<u>Previous Balance</u>	<u>Amount Applied</u>	<u>New Balance</u>
942	June 30, 1988	\$( )	\$( )	\$( )
942	Sept. 30, 1988	\$( )	\$( )	\$( )
942	Dec. 31, 1988	\$( )	\$( )	\$( )
942	March 31, 1989	\$( )	\$( )	\$( )

Appendix VIII  
Notices

Keep this part for your records

Return this part with your check or inquiry

Your telephone number Best time to call  
( ) -

Bar Code

Internal Revenue Service  
Philadelphia, PA 19255

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**CP 253—Request for  
Forms W-2 Not Filed With  
the Social Security  
Administration**

**GAO Concern 1**

This notice is intended for employers submitting Forms 941 and W-3 that do not reconcile. The Social Security Administration (SSA) receives this information and shares it with IRS. IRS officials told us that SSA makes the assumption that the discrepancy occurred because the employer has failed to submit all required Forms W-2. IRS makes the same assumption. We suggested that there could be other explanations for the discrepancy, such as a math error. Therefore, we questioned the appropriateness of the notice's title and content.

**IRS Response**

IRS' Notice Clarity Unit officials agreed that some clarification in either the text or the title may be needed. They said they are working to revise it. They do not anticipate any revision to be implemented before 1995.

**▲ Specific language**

Appendix VIII  
Notices

9578



Department of the Treasury  
Internal Revenue Service  
PHILADELPHIA, PA 19255

Date of this notice: APR. 1, 1981  
Taxpayer Identifying Number: Form:  
Tax Period: DEC. 31, 1980

1-800-829-1040

For assistance you may  
call us at:  
1-800-829-1040 ST. CF

Or you may write to us at  
the address shown at the  
left. If you write, be  
sure to attach the bottom  
part of this notice

REQUEST FOR FORMS W-2 NOT FILED WITH SOCIAL SECURITY ADMINISTRATION

OUR INFORMATION INDICATES THAT THE AMOUNTS YOU REPORTED TO THE SOCIAL SECURITY ADMINISTRATION (SSA) ON FORM W-3, TRANSMITTAL OF INCOME AND TAX STATEMENTS, FOR THE TAX PERIOD LISTED ABOVE, ARE LESS THAN THE AMOUNTS THAT YOU REPORTED TO IRS ON YOUR QUARTERLY (OR ANNUAL) EMPLOYER'S FEDERAL TAX RETURN (FORMS 941, 942, OR 943). THIS MAY HAVE OCCURRED BECAUSE AN INCOMPLETE NUMBER OF FORMS W-2, WAGE AND TAX STATEMENT, WERE FILED OR THE INFORMATION ON THE FORMS W-2 THAT WERE PROVIDED WAS NOT COMPLETE.

WE UNDERSTAND THAT SSA HAS MADE MORE THAN ONE ATTEMPT TO CONTACT YOU CONCERNING THIS DISCREPANCY. IT IS VITAL THAT SSA HAVE ACCURATE INFORMATION ON EMPLOYEE EARNINGS. THIS INFORMATION IS USED TO FIGURE EMPLOYEE'S ENTITLEMENT TO SOCIAL SECURITY BENEFITS AND THE AMOUNT OF THOSE BENEFITS.

EMPLOYERS ARE REQUIRED TO FILE COMPLETE AND ACCURATE WAGE REPORTS. UNDER SECTION 6221 OF THE INTERNAL REVENUE CODE, INTENTIONAL DISREGARD OF THESE REQUIREMENTS MAY RESULT IN A PENALTY OF \$100 PER MISSING DOCUMENT OR 10% OF THE AGGREGATE AMOUNT OF INCOME REQUIRED TO BE REPORTED ON THE RETURN, WHICHEVER IS GREATER.

TO AVOID THE PENALTY, YOU MUST PROVIDE US WITH THE PROPER FORM W-2/W-3 INFORMATION.

IF YOU HAVE ADDITIONAL FORMS W-2 THAT WERE NOT FILED, PLEASE SEND THEM TO IRS AT THE ADDRESS ABOVE.

IF YOU HAVE CORRECTED INFORMATION ON EXISTING FORMS W-2, PLEASE SEND THE APPROPRIATE FORM W-3C, TRANSMITTAL OF CORRECTED INCOME AND TAX STATEMENTS, AND FORMS W-2C, STATEMENT OF CORRECTED INCOME TAX AMOUNTS, TO IRS AT THE ABOVE ADDRESS.

IF YOU THINK OUR RECORDS ARE INCORRECT, PLEASE PROVIDE US WITH ANY DOCUMENTATION THAT MAY CORRECT THE RECORDS MAINTAINED BY EITHER IRS OR SSA. THIS MAY INCLUDE COPIES OF FORMS 941, 942 OR 943, FILED WITH IRS AND COPIES OF THE FORMS W-2 AND W-3 FILED WITH SSA.

PLEASE SEND A REPLY WITHIN 45 DAYS FROM THE DATE OF THIS NOTICE. FAILURE TO RESPOND MAY RESULT IN PENALTY ASSESSMENT(S).

IF YOU HAVE ANY QUESTIONS ABOUT THIS NOTICE YOU MAY CALL THE IRS TELEPHONE NUMBER LISTED IN YOUR LOCAL DIRECTORY. AN EMPLOYEE THERE MAY BE ABLE TO HELP YOU, BUT THE OFFICE AT THE ADDRESS SHOWN ON THIS NOTICE IS MOST FAMILIAR WITH YOUR CASE.

THANK YOU FOR YOUR COOPERATION.

To make sure that IRS employees give courteous responses and correct information to taxpayers, a second IRS employee sometimes listens in on telephone calls.  
Keep this part for your records

Overlay 6 Form 9459 Rev. 11-80

Return this part to us with your check or inquiry

Your telephone number  
( ) -

Best time to call

010034180 RP 86 8712

1-800-829-1040

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CP 267—Overpayment  
Notice

GAO Concern 1

We found the language in this notice ambiguous. We could not tell if the amount provided in the section called Total Tax on Return referred to the amount the taxpayer claimed on his/her return or to an IRS' adjustment. Because this notice is intended to advise taxpayers that some tax payments may have been misapplied, possibly resulting in an overpayment, we believe that IRS should be more explicit in detailing what was reported and what was actually owed.

IRS Response

IRS' Notice Clarity Unit officials explained that the terminology used in the notice had specific meanings to IRS but agreed that these meanings might not be apparent to taxpayers. The officials said they are working with other IRS groups responsible for the notice to revise it. They do not anticipate any revision to be implemented before 1995.

▲ Specific language

**Appendix VIII  
Notices**

**Figure VIII.5: Example of a Current Version of Notice CP 267**

1997 (26)



Department of the Treasury  
Internal Revenue Service  
PHILADELPHIA, PA 19255

Date of this notice: APR. 1, 1991  
 Taxpayer Identifying Number: \_\_\_\_\_  
 Form: 1041 Tax Period: SEP. 30, 1990

**COPY FOR YOUR RECORD:**

1-800-829-1040 ST. OF C

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**OVERPAYMENT NOTICE**

THE TOTAL CREDITS APPLIED TO YOUR ACCOUNT EXCEED THE TOTAL CREDITS CLAIMED ON YOUR TAX RETURN RESULTING IN A POTENTIAL OVERPAYMENT. OUR RECORDS SHOW THE FOLLOWING:

TOTAL TAX ON RETURN	\$ .00	\$1,000.00
TOTAL FEDERAL TAX DEPOSITS (FTD)	.00	
CREDIT APPLIED FROM PRIOR PERIOD (CR)	2,000.00	
OTHER CREDITS (OTHER)	.00	
TOTAL DEPOSITS, CREDITS AND PAYMENTS		\$2,000.00-
LESS: OVERPAYMENT APPLIED TO NEXT PERIOD	.00	
*PENALTY	.00	
*INTEREST	.00	
TOTAL OVERPAYMENT APPLIED TO NEXT PERIOD PLUS PENALTY AND INTEREST		\$ .00
REMAINING OVERPAYMENT ON ACCOUNT		\$1,000.00-

THE CREDITS APPLIED TO YOUR ACCOUNT ARE LISTED BELOW. PLEASE CHECK YOUR RECORDS AND INDICATE ON THIS NOTICE WHICH OF THESE CREDITS, IF ANY, WE SHOULD APPLY TO OTHER TYPES OF TAX OR TAX PERIODS. YOU MUST RESPOND WITHIN 30 DAYS. THIS WILL ALLOW US TIME TO MAKE NECESSARY CORRECTIONS BEFORE THE OVERPAYMENT IS REFUNDED OR APPLIED TO OTHER TAXES THAT MAY BE DUE.

NOTE: WE WILL APPLY THE RESULTING OVERPAYMENT TO ANY OUTSTANDING BALANCE BEFORE ISSUING A REFUND.

DATE	AMOUNT	DATE	AMOUNT	DATE	AMOUNT
01/15/91 (OTHER)	2,000.00				

THIS NOTICE REQUIRES A RESPONSE

9154

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# Organizations Contacted

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1. American Association of Retired Persons, Washington, D.C.
2. American Bar Association, Washington, D.C.
3. American Institute of Certified Public Accountants, Washington, D.C.
4. American Payroll Association, New York, NY
5. American Society of Payroll Management, New York, NY
6. National Association of Enrolled Agents, Rockville, MD
7. National Taxpayers Union, Washington, D.C.
8. New York Bar Association, Albany, NY
9. Pennsylvania Society of Certified Public Accountants, Malvern, PA
10. Tax Executives Institute, Washington, D.C.

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