

# ***What Can NPRC Do Differently To Reduce The Tax Gap?***

*National Payroll Reporting Consortium*

Statement for the IRS Oversight Board

March 7, 2007

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The National Payroll Reporting Consortium (NPRC)<sup>1</sup> is pleased to again participate in the important work of the IRS Oversight Board to improve the efficiency and effectiveness of federal employment tax administration, including proposals to address the Tax Gap.

The NPRC represents businesses – “Reporting Agents” in IRS terminology – that provide human resource-related administrative services to employers, including payroll processing and employment tax payment and filing services. NPRC members serve more than 1.3 million employers with a combined total of more than 35 million employees, and process payroll for more than one-third of the private sector workforce. Reporting Agents transmit about 30 percent of all Federal depository taxes received by the U.S. Treasury, and have long served an important role in our nation's tax collection system as a conduit between employers and the IRS. Reporting Agents improve the efficiency of IRS tax collection and improve tax compliance, and we are continuing to work productively with the IRS to improve tax administration systems and procedures in many ways. While our ongoing partnership with the IRS has helped minimize the Tax Gap for years, we will discuss here three ways in particular in which we will continue to help address the Tax Gap going forward.

## **1. e-Services Will Enable Reallocation of IRS Resources to the Tax Gap**

Reporting Agents are the model for efficient electronic tax filing programs, having interacted with the IRS (in paying and filing employment taxes) 100% electronically for many years. We have recommended in the past that IRS electronic filing goals be expanded to address all transactions with the IRS, to avoid the inappropriate exclusive focus on electronic receipt of tax returns. IRS correspondence should be available in secure electronic form, for example, and account access and problem resolution should be possible via authorized self-service.

Although Reporting Agents are still unable to use IRS e-services, we are pleased and encouraged by the apparent progress made by the IRS. In fact, we expect to be using these more efficient systems sometime this year. Implementation of e-services by payroll firms will cut IRS operating costs by permitting authorized self-service, and pre-filing applications will improve accuracy further by allowing verification of taxpayer information before making payments and filing returns, which will prevent notices. Each element will allow IRS staff to refocus their attention on service and enforcement, which should help reduce the Tax Gap.

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<sup>1</sup> The following companies are members of NPRC: Automatic Data Processing, Inc.; Ceridian Corporation; Compupay, Inc.; Fidelity Employer Services Company LLC; Intuit, Inc.; Paychex, Inc.; Payroll People, Inc.; PayCycle, Inc.; Primepay, Inc., and Sage Software, Inc.

## **2. NPRC Is Acting to Further Improve the Security of Tax Funds**

In recent years, there have been a handful of incidents nationwide in which a small payroll processing firm has failed to pay the employment taxes of their clients. These incidents have been very damaging to the affected businesses, and to the extent that some of these taxes became uncollectible, such incidents contributed to the Tax Gap.

Fortunately, in 2002, the IRS released an Internet version of the Electronic Federal Tax Payment System (EFTPS) that made it easy for businesses to verify federal tax payments. Yet few employers are aware of this important feature. If EFTPS had been used, each prior incident would have been detected almost immediately and losses would have been avoided or minimized.

NPRC recently led a group of industry trade associations to develop a voluntary disclosure program designed to remind taxpayers of their ultimate responsibility for the payment of federal taxes, and to suggest that they use the IRS EFTPS system to verify that tax payments were made on their behalf. Improved awareness will not only improve the safety of tax funds, but also will increase EFTPS awareness and usage. The NPRC and other stakeholders also recently agreed to work with the IRS to amend existing regulations governing Reporting Agents to make such disclosures mandatory and require that they be made at least quarterly.

## **3. NPRC Is Acting to Improve IRS Information Return Matching Programs**

NPRC members have participated for many years on IRS Advisory Committees including the Information Reporting Program Advisory Committee (IRPAC), the IRS Advisory Committee (IRSAC), and the Electronic Tax Administration Advisory Committee (ETAAC). In its most recent Annual Report, the Oversight Board recommended several strategies to reduce the tax gap, including improved information reporting. NPRC members have made many significant contributions to improved information reporting rules and technologies, in recent years focusing attention on the Combined Annual Wage Reporting (CAWR) and Automated Under-Reporter (AUR) programs. We have had several meetings with the IRS and SSA to investigate perceived weaknesses in these systems. We will continue this dialogue this year, and expect that resulting improvements will eliminate untold thousands of unnecessary IRS notices. Each unnecessary notice represents a taxpayer who is incorrectly flagged by IRS computers as having underreported income. Improved accuracy and currency of the system will enable the IRS to focus more on taxpayers that do contribute to the Tax Gap.

The NPRC is proud of the relationship that Reporting Agents have maintained with the IRS over the years, and believe that our continued collaboration will result in significant advancements in addressing the Tax Gap. We appreciate the opportunity to provide input to the IRS Oversight Board.