



Treasury Inspector General for Tax Administration Office of Audit

EXPANDED INFORMATION REPORTING SHOULD INCREASE THE PROPER REPORTING OF FARM INCOME, BUT ADDITIONAL STEPS COULD BE TAKEN

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Highlights

Highlights of Report Number: 2009-30-068 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) annually receives thousands of information returns reporting Commodity Credit Corporation (CCC) income payments that it is unable to use in determining whether the farmers filed tax returns or reported the income reflected on the statements. Because the information returns are unable to be used, opportunities exist for farmers to avoid the scrutiny of the IRS through underreporting income and not filing tax returns, creating unfair burdens on honest taxpayers and diminishing the public's respect for the tax system.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine the extent to which farmers are properly reporting CCC income payments and whether additional steps may be needed to further enhance compliance with the reporting requirements. The review was part of our risk-based audit coverage under the major management challenge of Tax Compliance Initiatives and includes only individuals who report their farming operations on U.S. Individual Income Tax Return (Form 1040) Profit or Loss From Farming (Schedule F).

WHAT TIGTA FOUND

The IRS has taken actions to help alleviate concerns raised about the adequacy of the guidance available to assist farmers in properly reporting CCC income payments. One of the most important actions involved expanding the use of information returns to include reporting the taxable income from repaying amounts borrowed with commodity certificates. While expanded information reporting should increase the amount of CCC income payments that are properly reported, the IRS could take two additional steps that would enhance the effectiveness of the actions already taken.

The first step involves reducing the number of information returns that the IRS receives from the United States Department of Agriculture with inaccurate names and identification numbers. For Tax Years 2003 through 2005, the IRS received 904 information returns reporting \$60,000 or more in CCC income payments that it was unable to use in determining whether the farmers filed tax returns and reported the income due to mismatched names and identification numbers.

Second, the IRS should explore strategies to address potentially millions of dollars of improperly reported CCC income payments and suspected cases of underreporting that are not pursued due to resource constraints. While incorporating the recommendations made in this report, the IRS staff could pursue details that TIGTA did not because of time and other constraints. For example, TIGTA does not know whether improperly reported CCC income payments always affected tax liabilities because some of the income payments may have been mistakenly reported on a different line of the income tax return and were actually taxed. Other details that could be pursued involve evaluating whether the new information returns are having the intended impact on compliance and whether additional taxpayer guidance or enforcement may be needed to better ensure CCC income payments are properly reported.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Examination, Small Business/Self-Employed Division, should coordinate with United States Department of Agriculture officials to minimize the number of information returns submitted with mismatched names and identification numbers and initiate actions to develop compliance strategies for ensuring more CCC income payments are properly reported.

In their response to the report, IRS officials agreed with the recommendations and provided details of planned corrective actions. However, IRS management also stated that the outcome measures in the report totaling approximately \$94 million over 5 years may be overstated because of several factors. After considering the IRS' comments, TIGTA maintains that the outcome measures in the report are reasonable.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2009reports/200930068fr.pdf>

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