Opportunities Exist to Identify More Taxpayers Who Underreport Retirement Income

January 30, 2012

Reference Number: 2012-30-011

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:
1 = Tax Return/Return Information
2(f) = Risk Circumvention of Agency Regulation or Statute

Phone Number | 202-622-6500
E-mail Address | TIGTACommunications@tigta.treas.gov
Website | http://www.tigta.gov

OPPORTUNITIES EXIST TO IDENTIFY MORE TAXPAYERS WHO UNDERREPORT RETIREMENT INCOME

Highlights

Final Report issued on January 30, 2012

Highlights of Reference Number: 2012-30-011 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

Due to the amount and volume of tax assessments made, the Automated Underreporter (AUR) Program is one of the IRS's more successful compliance programs in increasing taxpayer awareness and contributing to the reduction of the Tax Gap. Given the magnitude of underreporting, even small improvements in the IRS's examination of tax returns with retirement income could increase taxpayer compliance and generate substantial revenue to the Federal Government to reduce the Tax Gap.

WHY TIGTA DID THE AUDIT

In a Tax Gap study for Tax Year 2001, the IRS estimated that as much as $4.2 billion can be attributed to underreported retirement income. The overall objective of this review was to determine whether the IRS has effective controls and processes in place to ensure that taxpayers and retirement income providers are correctly computing and reporting the taxable portion of retirement income.

WHAT TIGTA FOUND

For Tax Years 2008 and 2009, the IRS Statistics of Income Program reported that taxpayers filed approximately 21 million tax returns with taxable Individual Retirement Arrangement (IRA) income totaling $293 billion and approximately 52.2 million tax returns with taxable pension income totaling $1 trillion.

TIGTA determined that the AUR Program is effectively determining the proper reporting of retirement income when Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, discloses the taxable amount of the retirement distribution. For example, for Tax Year 2007, AUR Program examiners made tax assessments totaling approximately $607.5 million on 217,811 tax returns. However, additional tax form information, if available, would improve compliance.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division: 1) revise the Form 1099-R to clarify the meaning of the *Taxable amount not determined* box in order to reduce taxpayer confusion and include the dates needed to identify retirement savings program distributions and transfers not rolled over within 60 days as required, and 2) establish procedures to transcribe additional lines from various tax forms.

The IRS substantially agreed with our recommendations and plans to revise the instructions to Form 1099-R to clarify taxpayer responsibilities and the amounts to report. The IRS plans to consider the feasibility and the benefits of including the dates of distributions and their respective contributions to identify distributions not rolled over within 60 days. However, TIGTA maintains this information would be useful to the AUR Program when taxpayers do not utilize direct transfers between financial institutions.

The IRS plans to conduct its own study to determine the benefit of transcribing additional lines from tax forms. TIGTA maintains that the cost to transcribe the forms would be nominal and would not increase taxpayer burden.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

January 30, 2012

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Opportunities Exist to Identify More Taxpayers Who Underreport Retirement Income (Audit # 201030036)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) has effective controls and processes in place to ensure that taxpayers and retirement income payers are correctly computing and reporting the taxable portion of retirement income. The review was conducted as part of our Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations), at (202) 622-8510.

Table of Contents

Abbreviations

IRA	Individual Retirement Arrangement
IRMF	Information Returns Master File
IRS	Internal Revenue Service
IRTF	Individual Return Transaction File
TY	Tax Year

Background

For Tax Years (TY)[1] 2008 and 2009, the Internal Revenue Service's (IRS) Statistics of Income Program reported that taxpayers filed approximately 21 million tax returns with taxable Individual Retirement Arrangement (IRA) income totaling $293 billion and approximately 52.2 million tax returns with taxable pension income totaling $1 trillion. Figure 1 shows the number of tax returns filed for TYs 2008 and 2009 and the amount of taxable IRA and pension income reported.

Figure 1: Taxable Retirement Income Reported

TY	Total Tax Returns Filed	Number of Tax Returns With Taxable IRA Income	Amount of Taxable IRA Income (in thousands)	Number of Tax Returns With Taxable Pension Income	Amount of Taxable Pension Income (in thousands)
2008	142,350,256	11,316,651	$160,022,157	25,856,207	$515,035,286
2009	140,532,115	9,676,851	$132,979,694	26,342,262	$531,132,961
Totals	282,882,371	20,993,502	$293,001,851	52,198,469	$1,046,168,247

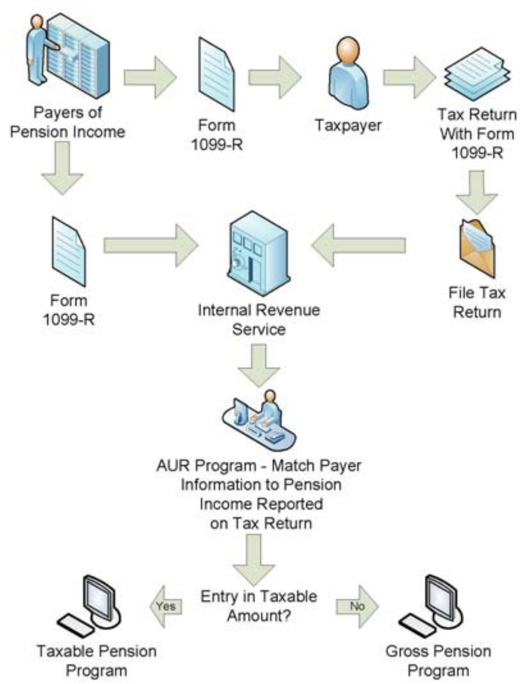
Source: IRS Statistics of Income Bulletin, Winter 2011.

There are many rules governing the tax reporting of retirement income. For example, when reporting retirement income, taxpayers must determine if this income is totally taxable, partially taxable, or not taxable at all. If the retirement income is comprised of the taxpayer's and employer's contributions, only the amount of the taxpayer's after-tax contributions are excluded from being taxed.

The IRS's Automated Underreporter (AUR) Program is the primary function responsible for ensuring taxpayer compliance with reporting retirement income. The AUR Program matches amounts reported on Form 1040, *U.S. Individual Income Tax Return*, to what was reported as paid to taxpayers from third parties such as employers, banks, brokers, and other financial institutions. The AUR Program uses Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, to evaluate retirement income reported on the Form 1040. If a mismatch is identified, the IRS issues a Computer Paragraph 2000 notice to inform the taxpayer that he or she may have underreported income. Figure 2 shows the general steps for the Form 1099-R AUR Program matching process.

[1] See Appendix VI for a glossary of terms.

Figure 2: Form 1099-R Matching Process in AUR Program



Source: Our analysis of the AUR Program matching process.

Payers[2] issue a Form 1099-R to the IRS and the taxpayer providing information to calculate the taxable amount of retirement income to be reported on the taxpayer's tax return. When a retirement distribution is made, the Form 1099-R instructions advise the payer to enter the following information:

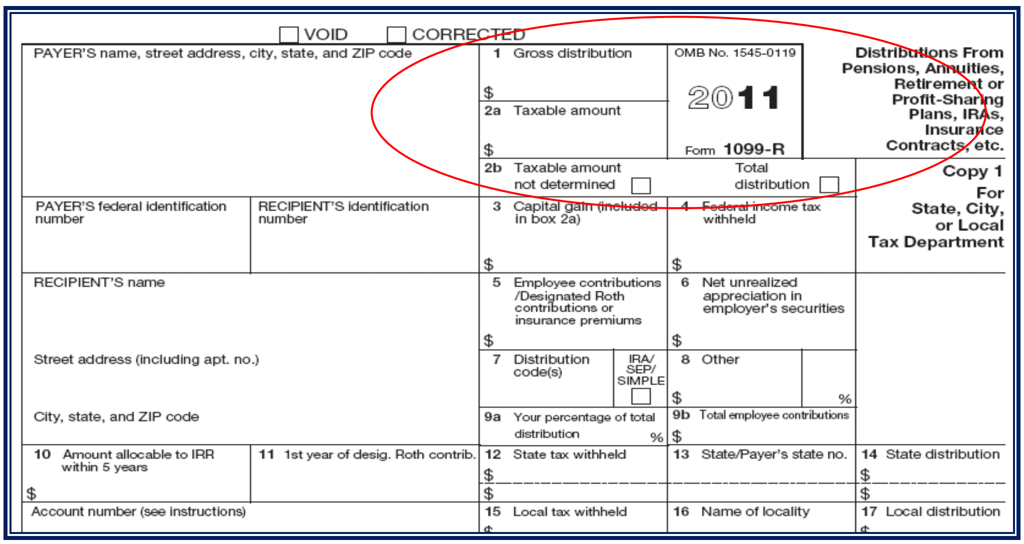
- **Box 1, Gross distribution –** Total amount of the distribution before income tax or other deductions were withheld.
- **Box 2a, Taxable amount –** The taxable part of the distribution is reported in this box. If the taxable amount cannot be determined, this box may be left blank. There are special instructions for this box for distributions from a Roth IRA, traditional IRA, Simplified

[2] Payers may be employers or financial institutions.

Employee Pension Plan, and a Savings Incentive Match Plan for Employees of Small Employers IRA.

- **Box 2b, Taxable amount not determined** – If the taxable amount is blank, the filer must check this box. Figure 3 shows an example of Form 1099-R.

Figure 3: Form 1099-R



VOID CORRECTED

PAYER'S name, street address, city, state, and ZIP code

1 Gross distribution $

2a Taxable amount $

OMB No. 1545-0119

2011

Form 1099-R

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined

Total distribution

Copy 1 For State, City, or Local Tax Department

PAYER'S federal identification number

RECIPIENT'S identification number

3 Capital gain (included in box 2a) $

4 Federal income tax withheld $

RECIPIENT'S name

5 Employee contributions /Designated Roth contributions or insurance premiums $

6 Net unrealized appreciation in employer's securities $

Street address (including apt. no.)

7 Distribution code(s)

IRA/ SEP/ SIMPLE

8 Other $ %

City, state, and ZIP code

9a Your percentage of total distribution %

9b Total employee contributions $

10 Amount allocable to IRR within 5 years $

11 1st year of desig. Roth contrib.

12 State tax withheld $ $

13 State/Payer's state no.

14 State distribution $ $

Account number (see instructions)

15 Local tax withheld $

16 Name of locality

17 Local distribution $

Source: The IRS Internet site, www.IRS.gov.

This review was performed at the Small Business/Self-Employed Division AUR Program site in Philadelphia, Pennsylvania, and the Wage and Investment Division AUR Program site in Atlanta, Georgia, during the period of August 2010 through June 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Results of Review

2(f)******************************
*****************************2(f)*******

Due to the amount and volume of tax assessments made, the AUR Program is one of the most successful IRS compliance programs that increases taxpayer awareness, ensures fairness to taxpayers, and contributes to the reduction of the Tax Gap. The AUR Program uses the Form 1099-R to identify taxpayers who have potentially underreported their retirement income. Two programs are used that systemically match the Form 1099-R received from the payer who issued the distribution to the amount of retirement income reported on the recipient's tax return to determine if the taxpayer reported the correct amount of retirement income. The following are the selection criteria for the two programs:

- **************************************2(f)*******************************
  *************************************2(f)******************************
  **************************************2(f)****************************
  **************************************2(f)*************************
  **************************************2(f)*******************************
  ***************************************2(f)*****************************
  **************************************2(f)****************************** .
- **2(f)*************************
  2(f)*********************
  **************************************2(f)******************************
  2(f)***********************
  2(f)***************
  ******************************2(f)************.

Our results showed the Taxable Pension Program is effectively determining the proper reporting of retirement income when the Form 1099-R discloses the taxable amount of the retirement distribution. It has proven to be an effective control in ensuring retirement income is not underreported. For TY 2007, the AUR examiners made tax assessments totaling approximately $607.5 million on 217,811 tax returns, which represents 76.7 percent of the total tax returns matched by the Taxable Pension Program. *********************2(f)****************** **2(f)************************ **2(f)*******************************. For TY 2007, the AUR examiners made assessments totaling approximately $75.9 million on

29,932 tax returns, which represents 41.6 percent of the total tax returns matched by the Gross Pension Program. Figure 4 shows the TY 2007 results for the Taxable and Gross Pension Programs.

Figure 4: TY 2007 AUR Program Results

Program	Number of Closed Cases	Number of Assessed Tax Returns	Assessment Rate
Taxable Pension	283,968	217,811	76.7%
Gross Pension	71,981	29,932	41.6%

Source: AUR Program results.

***********************************2(f)**
**********************************2(f)**
**********************************2(f)**
**********************************2(f)*************************************
***********************************2(f)************************.

Reporting taxable amounts of retirement distributions on Form 1099-R can be confusing

We determined taxpayers receive Forms 1099-R from payers with the following contradictory or confusing information regarding the amount of taxable retirement income to put on their tax returns:

- A Form 1099-R with a taxable amount but also having the box checked indicating the taxable amount could not be determined. For some retirement income plans, the Form 1099-R instructions require the payer to complete the form in this manner. Our analysis of 14.9 million Forms 1099-R with a distribution identified 11.5 million (77.2 percent) that had taxable amounts totaling $107.5 billion, but the *Taxable amount not determined* box was checked.
- A Form 1099-R with a gross distribution amount but the taxable amount was left blank. Our analysis of 14.9 million Forms 1099-R with a distribution identified 3.4 million (22.8 percent) had gross distributions totaling $67 billion, but the taxable amount was left blank.

Both the employer and the employee may contribute to the employee's retirement income plan. However, once the employee retires and begins to receive his or her distributions, generally only what the employer contributed to the plan is taxable. Current IRS guidelines do not require payers to always include the taxable amount on Form 1099-R when it cannot be determined. For example, when a taxpayer transfers funds between financial institutions, the administrative files may not be available to the payer to determine the taxable amount.

For TY 2007, we reviewed a statistically valid sample[3] of 118 tax returns from a population of 77,773 where the taxpayer received a Form 1099-R and the *Taxable amount not determined box* was checked. These Forms 1099-R either had a taxable amount present or the taxable amount was blank. In 32 (27.1 percent) of the 118 cases, the taxpayer reported a different amount on the tax return than was reported on the Form(s) 1099-R. Although we cannot determine whether the taxpayers reported the amounts correctly, the results either indicate the Form 1099-R might have confused the taxpayers or the taxable amounts on the Forms 1099-R needed additional manipulation before being reported on the tax returns. In 30 (93.8 percent) of the 32 cases, the taxpayer received a Form 1099-R that had a taxable amount and also had the *Taxable amount not determined* box checked. In four[4] (12.5 percent) of the 32 cases, the taxpayer received the Form 1099-R with the taxable amount blank and the *Taxable amount not determined* box checked. This contradictory or absent information can confuse taxpayers, resulting in them reporting the incorrect amounts of retirement income on their tax returns.

Information documents such as the Form 1099-R are prepared by third parties to provide information to both the IRS and taxpayers to ensure retirement income is accurately reported. Taxpayers are more likely to make mistakes on their tax returns when information documents are not clearly stated. ***********************************2(f)**********************
2(f)*****************************
2(f)*****************************
2(f)**********************.

Dates of the retirement savings program distribution and rollover contribution are not available

Taxpayers who receive certain types of distributions from their retirement plan or IRA may have the option to roll the distribution to an IRA or other eligible retirement plan. Tax laws permit taxpayers to roll distributions from one retirement arrangement to another within 60 days of distribution without any tax consequences. If the rollover is not completed within 60 days, the IRS considers the distribution as taxable income that is also subject to a 10 percent penalty if the taxpayer is not at least age 59½. However, current IRS guidelines do not require payers to document the date of the retirement distribution on the Form 1099-R. In addition, the financial institution that receives the rollover is not required to document the date of the contribution on Form 5498, *IRA Contribution Information*.[5] ******************2(f)********************
2(f)**********************
2(f)**********************

---

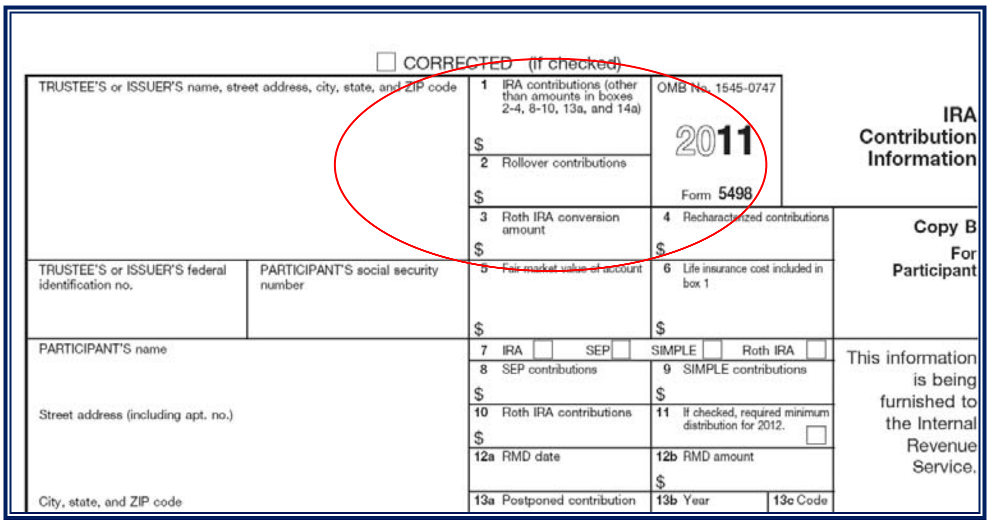
[3] The statistical sample was selected with a 95 percent confidence level, a 50 percent error rate, and ± 9 percent precision rate.

[4] ***********************************1***
***********************************1**.

[5] Form 5498 is used to report contributions made to an IRA.

*************************2(f)******************************. We recognize these dates may fluctuate depending on when the taxpayer actually receives the distribution from the payer and the date the financial institution treats the rollover as completed, so the IRS may need *************************2(f)************************. Figure 5 is an example of the Form 5498 that shows the boxes used to report IRA rollover contributions.

Figure 5: IRA Contribution Information – Form 5498


CORRECTED (if checked)

TRUSTEE'S or ISSUER'S name, street address, city, state, and ZIP code

1 IRA contributions (other than amounts in boxes 2-4, 8-10, 13a, and 14a) $

2 Rollover contributions $

3 Roth IRA conversion amount $

4 Recharacterized contributions $

OMB No. 1545-0747

2011

Form 5498

IRA Contribution Information

Copy B For Participant

TRUSTEE'S or ISSUER'S federal identification no.

PARTICIPANT'S social security number

5 Fair market value of account $

6 Life insurance cost included in box 1 $

PARTICIPANT'S name

7 IRA SEP SIMPLE Roth IRA

8 SEP contributions $

9 SIMPLE contributions $

Street address (including apt. no.)

10 Roth IRA contributions $

11 If checked, required minimum distribution for 2012.

12a RMD date

12b RMD amount $

City, state, and ZIP code

13a Postponed contribution

13b Year

13c Code

This information is being furnished to the Internal Revenue Service.

Source: The IRS Internet site, www.IRS.gov.

***************************************2(f)**
*****************2(f)*********************

The Simplified Method Worksheet is used to calculate the taxable amount of pension income received from a defined benefit plan or a defined contribution plan. The IRS instructs taxpayers to use the worksheet but does not require it to be submitted with tax returns. Taxpayers use Form 8606 to determine the amount, if any, of distributions from an IRA account that are taxable and are required to submit the Forms 8606 with their tax returns. The AUR Program matches the information on Forms 8606 to tax returns to identify taxpayers who underreported IRA distributions. *******************2(f)******************************* **2(f)************** **2(f)*********************************** **2(f)********************************* ***2(f)********************************** ***2(f)********************************** ***********************2(f)***

***********************************2(f)[6] ********************************
*****2(f)*******.

In a Tax Gap study for TY 2001, the IRS estimated that as much as $4.2 billion can be attributed to underreported retirement income. Given the magnitude of underreporting, even small improvements in the IRS's examination of tax returns with retirement income could increase taxpayer compliance and generate substantial revenue to the Federal Government to reduce the Tax Gap. ***************************************2(f)************************
**************************************2(f)***********************************
*******************2(f)**************************. Based on TY 2007 AUR Program results, we believe that for every percentage point increase in the assessment rate for retirement income cases, the IRS could increase the amount of tax assessments by $9.7 million.[7]

The IRS estimates as much as $4.2 billion of the Tax Gap can be attributed to underreported retirement income.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Revise the Form 1099-R to clarify the meaning of the *Taxable amount not determined* box to reduce taxpayer confusion when payers are unable to calculate the taxable amount of the distribution. The box should clearly communicate that the taxpayer is responsible for determining the taxable amount.

> ***Management's Response:*** IRS management agreed with this recommendation and will revise the Form 1099-R instructions to clarify taxpayer responsibilities and the amounts to report.

Recommendation 2: Revise instructions to require filers of Form 1099-R to include the date of the retirement savings program (*i.e.*, 401 plans, 403(b) plans, and IRAs) distribution or transfer on Form 1099-R and to require filers of Form 5498 to include the date the taxpayer rolled the distribution into an IRA or other eligible retirement plan. In addition, both forms should be revised to include boxes to input these dates.

> ***Management's Response:*** IRS management will consider the feasibility and benefits of this recommendation and agreed that additional information regarding the dates for rollover-eligible distributions and contributions would be useful in some instances. However, the IRS does not believe the recommended actions would result in significant improvements to taxpayer compliance or the detection of noncompliance.

---

[6] ***************************************2(f)**.

[7] The potential increase in assessments relate only to AUR Taxable and Gross Pension Program cases.

Administrators of retirement plans are subject to statutory requirements that serve as checks and balances to ensure accurate reporting of distributions and to deter the acceptance of nonqualified contributions. Withholding provisions for distributions paid directly to plan participants or IRA account holders also encourage the use of direct transfers, which eliminate the possibility of a distribution becoming a taxable event.

Office of Audit Comment: This recommendation is intended for those individuals who do not avail themselves of the direct transfer option. Even if the receiving financial institution verifies the timeliness of the transfer, the AUR Program does not have this information readily available. As a result, AUR Program examiners may receive these cases in their inventory. With this information available, AUR Program resources could be used to work more productive cases.

Recommendation 3: **************************2(f)****************************
2(f)************************
2(f)*************************
****************2(f)*********.

Management's Response: As discussed in Recommendation 2, IRS management will explore whether changes are feasible and beneficial, but they anticipate that additional controls would not yield significant results with respect to governance of the 60-day rollover period.

Office of Audit Comment: As discussed in Recommendation 2, if the IRS has information systemically available, cases that are within the rollover period could be eliminated from inventory and more productive cases worked.

Recommendation 4: Convert the Simplified Method Worksheet to a tax form and require taxpayers to file it with their tax returns.

Management's Response: IRS management will study the feasibility and potential value of converting the Simplified Method Worksheet to a form, including the impact on taxpayer burden. If it is determined to be feasible, Campus Reporting Compliance, Small Business/Self-Employed Division, will coordinate production of the new form with Media and Publications, Wage and Investment Division.

Office of Audit Comment: Taxpayers use the Simplified Method Worksheet to compute the taxable amount of their retirement income. Currently, the worksheet is kept for the taxpayer's records. Requiring the taxpayer to complete the worksheet as a form will not increase taxpayer burden.

Recommendation 5: Establish procedures to *****************2(f)****************
2(f)******************************
2(f)************************

Management's Response: Dependent upon the outcome of the feasibility study to assess the benefits of requiring the Simplified Method Worksheet data on a form to be filed with the tax return, IRS management will determine the appropriate line items to transcribe. ***********************************2(f)*************************************2(f)**********.

Office of Audit Comment: Additional costs for transcribing data from the Simplified Method Worksheet ***2(f)****** should be nominal. With the increase in electronic filing, many of the forms will not require transcription at all. Our discussions with AUR Program management indicated that the information transcribed from these forms would be beneficial to the Program.

Appendix I

Detailed Objective, Scope, and Methodology

Our objective was to determine whether the IRS has effective controls and processes in place to ensure that taxpayers and retirement income payers are correctly computing and reporting the taxable portion of retirement income. To accomplish our objective, we:

I. Determined which IRS functional offices were responsible for ensuring taxpayers correctly report pension income on their tax returns.

   A. Identified the Small Business/Self-Employed and Wage and Investment Divisions' functional offices that address retirement income.

   B. Reviewed Internal Revenue Manual guidelines and held discussions with IRS officials in the Correspondence Examination,[1] Field Examination, AUR Program, and Automated Substitute for Return Program functional offices.

   C. Determined if the functional offices had a process or controls in place to effectively evaluate if taxpayers are correctly reporting retirement income.

II. Selected a statistical sample of tax returns and evaluated the IRS's ability to determine if taxpayers correctly reported taxable and nontaxable pension income.

   A. Used the following methodology to determine our population and select our sample.

      1. Coordinated with our Information Services team to query the TY 2007 Information Returns Master File (IRMF) and the Individual Return Transaction File (IRTF) to identify the population of cases for which the taxpayer received a normal distribution of pension income in TY 2007, the distribution was greater than or equal to $10,000 over the minimum filing requirement,[2] and the taxpayer did not report a taxable amount of pension income on his or her TY 2007 tax return.

      2. Established IRMF criteria to identify the volume of Forms 1099-R that were filed with the *Taxable amount not determined* box checked with a category of Distribution Code 7 indicating a normal distribution. For TY 2007, there were 2,068,985,555 Information Return Documents filed; 14,921,449 met our criteria.

[1] See Appendix VI for a glossary of terms.
[2] The minimum filing requirements for taxpayers under the age of 65 during TY 2007 were: $8,750 for single taxpayers, $17,500 for taxpayers filing jointly, $3,400 for taxpayers filing married filing separately, $11,250 for taxpayers filing as head of household, and $14,100 for taxpayers filing as qualifying widows or widowers.

3. Established IRTF criteria to identify the volume of taxpayers who reported a gross pension amount equal to or greater than $10,000 over the minimum filing requirement for their filing status but did not report a taxable amount. We increased the minimum filing amount by $10,000 to ensure there would be a taxable event that would not be subject to any existing AUR Program tolerance levels. We identified 1,038,625 tax returns filed in TY 2007 that met our criteria.

4. Matched the IRMF and the IRTF results to identify those taxpayers who filed TY 2007 tax returns that met our IRTF criteria and also received at least one Form 1099-R that met our IRMF criteria. The match identified 77,773 unique tax returns, which became our total population.

5. Selected a statistical sample of 118 tax returns with a 95 percent confidence level, a 50 percent error rate, and ± 9 percent precision rate. For this sample, we stratified the population and selected our sample to include (30 percent) AUR Program cases and (70 percent) non-AUR Program cases.

B. Evaluated the reliability of the data by verifying tax account information and Form 1099-R data to the IRS's Integrated Data Retrieval System.

III. Determined what controls the IRS had in place to ensure payers fulfilled their responsibility to report the proper taxable amount of retirement income on Form 1099-R.

A. Met with IRS officials in the Employee Plans function to determine guidance and requirements in place to ensure payers are correctly completing Form 1099-R.

B. Reviewed the Internal Revenue Code and other published guidance regarding the proper filing of Form 1099-R, Form 5498, and Form 8606.

IV. Reviewed and evaluated IRS publications and other forms of guidance to determine what controls the IRS has in place to ensure taxpayers fulfill their responsibilities to maintain adequate records and properly report their taxable retirement income.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the Small Business/Self-Employed and Wage and Investment Divisions' policies, procedures, and practices for processing AUR Program retirement income cases. We evaluated these controls by interviewing management, reviewing IRS publications and manuals, and analyzing case studies.

Appendix II

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Compliance and Enforcement Operations)
Frank W. Jones, Director
Bryce Kisler, Director
L. Jeff Anderson, Audit Manager
Gail Schuljan, Lead Auditor
John Chiappino, Senior Auditor
Margaret Filippelli, Senior Auditor
Chanda Stratton, Auditor
Michele Cove, Information Technology Specialist
Arlene Feskanich, Information Technology Specialist

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Commissioner, Small Business/Self-Employed Division SE:S
Acting Commissioner, Tax Exempt and Government Entities Division SE:T
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Acting Deputy Commissioner, Tax Exempt and Government Entities Division SE:T
Deputy Commissioner, Wage and Investment Division SE:W
Director, Campus Compliance Services, Small Business/Self-Employed Division SE:S:CCS
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Customer Assistance, Relationships and Education, Wage and Investment Division SE:W:CAR
Director, Strategy and Finance, Small Business/Self-Employed Division SE:S:SF
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Director, Reporting Compliance, Wage and Investment Division SE:W:CP:RC
Chief Program Evaluation and Improvement, Wage and Investment Division SE:W:S:PRA:PEI
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
- Deputy Commissioner for Services and Enforcement SE
- Commissioner, Small Business/Self-Employed Division SE:S
- Commissioner, Wage and Investment Division SE:W
- Director, Communications and Liaison, Tax Exempt and Government Entities Division SE:T:CL

Appendix IV

Form 8606, Nondeductible IRAs[1]

Form **8606**

Department of the Treasury
Internal Revenue Service (99)

Nondeductible IRAs

► See separate instructions.

► Attach to Form 1040, Form 1040A, or Form 1040NR.

OMB No. 1545-0074

2010

Attachment Sequence No. **48**

Name. If married, file a separate form for each spouse required to file Form 8606. See instructions. | **Your social security number**

Fill in Your Address Only If You Are Filing This Form by Itself and Not With Your Tax Return ► Home address (number and street, or P.O. box if mail is not delivered to your home) | Apt. no.
City, town or post office, state, and ZIP code

Part I **Nondeductible Contributions to Traditional IRAs and Distributions From Traditional, SEP, and SIMPLE IRAs**

Complete this part only if one or more of the following apply.
- You made nondeductible contributions to a traditional IRA for 2010.
- You took distributions from a traditional, SEP, or SIMPLE IRA in 2010 **and** you made nondeductible contributions to a traditional IRA in 2010 or an earlier year. For this purpose, a distribution does not include a rollover, one-time distribution to fund an HSA, conversion, recharacterization, or return of certain contributions.
- You converted part, but not all, of your traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2010 (excluding any portion you recharacterized) **and** you made nondeductible contributions to a traditional IRA in 2010 or an earlier year.

1	Enter your nondeductible contributions to traditional IRAs for 2010, including those made for 2010 from January 1, 2011, through April 18, 2011 (see instructions)	1	
2	Enter your total basis in traditional IRAs (see instructions)	2	
3	Add lines 1 and 2	3	
	In 2010, did you take a distribution from traditional, SEP, or SIMPLE IRAs, or make a Roth IRA conversion? — No ► Enter the amount from line 3 on line 14. Do not complete the rest of Part I. — Yes ► Go to line 4.		
4	Enter those contributions included on line 1 that were made from January 1, 2011, through April 18, 2011	4	
5	Subtract line 4 from line 3	5	
6	Enter the value of **all** your traditional, SEP, and SIMPLE IRAs as of December 31, 2010, plus any outstanding rollovers (see instructions)	6	
7	Enter your distributions from traditional, SEP, and SIMPLE IRAs in 2010. **Do not** include rollovers, a one-time distribution to fund an HSA, conversions to a Roth IRA, certain returned contributions, or recharacterizations of traditional IRA contributions (see instructions)	7	
8	Enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2010. **Do not** include amounts converted that you later recharacterized (see instructions). Also enter this amount on line 16	8	
9	Add lines 6, 7, and 8	9	
10	Divide line 5 by line 9. Enter the result as a decimal rounded to at least 3 places. If the result is 1.000 or more, enter "1.000"	10	× .
11	Multiply line 8 by line 10. This is the nontaxable portion of the amount you converted to Roth IRAs. Also enter this amount on line 17	11	
12	Multiply line 7 by line 10. This is the nontaxable portion of your distributions that you did not convert to a Roth IRA	12	
13	Add lines 11 and 12. This is the nontaxable portion of all your distributions	13	
14	Subtract line 13 from line 3. This is **your total basis in traditional IRAs for 2010 and earlier years**	14	
15	**Taxable amount.** Subtract line 12 from line 7. If more than zero, also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	15	
	Note: You may be subject to an additional 10% tax on the amount on line 15 if you were under age 59½ at the time of the distribution (see instructions).		

Part II **2010 Conversions From Traditional, SEP, or SIMPLE IRAs to Roth IRAs**

Complete this part if you converted part or all of your traditional, SEP, and SIMPLE IRAs to a Roth IRA in 2010 (excluding any portion you recharacterized).

16	If you completed Part I, enter the amount from line 8. Otherwise, enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2010. **Do not** include amounts you later recharacterized back to traditional, SEP, or SIMPLE IRAs in 2010 or 2011 (see instructions)	16	
17	If you completed Part I, enter the amount from line 11. Otherwise, enter your basis in the amount on line 16 (see instructions)	17	

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 63966F Form **8606** (2010)

[1] ********************************2(f)******************************.

Form 8606 (2010) Page 2

Part II **2010 Conversions From Traditional, SEP, or SIMPLE IRAs to Roth IRAs** (Continued)

18	**Taxable amount.** Subtract line 17 from line 16	18	
19	**Amount subject to tax in 2010.** Check the box if you elect to report the entire taxable amount in 2010 rather than reporting 1/2 of it in 2011 and 1/2 in 2012. Generally, you must check this box if you check the box on line 24 (see instructions) ☐ If you checked the box, enter the amount from line 18 on this line and include this amount on Form 1040, line 15b, Form 1040A, line 11b, or Form 1040NR, line 16b. If you did not check the box, skip line 19 and go to line 20a.	19	
20a	**Amount subject to tax in 2011.** If you did not check the box on line 19, multiply the amount on line 18 by 50% (.50) and enter it here. Include this amount on the applicable line of your 2011 tax return	20a	
b	**Amount subject to tax in 2012.** Subtract line 20a from line 18. Include this amount on the applicable line of your 2012 tax return	20b	

Part III **2010 Rollovers From Qualified Retirement Plans to Roth IRAs and In-plan Rollovers to Designated Roth Accounts**

Complete this part if you rolled over part or all of your qualified retirement plan to a Roth IRA (excluding recharacterizations), or rolled over an amount to a designated Roth account within the same plan, in 2010.

21	Enter the amount you rolled over from qualified retirement plans to Roth IRAs and any in-plan rollovers to designated Roth accounts, in 2010. **Do not** include amounts you later recharacterized to traditional IRAs in 2010 or 2011 (see instructions)	21	
22	Enter your basis in the amount on line 21	22	
23	**Taxable amount.** Subtract line 22 from line 21	23	
24	**Amount subject to tax in 2010.** Check the box if you elect to report the entire taxable amount in 2010 rather than reporting 1/2 of it in 2011 and 1/2 of it in 2012. Generally, you must check this box if you checked the box on line 19 (see instructions) ☐ If you checked the box, enter the amount from line 23 on this line and include this amount on Form 1040, line 16b, Form 1040A, line 12b, or Form 1040NR, line 17b If you did not check the box, skip line 24 and go to line 25a.	24	
25a	**Amount subject to tax in 2011.** If you did not check the box on line 24, multiply the amount on line 23 by 50% (.50) and enter it here. Include this amount on the applicable line of your 2011 tax return	25a	
b	**Amount subject to tax in 2012.** Subtract line 25a from line 23. Include this amount on the applicable line of your 2012 tax return	25b	

Part IV **Distributions From Roth IRAs (and Certain Distributions from Designated Roth Accounts** (see instructions)**)**

Complete this part only if you took a distribution from a Roth IRA, and for certain distributions from a designated Roth account, in 2010. For this purpose, a distribution does not include a rollover, a one-time distribution to fund an HSA, recharacterization, or return of certain contributions (see instructions).

26	Enter your total nonqualified distributions from a Roth IRA in 2010, including any qualified first-time homebuyer distributions, and certain qualified distributions (see instructions)	26	
27	Qualified first-time homebuyer distributions (see instructions). Do not enter more than $10,000	27	
28	Subtract line 27 from line 26. If zero or less, enter -0- and stop here	28	
29	Enter your basis in Roth IRA contributions (see instructions)	29	
30	Subtract line 29 from line 28. If zero or less, enter -0- and stop here. If the amount is more than zero, you may be subject to an additional tax (see instructions)	30	
31	Enter your basis in conversions from traditional, SEP, and SIMPLE IRAs and rollovers from qualified retirement plans to a Roth IRA (see instructions)	31	
32	Subtract line 31 from line 30. If zero or less, enter -0- and do not complete the rest of Part IV	32	
	Note. If you completed lines 20a and 20b, or 25a and 25b, go to line 33. Otherwise, enter the amount from line 32 on line 35 and go to line 36.		
33	Enter the smaller of line 32 or the total of lines 20a, 20b, 25a, and 25b — 33		
34	Subtract line 33 from line 32. If zero, enter -0- and skip line 35 and go to line 36 — 34		
35	Subtract the total of lines 17 and 22 from line 34. If zero or less, enter -0-	35	
36	**Taxable amount.** Add lines 33 and 35. If more than zero, also include this amount on Form 1040, line 15b, Form 1040A, line 11b, or Form 1040NR, line 16b. For distributions from designated Roth accounts, see instructions	36	

Sign Here Only If You Are Filing This Form by Itself and Not With Your Tax Return	Under penalties of perjury, I declare that I have examined this form, including accompanying attachments, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge. Your signature	Date

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
	Firm's name ▶			Firm's EIN ▶	
	Firm's address ▶			Phone no.	

Form **8606** (2010)

Source: The IRS Internet site, www.IRS.gov.

Appendix V

Simplified Method Worksheet[1]

Simplified Method Worksheet—Lines 16a and 16b Keep for Your Records

Before you begin: √ If you are the beneficiary of a deceased employee or former employee who died **before** August 21, 1996, include any death benefit exclusion that you are entitled to (up to $5,000) in the amount entered on line 2 below.

Note. If you had more than one partially taxable pension or annuity, figure the taxable part of each separately. Enter the total of the taxable parts on Form 1040, line 16b. Enter the total pension or annuity payments received in 2010 on Form 1040, line 16a.

1. Enter the total pension or annuity payments from Form 1099-R, box 1. Also, enter this amount on Form 1040, line 16a . . . **1.** ______
2. Enter your cost in the plan at the annuity starting date . . . **2.** ______
   Note. If you completed this worksheet last year, skip line 3 and enter the amount from line 4 of last year's worksheet on line 4 below (even if the amount of your pension or annuity has changed). Otherwise, go to line 3.
3. Enter the appropriate number from **Table 1** below. **But** if your annuity starting date was **after** 1997 **and** the payments are for your life and that of your beneficiary, enter the appropriate number from **Table 2** below . . . **3.** ______
4. Divide line 2 by the number on line 3 . . . **4.** ______
5. Multiply line 4 by the number of months for which this year's payments were made. If your annuity starting date was **before** 1987, skip lines 6 and 7 and enter this amount on line 8. Otherwise, go to line 6 . . . **5.** ______
6. Enter the amount, if any, recovered tax free in years after 1986. If you completed this worksheet last year, enter the amount from line 10 of last year's worksheet . . . **6.** ______
7. Subtract line 6 from line 2 . . . **7.** ______
8. Enter the **smaller** of line 5 or line 7 . . . **8.** ______
9. **Taxable amount.** Subtract line 8 from line 1. Enter the result, but not less than zero. Also, enter this amount on Form 1040, line 16b. If your Form 1099-R shows a larger amount, use the amount on this line instead of the amount from Form 1099-R. If you are a retired public safety officer, see *Insurance Premiums for Retired Public Safety Officers* on page 23 before entering an amount on line 16b . . . **9.** ______
10. Was your annuity starting date before 1987?
    ☐ **Yes.** STOP Leave line 10 blank.
    ☐ **No.** Add lines 6 and 8. This is the **amount you have recovered tax free** through 2010. You will need this number when you fill out this worksheet next year . . . **10.** ______

Table 1 for Line 3 Above

IF the age at annuity starting date was . . .	**AND your annuity starting date was—** **before** November 19, 1996, enter on line 3 . . .	**after** November 18, 1996, enter on line 3 . . .
55 or under	300	360
56–60	260	310
61–65	240	260
66–70	170	210
71 or older	120	160

Table 2 for Line 3 Above

IF the combined ages at annuity starting date were . . .	**THEN enter on line 3 . . .**
110 or under	410
111–120	360
121–130	310
131–140	260
141 or older	210

Source: The IRS Internet site, www.IRS.gov.

[1] *****************************2(f)**.

Appendix VI

Glossary of Terms

401 Plan - A defined contribution plan where an employee can make contributions from his or her paycheck either before or after tax, depending on the options offered in the plan. The contributions go into a 401 account, with the employee often choosing the investments based on options provided under the plan. In some plans, the employer also makes contributions, such as matching the employee's contributions up to a certain percentage.

403(b) Plan - A tax-sheltered annuity retirement plan (often referred to as a 403(b) plan or a tax-deferred annuity plan) for employees of public schools and certain tax-exempt organizations. Generally, a tax-sheltered annuity plan provides retirement benefits by purchasing annuity contracts for its participants.

Administrative Files – These files contain key information regarding taxpayer and employer distributions and contributions to pension plans.

Automated Substitute for Return Program – The key compliance program within the IRS that enforces filing compliance on taxpayers who have not filed individual income tax returns but who owe a significant income tax liability.

Correspondence Examination – An IRS enforcement function that completes examinations of tax returns generally through the mail.

Computer Paragraph 2000 Notice – The Computer Paragraph 2000 notice informs the taxpayer of changes the IRS is proposing to his or her tax return because information reported does not match what was reported to the IRS by employers, banks, and other payers.

Defined Benefit Plan – This type of plan, also known as a traditional pension plan, promises the participant a specified monthly benefit at retirement. Often, the benefit is based on factors such as the participant's salary, age, and the number of years he or she worked for the employer. The plan may state this promised benefit as an exact dollar amount, such as $100 per month at retirement, or, more commonly, it may calculate a benefit through a plan formula that considers such factors as salary and years of service.

Defined Contribution Plan – In a defined contribution plan, the employee and/or the employer contribute to the employee's individual account under the plan. The amount in the account at distribution includes the contributions and investment gains or losses, minus any investment and administrative fees. The contributions and earnings are not taxed until distribution. The value of the account will change based on contributions and the value and performance of the investments.

Gross Pension Amount – The total amount of the pension including both taxable and nontaxable portions.

Individual Retirement Arrangement – An individual account or annuity established with a financial institution, such as a bank or a mutual fund company. Under Federal law, individuals may set aside personal savings up to a predetermined amount each year. The investments grow, tax deferred, over time. In addition, participants can transfer money from an employer retirement plan to an IRA when leaving an employer. Finally, the IRAs can also be an option as part of an employer plan.

Individual Retirement Arrangement Distribution – The amount of money a payer distributes to an individual.

Individual Retirement Arrangement Rollover – The transfer of funds from an IRA into another IRA.

Individual Return Transaction File – The IRS database that contains data transcribed from initial input of the original individual tax returns during tax return processing.

Information Return Document – A tax document businesses are required to file to report certain business transactions to the IRS.

Information Returns Master File – IRMF processing creates a master file of current tax year information returns and maintains access to five prior years.

Integrated Data Retrieval System – The IRS computer system employees use to retrieve or update stored taxpayer tax account information.

Master File – The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

Minimum Filing Requirement – A series of established conditions by the IRS that requires a taxpayer to file a tax return.

Pension – Generally, payments from a defined benefit plan or a defined contribution plan or certain other arrangements under which contributions and earnings on behalf of the taxpayer accumulated on a tax-deferred basis.

Retirement Saving Program – A retirement plan that offers a tax-favored way to save for retirement. Earnings on these contributions are generally tax free until distributed at retirement.

Roth IRA – An IRA that is subject to the rules that apply to a traditional IRA, except the contributions to a Roth IRA cannot be deducted. However, the distributions are tax free if certain conditions are met.

Savings Incentive Match Plan for Employees of Small Employers – A plan in which a small business with 100 or fewer employees can offer retirement benefits through employee salary reductions and employer non-elective or matching contributions (similar to those found in a 401 plan). It can be either a Savings Incentive Match Plan for Employees of Small Employers IRA or a 401 plan. These plans impose few administrative burdens on employers because the IRAs are owned by the employees, and the bank or financial institution receiving the funds does most of the paperwork. While each has some different features, including contribution limits and the availability of loans, required employer contributions are immediately 100 percent vested in both.

Simplified Employee Pension Plan – A plan in which an employer contributes on a tax-favored basis to the IRAs owned by its employees. If the employer meets certain conditions, it is not subject to the reporting and disclosure requirements of most retirement plans. Under a Simplified Employee Pension Plan, an IRA is set up by or for an employee to accept the employer's contributions.

Tax Gap – The Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.

Tax Year – The 12-month period for which tax is calculated. For most individual taxpayers, the tax year is synonymous with the calendar year.

Taxable Pension – The portion of the pension distribution issued to a taxpayer who is subject to Federal tax.

Transcribing – For all tax returns filed on paper, the information must be manually input into the Master File by IRS data transcribers. The transcribers follow specific guidelines which instruct them as to what lines on the tax return to review and input to the Master File.

Appendix VII

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA. GA 30308

COMMISSIONER
WAGE AND INVESTMENT DIVISION

December 22, 2011

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. /s/Richard Byrd Jr.
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Opportunities Exist to Identify More taxpayers Who Underreport Retirement Income
(Audit # 201030036)

We have reviewed the subject draft report and appreciate your recognition of the success of the Automated Underreporter Program. The rules around reporting taxable retirement income represent one of the more complex areas of tax law many individuals face when preparing their returns and reporting taxable income. We continually look for improvements to improve compliance and provide benefits to taxpayers trying to comply with their filing and reporting obligations. The Automated Underreporter Program, which allows us to match information reported by third-parties to tax returns, has been highly successful in indentifying those returns where taxable retirement income has not been reported or, has not been reported correctly. With this program, we achieve the dual results of identifying amounts due to the Government and ensuring fairness to all taxpayers through uniform application of the tax code.

We acknowledge some particular challenges the program faces, and will take actions, such as taxpayer education and improvements to tax forms and instructions, to improve the ability of taxpayers to report retirement income correctly. We will revise the instructions for Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc*., to clarify the meaning of the *Taxable amount not determined* box and to inform taxpayers of their responsibility for determining the taxable amount. We will also study the feasibility of capturing additional information on a form to be filed with the tax return.

We will explore your recommendations, but based on our experience from working with retirement professionals and financial institutions, we question whether required reporting of distribution and rollover contribution dates will lead to significant improvements in the deterrence or detection of unreported retirement income. As noted in the report, an individual receiving certain types of distributions from retirement plans or Individual Retirement Accounts (IRA) may have the option of transferring the distribution amount to another qualified plan or IRA. When individuals receive rollover-eligible distributions from the retirement plan or IRA, rather than having the funds transferred directly between the plan administrators and/or trustees, they must deposit the funds into a qualified plan or IRA within 60 days from the distribution date. Failure to deposit the funds can subject the distribution to taxation as regular income and an additional ten percent tax.

Requiring the date of distribution on Form 1099-R would not be useful in cases where the distribution is rolled over into another qualified retirement plan because annual information on individual account activity is not reported by retirement plans as it is for IRAs. Thus, there would be no corresponding contribution date to which the distribution date could be matched. In the case of rollover contributions to IRAs, the 60-day window of opportunity may straddle tax years, which could defer reporting of the contribution date by one year for distributions received during the last two months of the year.

Controls are now in place to ensure distributions are rolled over timely or, if not, the transaction no longer qualifies for tax-free status. Statutory rules provide consequences for administrators of retirement plans and IRAs who accept contributions that do not meet all rollover requirements, including timeliness. There is also a 20 percent withholding requirement on rollover-eligible distributions paid directly to plan participants or IRA holders. In order to rollover the entire amount and avoid income tax on the distribution and the additional ten percent early distribution tax, the individual will need to make up the 20 percent withheld for taxes out of pocket. There is no such withholding requirement on direct transfers to traditional IRAs, or another employer-sponsored plan. We believe these provisions effectively steer individuals receiving rollover-eligible distributions to the direct transfer option and thereby eliminates the risk that the transaction could become taxable.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact James P Clifford, Director, Reporting Compliance, Wage and Investment Division, at (404) 338-8983.

Attachment

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1

Revise the Form 1099-R to clarify the meaning of the *Taxable amount not determined* box to reduce taxpayer confusion when payers ale unable to calculate the taxable amount of the distribution. The box should clearly communicate that the taxpayer is responsible for determining the taxable amount.

CORRECTIVE ACTION

We agree with this recommendation. We will revise the instructions to Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, to clarify taxpayer responsibilities and the amounts to report.

IMPLEMENTATION DATE

February 15, 2013

RESPONSIBLE OFFICIAL

Director, Customer Assistance, Relationships and Education
Director, Media and Publications, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

Revise instructions to require payers to include the date of the retirement savings program (i.e., 401 plans, 403(b) plans, and IRAs) distribution or transfer on Form l099-R and the date the taxpayer rolled the distribution into an IRA or other eligible retirement plan on Form 5498 to identify distributions not rolled over within 60 days as required. In addition, both forms should be revised to include boxes for payers to input these dates.

CORRECTIVE ACTION

We will consider whether these changes are feasible and beneficial. We agree that additional information reflecting the dates of rollover-eligible distributions and contributions would be helpful in some instances; however, we do not believe the recommended actions would result in significant improvements to taxpayer compliance or the detection of non-compliance. Plan Administrators and Trustees are subject to statutory requirements that serve as checks and balances to ensure accurate reporting of distributions and to deter the acceptance of non-qualified contributions. Withholding provisions for distributions paid directly to plan participants or IRA account holders also encourage the use of direct transfers, which eliminate the possibility of a distribution becoming a taxable event.

IMPLEMENTATION DATE
October 15, 2012

RESPONSIBLE OFFICIAL
Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 3
******************************2(f)**********************************
******************************2(f)**
************************2(f)*******************************.

CORRECTIVE ACTION
As discussed in Recommendation 2, we will explore whether changes are feasible and beneficial, but anticipate that additional controls would not yield significant results with respect to governance of the 60-day rollover period.

IMPLEMENTATION DATE
October 15, 2012

RESPONSIBLE OFFICIAL
Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 4
Convert the Simplified Method Worksheet to a tax form and require taxpayers to file it with their tax returns.

CORRECTIVE ACTION
We will study the feasibility and potential value of converting the Simplified Method Worksheet to a form, including the impact on taxpayer burden. If we determine it is feasible, the Small Business/Self-Employed Division (SB/SE), Campus Reporting Compliance function will coordinate production of the new form with the Wage and Investment Division, Media and Publications function.

IMPLEMENTATION DATE

October 15, 2012 - Complete feasibility study
December 15, 2013 - Form preparation

RESPONSIBLE OFFICIAL
Director, Campus Reporting Compliance, Small Business/Self-Employed Division
Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 5
Establish procedures to ***********************2(f)************************
****
***.

CORRECTIVE ACTION
Dependent upon the outcome of the feasibility study to assess the benefits of requiring the Simplified Method Worksheet data on a form to be filed with the tax return, the Automated Underreporter Program and the SB/SE Division Campus Reporting Compliance function, will coordinate with the Submission Processing function to identify the appropriate line items to transcribe. *****************************2(f)*****
**.

IMPLEMENTATION DATE
December 15, 2013

RESPONSIBLE OFFICIAL
Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN
We will monitor this corrective action as part of our internal management control system.