
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Office of Inspections and Evaluations



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number
of Invalid Retirement Benefit Statements
Filed Each Year*

September 17, 2018

Reference Number: 2018-IE-R007

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

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Improved Communication and Outreach With Federal Agencies Could Reduce the Number of Invalid Retirement Benefit Statements Filed Each Year

Highlights

Highlights of Report Number: 2018-IE-R007
to the Commissioner of Internal Revenue.

WHY TIGTA DID THIS STUDY

Millions of former Federal employees and their beneficiaries receive pension, annuities, and other retirement distributions from the Federal Government. In Tax Year (TY) 2015, Federal agencies reported more than \$162 billion in retirement payments to the IRS on approximately 6.9 million benefit statements. Each year, the IRS reviews the accuracy of the Social Security Number (SSN) information contained in retirement benefit statements. When inaccurate information is identified, the IRS provides Federal agencies with a notice listing the mismatches. This project was initiated to evaluate the effectiveness of the IRS process to notify Federal agencies when missing or invalid payee SSNs are submitted on retirement benefit statements.

IMPACT ON TAXPAYERS

Federal agencies are required to file accurate tax distribution statements listing reportable payments, including pensions and annuities, and perform required income tax withholding at the highest level when the payee SSN is missing or when notified by the IRS that the payee SSN is invalid. Accurate SSNs are essential to the success of IRS programs that match tax information reported by payers against filed tax returns to determine whether pension recipients subsequently filed and reported the payments on their income tax returns.

WHAT TIGTA FOUND

Although the vast majority of benefit statements reporting retirement distributions are filed with a correct SSN, in TY 2015, 13 Federal agencies submitted nearly 50,000 benefit statements to the IRS with a missing or inaccurate SSN. These statements reported more than \$460 million in gross distributions to Federal retirees or their beneficiaries and almost \$22 million in Federal income tax withholding. However, the IRS submitted a notice of the inaccurate SSNs to only four of the 13 agencies. The notice is the only mechanism used by the IRS to notify Federal agencies that benefit statements have inaccurate payee SSNs. Altogether, the nine agencies that were not notified submitted 14,000 benefit statements, or nearly 28 percent of statements with missing or inaccurate SSNs.

Federal agencies are required to begin immediate withholding at the highest rate when a payee SSN is missing or when notified by the IRS that the SSN is inaccurate. However, because the IRS notification process was ineffective, TIGTA found that Federal agencies did not always withhold at the required rates. TIGTA estimates that nearly \$16 million in additional Federal income taxes could have been withheld in TY 2015.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS consider notifying all Federal agencies that file benefit statements with missing or inaccurate SSNs, explore alternative notification processes, and conduct outreach activities with Federal agencies so that they understand their filing and withholding requirements. The IRS agreed with two recommendations and partially agreed with the other recommendation. TIGTA continues to believe that the IRS should consider alternative forms of delivering the error notice.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 17, 2018

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM: Gregory D. Kutz
Acting Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Evaluation Report – Improved Communication and Outreach
With Federal Agencies Could Reduce the Number of Invalid
Retirement Benefit Statements Filed Each Year (#IE-17-004)

This report presents the results of our review to evaluate the effectiveness of the Internal Revenue Service process to notify Federal agencies when missing or invalid payee Social Security Numbers are submitted on retirement benefit statements. This evaluation is included in our Treasury Inspector General for Tax Administration Fiscal Year 2018 Program Plan. This review addresses the major management challenge of Improving Tax Compliance.

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

If you have any questions about this report, you may contact me or Heather Hill, Director, Office of Inspections and Evaluations.



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Table of Contents

Background	Page 1
Results of Review	Page 5
The IRS Did Not Notify Most Federal Agencies About Invalid Social Security Numbers on Retirement Benefit Statements	Page 5
Recommendation 1:	Page 8
The Error Notification Process Is Not Working As Intended	Page 8
Recommendations 2 and 3:	Page 12
 Appendices	
Appendix I – Objective, Scope, and Methodology	Page 14
Appendix II – Report Distribution List	Page 15
Appendix III – Management’s Response to the Draft Report	Page 16



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Abbreviations

CD	Compact Disc
IRS	Internal Revenue Service
1	*****1*****
SSN	Social Security Number
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year



*Improved Communication and Outreach With
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Invalid Retirement Benefit Statements Filed Each Year*

Background

Each year, millions of current and former Federal employees and their beneficiaries receive benefits from the Federal government such as pensions, annuities, survivor income, and other retirement distributions. In Tax Year (TY) 2015, Federal agencies, including the ****1****
*****1*****
*****1*****, reported more than \$162 billion in retirement payments to the Internal Revenue Service (IRS) on approximately 6.9 million benefit statements.

In general, payers of retirement distributions, including Federal agencies, are required to file a form annually with the IRS to report the name and Taxpayer Identification Number¹ of the payee, the dollar amount of the retirement distribution, and the amount of Federal income tax withheld. This form, referred to as Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.* (hereafter referred to as benefit statement), is used to report distributions of \$10 or more from:

- Any individual retirement arrangements, including payments from the Thrift Savings Plan, annuities, pensions, insurance contracts, and survivor income benefit plans.
- Profit-sharing or retirement plans.
- Permanent and total disability payments under life insurance contracts.
- Charitable gift annuities.

It is important that these benefit statements contain accurate information because IRS compliance efforts rely heavily on the information reported by payers. A critical piece of information on the benefit statement is the Social Security Number (SSN). The SSN, together with the payee name, allows the IRS to match information on benefit statements to tax returns to determine whether payees subsequently filed and reported the payments on tax returns. Documents containing missing or invalid SSNs negatively affect the IRS's ability to perform these important compliance efforts. IRS studies have found that tax compliance is higher when transactions are reported to the IRS and even higher when also subject to income tax withholding.

¹ Taxpayer Identification Numbers can include a Social Security Number, Employer Identification Number, Individual Taxpayer Identification Number, or Adoption Taxpayer Identification Number. Information returns can be filed with any type of Taxpayer Identification Number; however, for the sake of clarity, and because most benefit statements are filed with a Social Security Number, we are using Social Security Number throughout this report.



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

When a payee SSN is missing, or the IRS determines that the payee SSN is invalid, Federal agencies are required to withhold income tax from payments at the highest rates and the payee cannot claim an exemption from income tax withholding.² The IRS considers an SSN missing if the field is blank, it contains more or less than nine digits, or contains alphanumeric characters. The IRS considers an SSN valid if the taxpayer's name and number match Social Security Administration or IRS records.

Each year, the IRS reviews the accuracy of the SSN information contained in benefit statements. When it identifies inaccurate information, the IRS provides Federal agencies with Federal Notice 1313 (hereafter referred to as an error notice) listing the SSNs that are missing or invalid.³ Federal agencies that file up to 250 missing or invalid SSNs are provided with a list of records on paper. Those with more than 250 are provided a list stored on a compact disc (CD). Figure 1 provides a timeline of the TY 2013 error notice process.

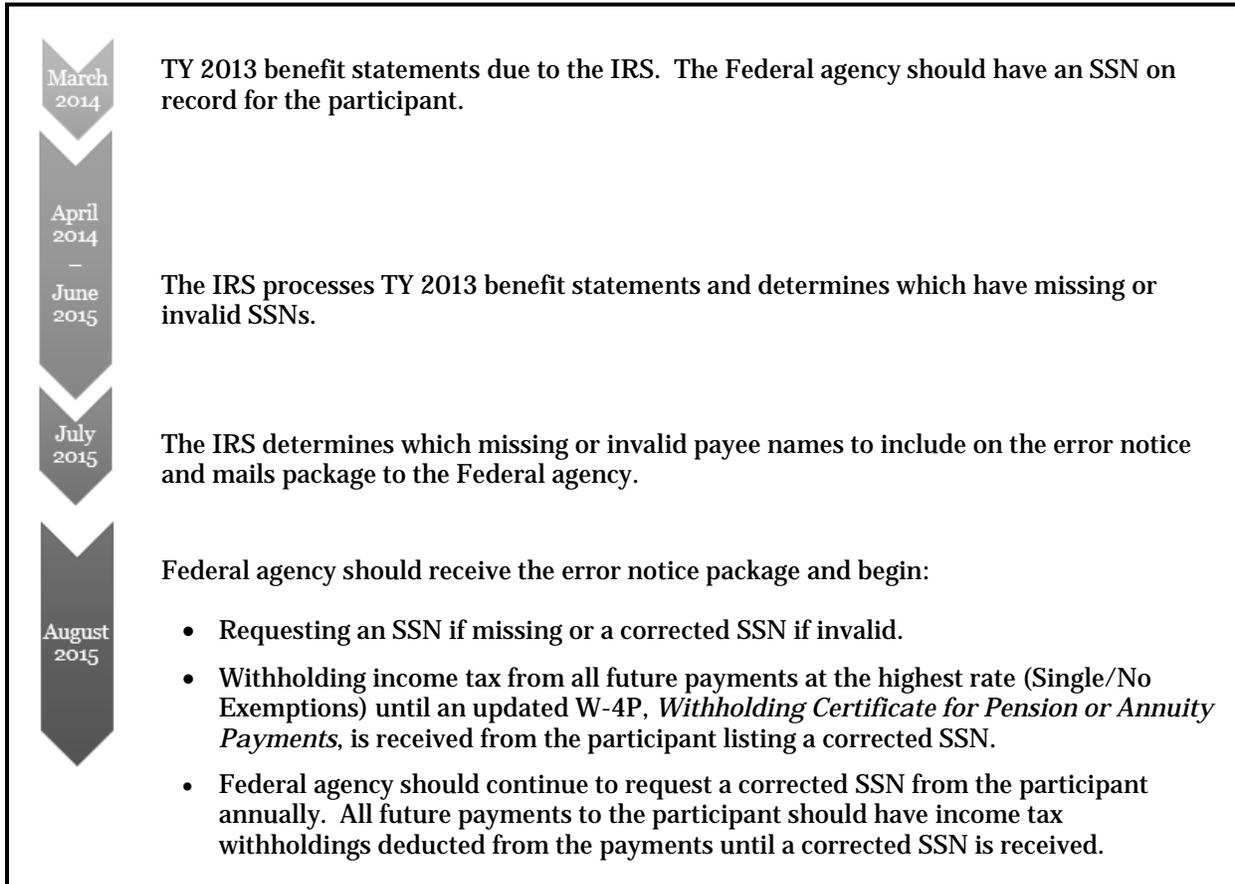
² The withholding rate specified by Federal regulations for periodic payments uses single/zero exemptions on the IRS withholding tables. Therefore, the amount of withholding is dependent on the size of the overall payment to the recipient.

³ In addition to benefit statements, an error notice can list up to 19 different types of information return documents, such as Form 1099-MISC, *Miscellaneous Income*, or Form 1099-INT, *Interest Income*, submitted to the IRS with a missing or invalid payee SSN.



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Figure 1: Federal Agency Missing or Invalid SSN Notification Process



Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of Publication 1586, *Reasonable Cause Regulations and Requirements for Missing and Incorrect Name/TINs*, and Internal Revenue Code Section (§) 3405.

According to IRS data, the vast majority of benefit statements submitted by Federal agencies are filed with a valid SSN. Of the 6.9 million benefit statements filed by Federal agencies in TY 2015, approximately 50,000 statements, or less than 1 percent, were submitted with an invalid payee SSN. Unlike other information returns, such as the Form 1099-MISC, *Miscellaneous Income*, benefit statements are filed by a relatively small number of Federal agencies. For example, in TY 2015, only 23 agencies filed benefit statements with the IRS. Further, three Federal agencies submitted more than 90 percent of all benefits statements. Thus, a large number of missing or invalid statements submitted by just one agency can affect the accuracy rates of the entire population. In fact, IRS data indicate that between TYs 2013 and



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

2015, *****1*****
*****1*****.4

The purpose of this review was to evaluate the effectiveness of the IRS process to notify Federal agencies when missing or invalid payee SSNs are submitted on retirement benefit statements. For additional information about the objective, scope, and methodology, see Appendix I.

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*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Results of Review

The IRS process to notify Federal agencies when missing or invalid payee SSNs are submitted on retirement benefit statements is ineffective. Thirteen Federal agencies submitted nearly 50,000 benefit statements with either a missing or an inaccurate SSN in TY 2015. However, IRS business rules prevented nine of the 13 agencies from being notified by the IRS of the inaccuracies. We *****1***** and found that a number of improvements, including revising the notice to improve the clarity of instructions, adding additional payee information to the notice, and considering alternative approaches to notifying Federal agencies, could increase the accuracy of SSNs on benefit statements in the future. We estimate that these 13 Federal agencies could have potentially withheld nearly \$16 million in additional Federal income taxes for SSNs that were identified as missing or inaccurate on TY 2015 benefit statements.

The IRS Did Not Notify Most Federal Agencies About Invalid Social Security Numbers on Retirement Benefit Statements

Our review of IRS data found that in TY 2015, Federal agencies submitted nearly 21,000 benefit statements which were missing a payee SSN. These statements reported nearly \$85 million in gross distributions to Federal retirees or their beneficiaries and \$625,000 in Federal income tax withholding. According to Federal regulations, a payee with a missing SSN cannot claim an exemption from Federal income tax withholding.⁵ When the payee's SSN is missing, payers are required to immediately withhold and remit income taxes to the IRS from distributions at the highest withholding rate (Single/No Exemptions).⁶

In addition, IRS data indicate that 29,000 benefit statements were filed by Federal agencies with an invalid payee SSN during the same period. These benefit statements reported \$377 million in payments and approximately \$21 million in Federal income tax withholding. According to Federal regulations, the IRS must notify the Federal agency of any identified invalid SSNs so that the agency can begin required withholding.

⁵ 26 U.S. Code § 3405 - Special rules for pensions, annuities, and certain other deferred income.

⁶ The Internal Revenue Code also requires a 10 percent withholding rate for nonperiodic distributions. Because we could not definitively determine whether the payment was periodic or nonperiodic, we calculated estimated withholding using both methods and selected the smaller of the two amounts for each benefit statement we analyzed. We calculated our estimates on originally submitted benefit statements using the taxable amount reported. If the "Taxable Amount Not Determined" box was checked, we calculated our estimates on the amount reported in the gross distribution box.



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Figure 2: Selected TY 2015 Error Notice Information

Federal Agency	Count of Invalid SSN Statements	Payments Reported on Invalid SSN Statements	Notice 1313 Provided
1	**1**	***1***	*1*
*****1*****	**1**	***1***	*1*
*****1*****	**1**	***1***	*1*
*****1*****	**1**	***1***	*1*
*****1*****	**1**	***1***	*1*
*****1*****	**1**	***1***	*1*
*****1*****	**1**	***1***	*1*

⊙ - CD notice mailed 📄 - Paper notice ✕ - No notice mailed

*Source: TIGTA analysis of Form 1099-R and error notice data. Dollars are rounded to the nearest million.
Note: The remaining seven agencies each had 15 or fewer inaccurate or missing SSNs and less than \$500,000 in reported distributions on benefit statements in TY 2015.*

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*****1*****. Altogether, the nine agencies not notified by the IRS submitted 14,000 benefit statements, or 28 percent of all statements with missing or invalid SSNs in TY 2015.

IRS officials stated that the criteria for issuing the error notice to Federal agencies mirrors those established by penalty statutes applicable to non-Federal payers. In general, penalties are designed to enhance voluntary compliance with tax laws. Federal penalty regulations set a “de minimis” threshold of one-half of 1 percent before an entity can be penalized. However, the IRS has a long-standing policy of not assessing penalties against other Federal agencies⁸ but does require their compliance with the Internal Revenue Code.⁹ Therefore, when sending the error notice, we believe the IRS is acting in a tax compliance capacity to enforce the Internal Revenue

⁸ Policy Statement P-20-2, *Penalties and interest not asserted against Federal agencies.*
⁹ IRM 1.2.20.1.2 (4) (Nov. 8, 2012) - *Federal agency compliance with the tax laws is required and will be monitored and enforced by Service personnel.*



Improved Communication and Outreach With Federal Agencies Could Reduce the Number of Invalid Retirement Benefit Statements Filed Each Year

Code, rather than using penalty authority under the aforementioned Federal penalty regulations. As a result, the minimum thresholds should not apply under these circumstances.

The error notice is the only mechanism used by the IRS to notify Federal agencies that a payee SSN on benefit statements is invalid. We estimate that an additional \$3.7 million in potential withholding could have occurred if the IRS had notified the remaining nine agencies regarding the missing and inaccurate SSNs identified in TY 2015 benefit statements.¹⁰

Recommendation

Recommendation 1: The Acting Commissioner, Tax Exempt and Government Entities Division, should consider using the error notice to alert all Federal agencies when they file a benefit statement with a missing or inaccurate SSN.

Management’s Response: The IRS agreed with our recommendation and plans to ensure that Notices 1313 are sent to all applicable agencies, regardless of threshold numbers of documents, when the agency issues a benefit statement with a missing or inaccurate SSN.

The Error Notification Process Is Not Working As Intended

A number of improvements could enhance the notification process between the IRS and Federal agencies.¹¹ We believe that most of these improvements could be addressed by revising the notice, offering information about the error notice on the IRS website, and conducting recurring outreach events with Federal agency officials responsible for issuing information returns so they are continually aware of their responsibilities.

Error notices may have been sent to the wrong address

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¹⁰ Because withholding requirements are different for benefit statements with inaccurate SSNs than those with a missing SSN, we calculated our withholding estimates assuming the payee name and SSN were inaccurate for three consecutive years (TY 2013 through TY2015) and calculated our withholding estimates on the TY 2015 benefit statement. It is important to note that this notice is generally sent nearly 16 months after the agency initially submitted the benefit statements to the IRS. Our estimate assumes that the Federal agency withheld at the highest rate for the entire TY 2015 payment reported on the benefit statement.

¹¹ *****1*****
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*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

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*****1*****. IRS policy is to
mail the correspondence to the entity's address of record on the Business Master File.¹²
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In April 2012, the Social Security Administration Office of Inspector General found similar concerns with error notices being delivered to the correct function.¹³ Although the IRS had notified the Social Security Administration that more than 1,200 Forms 1099-MISC had been issued containing invalid SSNs, the Social Security Administration had not followed withholding requirements. In response, Social Security Administration staff indicated that this occurred because the component responsible for withholding procedures did not receive the error notices issued by the IRS. The Social Security Administration stated that the notice delivery issue has been resolved.

Instructions provided to Federal agencies on the error notice are unclear and the content is incomplete

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The uncertainty could be the result of a number of reasons. First, the error notice has conflicting language. After telling the agency that missing or invalid statements were filed, the notice directs the agency exclusively to IRS Publication 1281, *Backup Withholding for Missing and*

¹² IRS database of Federal tax-related transactions and accounts for businesses that includes employment taxes, income taxes on businesses, and excise taxes.

¹³ Social Security Administration Office of Inspector General, A-03-10-11053, *Collection of Backup Withholding Taxes from Vendors* (April 2012).

14 *****1*****
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*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

*Incorrect Name/TIN(s).*¹⁵ This document is designed for the nine information return types that are subject to the backup withholding process. However, benefit statements are not subject to these rules,¹⁶ which could confuse the payer. The more appropriate reference is Publication 1586, *Reasonable Cause Regulations and Requirements for Missing and Incorrect Name/TINs.*¹⁷

Compounding the uncertainty, the error notice tells the Federal agency that “incorrect Taxpayer Identification Numbers may result in notification from the IRS that you must implement backup withholding on payees who fail to furnish correct Taxpayer Identification Numbers.” Apart from the actual error notice and the fact that benefit statements are not subject to backup withholding, there is no other notification given by the IRS that the payer must begin additional withholding immediately unless the payee gives the agency an updated SSN.

Moreover, the notice directs Federal agencies to visit IRS.gov or the IRS government entities website¹⁸ for additional information. However, the site does not offer any guidance that would help the agency to comply with the notice. In fact, a keyword search at IRS.gov and Publication 1586 does not return any reference to the error notice by name. Figure 3 provides an illustration of the conflicting information.

¹⁵ TIN = Taxpayer Identification Number.

¹⁶ The backup withholding process is similar to withholding requirements when a benefit statement contains a missing or invalid SSN; it is a standard 28 percent of the reportable payment. Backup withholding applies to Form 1099-B, *Proceeds From Broker and Barter Exchange Transactions*; Form 1099-DIV, *Dividends and Distributions*; Form 1099-INT, *Interest Income*; Form 1099-K, *Payment Card and Third Party Network Transactions*; Form 1099-G, *Certain Government Payments*; Form 1099-MISC; Form W-2G, *Certain Gambling Winnings*; Form 1099-OID, *Original Issue Discount*; and Form 1099-PATR, *Taxable Distributions Received From Cooperatives*.

¹⁷ TIN = Taxpayer Identification Number.

¹⁸ www.IRS.gov/govts.



Improved Communication and Outreach With Federal Agencies Could Reduce the Number of Invalid Retirement Benefit Statements Filed Each Year

Figure 3: Federal Notice 1313

Benefit Statements are subject to different withholding requirements

There is no further notification given by the IRS; the payer must begin additional withholding unless the payee gives the agency an updated SSN.

WE'VE ENCLOSED A LIST OF THE INFORMATION RETURNS YOU FILED THAT HAD MISSING OR INCORRECT TAXPAYER IDENTIFICATION NUMBERS (TINS). YOU SHOULD CHECK THIS LIST AGAINST YOUR RECORDS AND CONTACT THOSE PAYEES WHO HAVE NOT FURNISHED CORRECT TINS TO RESOLVE THESE DISCREPANCIES. FEDERAL AGENCIES ARE SUBJECT TO BACKUP WITHHOLDING REQUIREMENTS. INCORRECT TINS MAY RESULT IN NOTIFICATION FROM THE IRS THAT YOU MUST IMPLEMENT BACKUP WITHHOLDING ON PAYEES WHO FAIL TO FURNISH CORRECT TINS. IF A PAYEE DOES NOT PROVIDE YOU WITH A TIN, YOU MUST BEGIN BACKUP WITHHOLDING IMMEDIATELY WHEN AGGREGATE PAYMENTS TO THE PAYEE EXCEED \$600 FOR THE CALENDAR YEAR. FOR INFORMATION ON BACKUP WITHHOLDING REQUIREMENTS AND RATES, SEE PUBLICATION 1281, A GUIDE TO BACKUP WITHHOLDING FOR MISSING AND INCORRECT NAME/TINS. YOU CAN OBTAIN THIS PUBLICATION FROM WWW.IRS.GOV OR BY CALLING 1-800-829-3676.

IF YOU WOULD LIKE ASSISTANCE FROM THE IRS WITH INFORMATION REPORTING REQUIREMENTS FOR GOVERNMENTS, PLEASE CONTACT THE OFFICE OF FEDERAL, STATE AND LOCAL GOVERNMENTS BY CALLING 512-499-5152 OR VISIT ITS WEBSITE AT WWW.IRS.GOV/GOVTS. FOR GENERAL FEDERAL TAX INFORMATION, YOU MAY CALL 1-800-829-1040.

No additional information about the Notice 1313 is provided at IRS.GOV/GOVTS or using the Understanding Your IRS Notice or Letter Search Tool

Publication 1586 is the more appropriate reference, but the publication does not specifically reference Notice 1313

Source: Federal Notice 1313 (Error Notice).

During our discussions, both agencies indicated that they did not know whom to contact at the IRS regarding the error notice, but would like a point-of-contact to assist them in correcting the identified errors.

Finally, our analysis of TY 2015 data found that the IRS does not include all benefit statements with a missing or invalid payee SSN on error notices. For example:

- ***** | *****
- ***** | *****

IRS officials stated that a number of business rules, including duplicate benefit statements, benefit statements reporting withholding greater than zero, benefit statements that have an SSN associated with a spouse's SSN, or invalid payer documents, could prevent a payee SSN from appearing on the error notice. By providing conflicting information on the notice and an incomplete list of all invalid payee SSNs, the Federal agency cannot take appropriate actions. Similarly, it may imply to the Federal agency that the error notice presents a complete picture of the number of invalid benefit statements.



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Some agencies may be unable to extract the payee list

The IRS should consider alternative forms of delivering the error notice, especially for Federal agencies that receive the notice on a CD. First, an agency must navigate more than 10 pages of technical directions to extract the CD's contents. In addition, officials at the OPM stated that they cannot process CDs because their computers do not have a CD-ROM (read-only memory) drive pre-installed, and they have internal policies that prevent them from accepting data from unapproved mass communication.

The IRS does not monitor receipt of the notice

There is no response requirement for the recipient Federal agency in the error notice process. In contrast, the penalty notice issued to the general population requires the entity to respond to the IRS's penalty calculation in writing, thereby confirming the entity received the notice. However, there is no such requirement of Federal agencies with the error notice. Once the error notice is mailed to Federal agencies, the only reason to contact the IRS is to obtain a password to access the CD. IRS officials stated that they are unaware of any procedures to follow up with Federal agencies that receive error notices.

Recommendations

The Acting Commissioner, Tax Exempt and Government Entities Division, should:

Recommendation 2: Consider revising the error notice to improve the overall clarity of the instructions and ensure that all payees are included so Federal agencies can take appropriate corrective action. Additionally, the IRS should explore alternative notification processes that ensure that Federal agencies can always retrieve payee name and SSN listings from error notices.

Management's Response: The IRS partially agreed with this recommendation. The notice has already been revised and is projected to be sent to all Federal agencies. However, the IRS does not currently have an established file sharing system to transmit files to Federal agencies outside the current process of mailing an encrypted CD. The IRS stated that it will pursue using such a system should one become available in the future.

Office of Inspections and Evaluations Comment: Our concern remains that the IRS should consider alternative forms of delivering the error notice in order to ensure that all agencies can access the information provided on the notice.

Recommendation 3: Conduct proactive outreach activities with Federal agencies to ensure that they understand their filing and withholding requirements.

Management's Response: The IRS agreed with this recommendation and plans to use a data driven approach to identify agencies in need of direct outreach and will work



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

with and support these agencies to foster voluntary compliance with Form 1099-R filing and reporting requirements.



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Appendix I

Objective, Scope, and Methodology

The overall objective of our review was to evaluate the effectiveness of the IRS process to notify Federal agencies when missing or invalid payee SSNs are submitted on retirement benefit statements. To accomplish this objective, we:

- Reviewed prior TIGTA, Government Accountability Office, and Federal oversight organization reports on the accuracy of payee SSNs submitted to the IRS on information return documents.
- Researched relevant statutes, regulations, IRS procedures and instructions, and the Internal Revenue Manual.
- Obtained and reviewed TY 2013 through TY 2015 benefit statements submitted to the IRS by Federal agencies.
- Performed a withholding analysis on benefit statements to determine if adequate income tax withholding occurs when the payee SSN is missing or invalid.
- Reviewed and analyzed the content and design of the error notice for clarity and completeness.
- Obtained and reviewed the methodology used to create payee lists provided to Federal agencies on error notices.
- Interviewed IRS management about the information return error notification and compliance process.
- Interviewed officials at *****1***** to gather an understanding of how the error notice is used and whether it is an effective tool to correct missing and invalid SSNs.

This review was performed at the Federal, State, and Local/Employment Tax area of Exempt Organizations of the Tax Exempt and Government Entities Division office in Washington, D.C., during the period August 2017 through February 2018. We conducted this evaluation in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspection and Evaluation. Major contributors to this report were Phil Shropshire, Director; Heather Hill, Director; Frank O'Connor, Acting Audit Manager; and Earl Burney, Senior Evaluator.



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Appendix II

Report Distribution List

Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Acting Commissioner, Tax Exempt and Government Entities Division
Office of Legislative Affairs
Director, Office of the Chief Risk Officer
Director, Office of Audit Coordination



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Appendix III

Management's Response to the Draft Report



COMMISSIONER
TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 9, 2018

MEMORANDUM FOR GREGORY D. KUTZ
ACTING DEPUTY INSPECTOR GENERAL FOR
INSPECTIONS AND EVALUATIONS

FROM: David W. Horton *David W. Horton*
Acting Commissioner, Tax-Exempt and Government
Entities Division (TE/GE)

SUBJECT: Improved Communication and Outreach with Federal
Agencies Could Reduce the Number of Invalid Retirement
Benefit Statements Filed Each Year (Audit # 2018-IE-R007)

Thank you for the opportunity to review your draft audit report titled: "Improved Communication and Outreach with Federal Agencies Could Reduce the Number of Invalid Retirement Benefit Statements Filed Each Year (Audit # 2018-IE-R007)." We appreciate your analysis of this process and the recommendations proposed. IRS agrees with the findings in this report and in 2017 began taking steps to revise the Notice 1313, which will be renamed to Notice 972F beginning in 2019. TE/GE has also set in motion several changes to our procedures and processes to address the recommendations in this report.

We do agree that the IRS should consider electronic file transmission for the delivery of notices, particularly for Federal agencies that receive the notices on a compact disk (CD). However, while other agencies have secure systems that enable outside parties to access and download files with the use of a link and password, such as Defense Finance and Accounting Services (DFAS) and the Treasury Banking and Financial Services Program, the IRS does not currently have such a capability but will pursue using such a system for Federal agencies should it become available in the future.

Attached is a detailed response outlining our corrective actions to address your recommendations. If you have any questions, please contact me, or a member of your staff may contact Maria Hooke, Director, Exempt Organizations - Examination, at (214) 413-5500.

Attachment



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

Attachment

**Corrective Actions for TIGTA Draft Audit Report
Improved Communication and Outreach with Federal Agencies Could Reduce
the Number of Invalid Retirement Benefit Statements Filed Each Year
(Audit # 2018-IE-R007)**

RECOMMENDATION 1:

"The Acting Commissioner, Tax Exempt and Government Entities Division, should consider using the error notice to alert all Federal agencies when they file a benefit statement with a missing or inaccurate SSN."

CORRECTIVE ACTION:

IRS agrees with the recommendation. TE/GE will ensure that Notices 1313 (renamed to Notice 972F in 2019) are sent to all applicable agencies, regardless of threshold numbers of documents, when the agency issues a benefit statement with a missing or inaccurate SSN.

IMPLEMENTATION DATE:

October 15, 2020

RESPONSIBLE OFFICIAL(S):

Director, Exempt Organizations, Examination (EOE), Tax-Exempt/Government Entities Division

CORRECTIVE ACTION MONITORING PLAN:

UWR in process with projected implementation for FY2020 Notice mailings.

RECOMMENDATION 2:

"The Acting Commissioner, Tax Exempt and Government Entities Division, should consider revising the error notice to improve the overall clarity of the instructions and ensure that all payees are included, so Federal agencies can take appropriate corrective action. Additionally, the IRS should explore alternative notification processes that ensure that Federal agencies can always retrieve payee name and SSN listings from error notices."

CORRECTIVE ACTION:

IRS partially agrees with this recommendation. The notice has already been revised and is projected to be sent to all Federal agencies, but as stated in the Management Response, IRS does not currently have an established file sharing system to transmit files to federal agencies outside the current process of mailing an encrypted CD.

- The Notice 1313 (renamed to Notice 972F in 2019) was revised in 2017 and will be used for the 2019 mailings. The revised notice language was provided to TIGTA during this evaluation. Unified Work Request (UWR) 206808 was |



*Improved Communication and Outreach With
Federal Agencies Could Reduce the Number of
Invalid Retirement Benefit Statements Filed Each Year*

submitted to the Information Technology function (IT) on 12/19/2017 which included improvements to the overall clarity of the instructions.

- As stated in Recommendation 1 above, TE/GE is projected to send Notice 972F to all applicable Federal agencies for the 2020 mailings.
- We do agree that the IRS should consider electronic file transmission for the delivery of notices to Federal agencies but the IRS does not have such a capability now. We will pursue using such a system should one become available in the future.

IMPLEMENTATION DATE:

Completed – 12/19/2017

RESPONSIBLE OFFICIAL(S):

Director, Exempt Organizations, Examination (EOE),
Tax-Exempt/Government Entities Division

CORRECTIVE ACTION MONITORING PLAN:

N/A – already completed.

RECOMMENDATION 3:

"The Acting Commissioner, Tax Exempt and Government Entities Division, should conduct proactive outreach activities with Federal agencies to ensure that they understand their filing and withholding requirements."

CORRECTIVE ACTION:

IRS agrees with the recommendation. TE/GE will use a data driven approach to identify agencies in need of direct outreach, work with and support these agencies to foster voluntary compliance with Form 1099-R filing and reporting requirements.

IRS agrees with the recommendation but lacks the resources to conduct one on one outreach with these agencies.

IMPLEMENTATION DATE:

10/15/2019

RESPONSIBLE OFFICIAL(S):

Director, Exempt Organizations, Examination (EOE),
Tax-Exempt/Government Entities Division

CORRECTIVE ACTION MONITORING PLAN:

4/15/2019 – Agencies will be identified based on analysis of N1313s mailed in 2018

10/15/2019 – Impacted Agencies will begin to be contacted



To report fraud, waste, or abuse, call our toll-free hotline at:

1-800-366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.