



Prepared Remarks of IRS Commissioner Douglas H. Shulman Before the American Payroll Association and the American Accounts Payable Association

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WASHINGTON — It's an honor to be addressing The American Payroll Association's and American Accounts Payable Association's 28th Annual Congress. APA has a long history of providing valuable advice and feedback to the IRS as we have implemented a number of important tax laws that have played a prominent role in the economic development of our nation.

Your contributions have often been behind the scenes and they have not received the recognition they so richly deserve. I see that the theme of this year's Congress is "pay heroes." This is an apt title as you have contributed so much to the larger tax community.

Indeed, we're living through a very challenging time of breathtaking change and there's a lot at stake for individual and business taxpayers...and APA is right in the thick of it.

As you know, IRS is now administering many tax credits, such as those contained in the Recovery Act and the HIRE Act. And HIRE is a perfect example of the important role that APA is playing as the IRS implements the Act.

There are two new benefits available to employers who hire certain previously unemployed workers: the Payroll Tax Exemption, also known as the "Tax Holiday," and the Retention Credit.

Given the quick implementation window, it was critical to get up to speed on form and programming changes. The members of the APA asked a number of helpful questions to make sure that there were no blind spots in implementation and made a number of good suggestions which resulted in FAQs posted on IRS.gov. So let me thank you again, and I look forward to keeping this good working relationship going as we move forward on other critical issues.

Today, I would like to spend some time with you discussing information reporting. There is general agreement both in the US and around the globe that withholding and third-party information reporting are powerful tools to improve and maintain taxpayer compliance. They streamline the process for the vast majority of people who are trying to pay the right amount of tax, and move on. And at the same time they make it more difficult for those trying to game the system.

Information reporting is nothing new to the IRS. We've always been an information intensive enterprise. And organizing that information into useful data is one of the hallmarks of an effective and efficient modern tax system.

But before I get into the new approaches we are taking... and some of the important new tools we have at our disposal...let me provide a little background on the evolution of tax information reporting that has spanned decades and has taken some unusual twists and turns.

Modern day information reporting began with the Current Tax Payment Act of 1943, which established withholding and quarterly estimated tax payments. And to meet this post-War surge in information, the IRS established the Processing Division in New York City with the Herculean task of assembling and sorting through the 150 million withholding and other documents and comparing them with annual returns. This was a highly labor intensive process consisting of basic document matching.

And once the floodgates were open, information documents kept growing in sheer type and volume. In 1950, Form 941 was simplified and placed in use nationwide for payroll tax reporting. By 1960, information returns increased to 330 million. Most were still W-2s and 1099s. The Revenue Act of 1962 also set forth the first information reporting system to report dividends and income.

The 1970s saw the waning of the punch card era and the rise of new types of information technology. In 1971, IRS received 360 million information documents — enough to fill more than 35 boxcars. However, almost 70 million of these information documents were submitted on magnetic tape. A year later, the IRS announced plans to create a wage and other income information tape file that would incorporate all "useable" information documents and was seen as "a base for conducting more effective income and employment tax programs."

The Information Returns Program was inaugurated to match the information returns of some individual taxpayers with their income tax returns to detect non-filing or underreporting of income. And speaking of underreporting, tips had to be reported for the first time.

The 1980s was a watershed decade for information reporting and information sharing. The Social Security Administration received information from over 189 million W-2s. The IRS began using information returns in selecting income tax returns for examination and for use in actual exams. IRS also notified over 2.1 million taxpayers of potential discrepancies between income reported on their tax returns and income reported on information returns; 1.4 million people who failed to file a tax return were identified.

The Automated Underreporter Program concept was unveiled in 1986 as a way to move the Underreporter Program to a paperless environment and better detect underreporting of income, or the failure to file a tax return. Through this new program, the IRS sent out 3.8 million notices to taxpayers on discrepancies.

The TEFRA Act of 1982 also granted IRS discretion in establishing payor reporting procedures. And there was an expansion of Form 1099, giving birth to a long line of alphabetical descendants, to report outside taxable income from other sources.

Closer to today, in 1992, the Automated Underreporter Program was established at the Ogden, Utah Service Center. Legislation generated even more information reporting, including securities, higher education and tuition, and charitable donations of property. The IRS also began using automated "soft notices" to allow taxpayers to correct underreporting issues outside of a more formal audit context.

Enough history. Let's talk about the next generation of information reporting which is a cornerstone of our overall

strategy of working smarter.

Albert Einstein once said that information is not knowledge. I agree. We can have all the information in the world...we can be bombarded with information 24/7... and it can mean nothing if we don't know how to analyze and make the best use of it.

It's the organization of data and ultimately the knowledge and intelligence we extract from the information that we receive that really matters ... that's the transformational step....whether it's used by NASA scientists to plumb the deepest secrets of the universe, or by the IRS to find innovative ways to reduce the tax gap and improve compliance.

However, to reach this new level of intelligence, we must adapt and make better use of technology. The technology revolution changed information reporting for both business and the IRS and creates opportunities and challenges for both of us. The better use of technology translates into better use of data – extracting knowledge and intelligence. So, we must invest in technology to keep up with new legislation, regulations and strategies in a more complex and interrelated global tax system.

We have some recent changes in the law that gave us new tools in our information reporting toolkit. The first applies to businesses that accept credit or debit cards, or other electronic payments.

Beginning in 2012, payment processors will be required to make an annual information report to the merchant and the IRS stating the gross amount paid to the merchant during a calendar year. This will help improve voluntary tax compliance by business taxpayers and help the IRS determine whether their tax returns are correct and complete. Let me dive down a little deeper into how this new law will benefit the tax system.

Imagine a business. At the end of the year, a merchant bank will send that business a 1099 reporting the dollar figure from credit and debit card purchases made by customers at his or her establishment. An identical information document is also sent to the IRS.

When the owner or tax practitioner fills out the business' tax return, they will segregate the credit/debit card sales from cash sales....and this new report will make it easier to do so. At this point, the IRS can see if the credit card dollar figure reported on the tax return matches the bank's information return, and also see if the amount of revenue from credit cards makes sense in the context of firm's overall business.

The information we receive is an important window into underreporting. It can also help us better understand tax compliance and trends in different industry sectors.

The second tool Congress gave us imposes basis reporting requirements for publicly traded securities. Under current law, a broker is required to file with the IRS annual information returns generally showing only a customer's gross proceeds from certain transactions. The same information is furnished to taxpayers to help them file accurate and complete returns.

Here's the problem. GAO estimates that as many as seven million taxpayers – more than one in three who sold securities – may have misreported capital gains and losses. And around half of them did so because they misreported their basis.

This new provision – effective January 1, 2011 – will go a long way to reducing this problem and making things easier for investors. I don't know about you, but I have spent far too much time digging through old records, trying to find the basis for securities I sold. I think investors...and I count myself one ...will welcome getting this new, easy-to-understand information from their brokers.

Basis reporting can also help us work smarter. As the GAO points out, knowing the basis for taxpayers' security sales will allow us to get a better bead on taxpayers' income for security sales through our document matching program. In other words, basis reporting creates knowledge.

Congress also recently passed a new information reporting provision requiring expanded information reporting on payments made from businesses to corporations, and on payments businesses make for goods. This new information reporting requirement applies if businesses pay a single entity \$600 or more per year in aggregate for these types of transactions starting in 2012.

While businesses do not need to file information returns on these payments until January of 2013, business groups – particularly those that represent small businesses - have raised concerns about the burden that this new provision may impose. I want to assure the business community that the IRS will look for opportunities to minimize burden and avoid duplicative reporting. That is why we will be spending the next several months soliciting input from businesses of all types and sizes before proposing regulations to implement the law. We will also look to service providers who help those businesses understand and adapt to new laws and regulations, to help us craft a process that is as efficient as possible. We know that there is no "one-size-fits-all," so we want to hear your ideas.

At the risk of getting ahead of the game, I wanted to share with you just one example of how we are analyzing this provision, and looking for opportunities to streamline implementation and minimize burden. We plan to use our administrative authority to exempt from this new requirement business transactions conducted using payment cards such as credit and debit cards. These transactions will already be covered by reporting requirements on payment card processors, so there is no need for businesses to report them as well. So, whenever a business uses a credit or debit card, there will be no new burden under the new law.

I realize that this exemption covers a specific set of transactions, and you probably have lots more questions. But I share this idea with you as an example of where we are headed, not as a complete implementation plan. For that we will look forward to dialog and input from the business community in the coming months. As we proceed with our planning, we won't hesitate to consider alternate approaches, including working with Congress to address any potential implementation issues that may arise during this process.

Information reporting may have had a modest start in the US, but it is now firmly rooted in the global economy. The globalization of tax administration is now everybody's business. In the case of the IRS, we want to ensure that business taxpayers do not use international capital markets and tax code complexities to push tax planning beyond acceptable bounds. And for individuals, we want to better ensure that US taxpayers with overseas assets pay what they owe.

Information reporting and sharing is critical to our international efforts and we cannot afford a go-it-alone strategy. We are bound together with other nations with real economies and real tax systems in a common cause. We must build and strengthen relationships with these partners across the globe.

By allowing the exchange of information between the world's tax authorities, tax treaties are a critical tool in the fight against global tax evasion. The Treasury Department has made information exchange agreements a priority, and has been signing more and more treaties. We routinely exchange information filed with treaty partners regarding foreign persons' US source income subject to withholding, while matching similar information received from our partners.

The US continues to work with countries around the world that want to come into the new paradigm of transparency and information exchange.

Beyond a cooperative spirit, we will need enhanced information reporting tools to combat tax evasion and abusive tax avoidance, with a special focus on banks, wealthy individuals and offshore activities in bank secrecy jurisdictions.

We already have some good ones at our disposal, such as the Qualified Intermediary Program which gives us an important line of sight into the activities of foreign banks and other financial institutions.

One of the most important developments in international information reporting was the enactment this year of the Foreign Account Tax Compliance Act which creates more transparency in the offshore financial market. Some of the key elements include:

- Encouraging the reporting of US citizens' worldwide income by withholding 30 percent on payments for foreign financial institutions, unless they identify and report the US citizens who own the accounts.
- US-owned accounts would include accounts beneficially owned through shell foreign entities.
- Requiring US taxpayers to report on their tax returns offshore assets worth an aggregate of \$50,000 or more. This is in addition to existing law that requires the filing of a so-called FBAR form if the aggregate of their foreign accounts is over \$10,000.

As you can see, this is a significant and meaningful step towards combating US tax evasion, bank secrecy and other illicit financial practices.

In conclusion, let me thank you again for inviting me to share some thoughts with you today on the evolution of information reporting. We are entering a very exciting new phase of information reporting with great potential for improving compliance and the effectiveness and efficiency of our tax system. I look forward to working with the APA and its members as we move forward. Thanks for listening and best wishes for a highly successful 28th Congress.

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