

*State Reverse File Matching Initiative
(SRFMI): A Tax Gap Initiative*

*Electronic Tax Administration
(ETA) Preparer Database*

FTA September 14, 2009
SB/SE Research



Overview

- SRFMI:
 - Background and Purpose
 - Tests
 - Goals
- ETA Preparer Database
 - Background and Purpose
 - What in it



SRFMI Origins

- In 2005, TIGTA* reported:
 - IRS was not utilizing State Amnesty Information
 - IRS was missing an unique opportunity to pursue admitted State non-compliant taxpayers
- IRS partnered with state tax agencies to acquire data that may help reduce the federal tax gap



*Treasury Inspector General for Tax Administration

What is SRFMI?

- States match the IMF/IRTF/BMF/BRTF* State and TIN Tickler GLDEP** data extracts against their master files to identify:
 - Federal nonfilers
 - Federal underreporters
 - State amnesty nonfilers



*Individual Master File/Individual Return Transaction File
Business Master File/ Business Return Transaction File

**Governmental Liaison Data Exchange Program

SRFMI Extracts

- States will send the IRS four SRFMI extracts
 - Individual
 - Corporate (Form 1120 only)
 - Sales
 - Withholding



What Makes SRFMI Different?

- Establishes uniform instructions and record layouts for the states
- Identifies IRS systems that can filter state data to:
 - Validate and perfect TINs
 - Match records to IMF/BMF* filing history to identify taxpayers who still have an unfiled return (**true nonfilers**)
 - Compare records to income fields to identify potential underreporting
- No other source for this data



*Individual Master File/Business Master File

Counsel Opinion for Using SRFMI Data

- State supplied Federal AGI* or TXI** is sufficient to determine deficiency
 - Use Information Returns Program (IRP) data as source when available
- Signed state return perjury statement may be treated as an admission and reliable evidence



* Adjusted Gross Income, **Taxable Income

SRFMI - External Stakeholders

- SRFMI pilot has captured significant interest for its potential in efficiently utilizing third party information to reduce the tax gap from:
 - US Congress
 - Government Accountability Office (GAO)
 - Treasury Inspector General for Tax Administration (TIGTA)
 - Taxpayer Advocate Service (TAS)
 - States



SRFMI Tests

- Pre-SRFMI tests in New York and New Jersey
- Phase 1 - Arkansas, Iowa, Massachusetts, and New Jersey
 - MA provided state tax amnesty data
 - Cases worked in Automated Substitute for Return (ASFR) and Field Exam



Phase 1 Field Exam Individual Results - through April 2009

Measure	SRFMI Thru 4/09	RA & TCO DIF As of 4/09
Closures	856	78,480
No Change	2.5%	10.7%
Assessed	\$10,035,686	\$871 M



Phase 1 ASFR Individual Results*

- through June 2008

Measure	SRFMI	FY 07 and FY 08 Program
Closures	1,252	1,259,812
T/P Returns	56.2%	10.9%
Default Rate	43.05%	53.8%
Audit Recons	15.03%	33.5%
Assessed	\$3.75 mil	\$12.3 bil



IRS

* Automated Substitute for Return

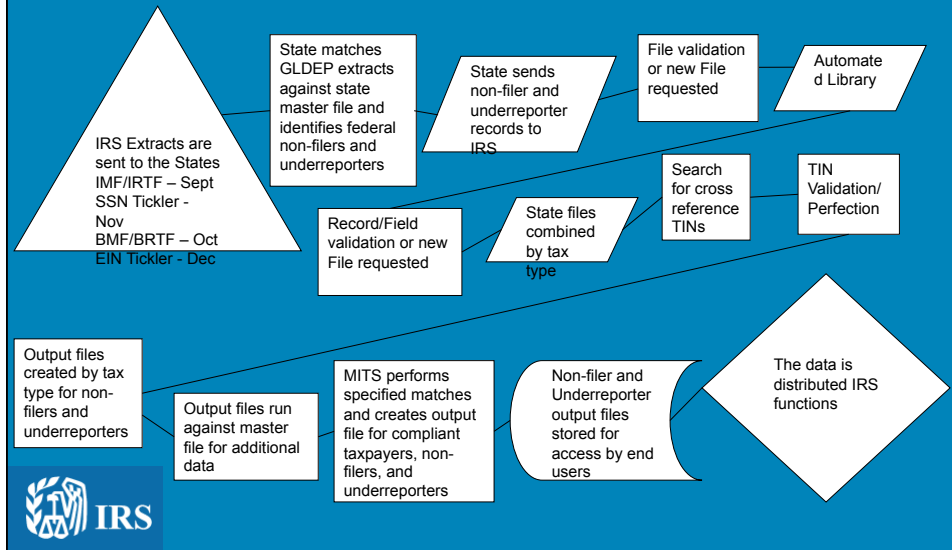
Current SRFMI Timeline

9/2007	12/31/2007	Sept - Dec 2008	7/15/2009	10-2009	4/15/2011
States Enroll for 2008 SRFMI & GLDEP Extract Year	2007 Tax Year Ends	TY 2007 IMF/IRTF/ BMF/BRTF Extracts to States	SRFMI Extracts to IRS	SRFMI Data Available to Compliance	Statute Expiration Date



IRS

SRFMI Processing



State Commitments by File Type

SRFMI Phase	States Participating	Individual Extract	Corporate Extract	Withholding Extract	Sales Extract	Total Extracts
Phase 1 3/06	4	3	3	4	3	13
Phase 2 7/07	9	9	4	5	5	23
Phase 3 7/08	14	12	8	7	7	34
EY 2008 7/09	36	32	23	18	19	92
EY 2009 7/10	44	39	34	27	33	133

Phase 3 Validated/Perfected Records – September 2008

State Agency (15)	Individual	Corporate (Form 1120)	Sales	Withholding	Total Records
Arkansas	118,926	21,509	18,649	53,510	212,594
Arizona	189,045	16,747		17,961	223,753
California FTB	1,584,550	71,672			1,656,222
California BOE			365,367		365,367
Delaware	123,808	15,053		98,078	236,939
Georgia	1,782,628				1,782,628
Iowa	101,574	6,498	223,968	36,024	368,064
Kansas	555,210				555,210
Massachusetts	1,020,170	84,850	2,084,407	604,432	3,793,859
Maryland	709,659	72,376			782,035
New Jersey	634,274			486,266	1,120,540
New York	667,040	109,153	275,400	419,402	1,470,995
Ohio	641,772				641,772
Oklahoma			4,190		4,190
Washington			1,441,096		1,441,096
Total Records	8,128,656	397,858	4,413,077	1,715,673	14,655,264



Phase 3 Filtered Records

File Type	Nonfiler	Underreporters
Individual SSN	1,145,382	919,851
Sales SSN	294,502	363,234
Sales EIN	1,060,931	1,521,026
Corporate	133,110	35,447
Withholding SSN	8,429	13,070
Withholding EIN	554,516	333,421
Total Records	3,196,870	3,186,049



SRFMI – Organizational Goals

- SRFMI relates to our Organizational goals outlined in the IRS Strategic Plan
 - Strengthen partnerships across government to gather and share additional information to ensure effective tax administration
 - Improve compliance by leveraging third-party reporting information
 - Expand enforcement approaches and methods on selecting additional work streams
 - Improve filing compliance as part of a comprehensive non-filer program
 - Develop improved, research-driven methods and tools to detect and combat non-compliance and improve resource allocation



ETA Preparer Database



What Is The ETA Preparer Database?

The ETA Preparer Database is comprehensive collection of return information for every unique preparer that has filed 100 or more business and individual returns the prior filing year.

These preparers can be Electronic Return Originators (EROs), Enrolled Agents, Practitioner TIN applicants, and SIDN applicants.



What Information Does It Have?

Business Returns:

- Number of Forms 1041, 1065, 1120, and 1120S the preparer has filed.
- How many have been filed paper and *e-file*.
- The increase/decrease in the number of forms filed from the prior filing year.
- How many Forms 1065 are *e-file* mandatory and the number of Schedules K filed.

Individual Returns:

- How many have been filed paper and *e-file*.
- Number of forms with EITC* and V-Code**.
- Count of returns that requested a Refund Anticipation Loan.
- How many returns had a Schedule C, E, F, or Form 2106 present.
- The increase/decrease in the number of forms filed from the prior filing year.

Source: ETA Individual & Business Master File Marketing Database

- Third Party Data Store (TPDS)
- Individual Return Transaction File (IRTF)
- Tax Return Database (TRDB)
- Distribution Channel Management (DCM)
- Business Return Transaction File (BRTF)
- Electronic Tax Administration Research & Analysis System Database (ETARAS)



*Earned Income Tax Credit, **Computer Prepared Paper Returns

How We Aggregate Return Information

Table 1 provides us with sample form count results for each Preparer EIN and Preparer SSN combination.

Table 1		
Preparer EIN	Preparer SSN	Count
123456789		100
	123456789	50
	111111111	100
111111111		100
111111111	987654321	100

A three step process is followed to determine a form count.

We need to create a unique Preparer ID. Table 2 is an example of how we create Preparer ID from the results shown in Table 1. EIN is given preference over SSN when determining the value of Preparer ID.

Table 2			
Preparer EIN	Preparer SSN	Preparer ID	Count
123456789		123456789	100
	123456789	123456789	50
	111111111	111111111	100
111111111		111111111	100
111111111	987654321	111111111	100

This process is followed for every count present in the database.



Table 3 shows the final counts for each unique Preparer ID.

Table 3	
Preparer ID	Count
123456789	150
111111111	300

Main Menu



Preparer Information Screen

Address Information

Outreach Information

Current Year e-file counts



PREPARER INFORMATION

Preparer ID: [] Preparer ID Indicator: [] [View EFIN Information](#) [Return to Main Menu](#)

Contact Name: [] [View Street Address on MapQuest](#)

DBA Name: [] Entity Source: Third Party Data Store

Street Address: [] Phone Number: []

City: [] County: [] State: [] Zip Code: []

Did Preparer file returns with their PTIN and SSN? ERO Status: Accepted

Year added to database: 2003 Type of Contact: [] SEID of Employee who contacted Preparer: []

Notes: [] Contact Date: []

GLD Area: 11 SPEC Area: 04 SPEC Territory: 72

FILING DATA FOR PROCESSING YEAR: 2006				Total Returns:	6,239	Was Preparer an Exemplary ERO?:	<input type="checkbox"/>
Form 1040 Return Information							
Total 1040s:	6,115	Total e-filed:	4,938	Total V-Coded:	1,152	View detailed Form 1040 Information	
% Change from Prior PY:	6%	% e-filed:	81%	% V-Coded:	19%		
Most Commonly used software: 05000079-H & R Block (Office Product)							
Business Return Information							
Total 1041s:	21	Total 1065s:	48	Total 1120s:	23	Total 1120Ss:	32
View detailed BMF Information							
Electronically filed returns between January 1 and May 30, 2007 (ETARAS)							
Forms 1040:	5,295	Forms 1065:	0	Forms 1120:	0	Forms 1120S:	0

Report Options: [] Search Options: [] Other Options: []

Display Glossary: [] Enter an ID: [] [Locate Preparer](#) [Sort Preparers](#) [View Prior Year Data](#)

Click this button to find the Preparer whose EFIN or Preparer ID you enter in the Enter an ID box.

Driving Directions!

Return Information

PREPARER INFORMATION REPORT
For Preparer ID

Preparer ID: [] Preparer ID Indicator: EIN

Preparer Name: [] Entity Source: Third Party Data Store

DBA Name: [] Phone Number: []

Street Address: [] State: IA Zip Code: 52641

City: MT PLEASANT County: HENRY

Did preparer file returns with their PTIN and SSN? ERO Status: Accepted - TPDS

Type of Contact: [] SEID of Employee who contacted preparer: [] Year added to database: 2003

Notes: [] Contact Date: []

GLD 09 SPEC AREA: 03 SPEC Territory: 53 FILING DATA FOR PROCESSING YEAR: 2008 Total Returns: 8,517

Form 1040 Return Information							
Total 1040s:	6,927	Total V-Coded:	215	Schedule C Present:	1,634	e-file Rejected:	156
% Change from Prior PY:	0%	SB/SE V-Coded:	177	Schedule E Present:	2,473	Extensions:	436
SB/SE:	4,148	W/I V-Coded:	38	Schedule F Present:	1,194	PIN Present:	6,702
W/I:	2,779	Percent V-Coded:	0%	Form 2106 Present:	254	RAL Requested:	0
Total e-filed:	6,702	Total Filed After 4/15:	507	Refund:	4,085	EITC Claimed:	427
% Change from Prior PY:	-1%	e-filed After 4/15:	0	Balance Due:	2,489	Percent EITC:	6%
SB/SE e-filed:	3,965	Paper After 4/15:	102	Even:	353	RAC Requested:	0
W/I e-filed:	2,737	Paper:	225	ID of Software most commonly used	07000030 - Lacerte Software		
Percent e-filed:	97%						

Business Return Information							
Total 1041s:	252	Total 1065s:	302	Total 1120:	286	Total	750
% Change from Prior:	0%	% Change from Prior:	10%	% Change from Prior:	4%	% Change from Prior:	0%
1041s e-filed:	9	1065s e-filed:	255	e-filed:	241	e-filed:	661
% Change from Prior:	100%	% Change from Prior:	100%	Paper:	45	Paper:	89
1041s Paper:	243	1065s Paper:	47				
Mandated 1065s: 0							
Schedules K-1: 1,034							

Form 1040 Distribution Management Information for January-April 15, 2009

DCM e-filed: 5,900 DCM Paper: 116 V-Coded: 68

Electronically filed returns between January 1 and June 1, 2009 (ETARAS)

Forms 1040: 5,997 Forms 1065: 261 Forms 1120: 168 Forms 1120S: 598

Thank You

