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TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Office of Inspections and Evaluations



*Improved Communication and Outreach With  
Federal Entities Could Further Reduce the  
Number of Incorrect Miscellaneous Income  
Statements Filed Each Year*

**June 10, 2019**

**Reference Number: 2019-IE-R005**

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 Entities Could Further Reduce the Number of Incorrect Miscellaneous Income Statements Filed Each Year

### Highlights

Highlights of Report Number: 2019-IE-R005 to the Commissioner of Internal Revenue.

#### WHY TIGTA DID THIS STUDY

The Form 1099-MISC, *Miscellaneous Income*, is an information return statement used by Federal entities to account for reportable payments generally of \$600 or more. Reportable payments can include nonemployee compensation, medical payments, rents, and proceeds paid to attorneys. In Tax Year (TY) 2015, Federal entities reported more than \$520 billion in miscellaneous income payments to the IRS on nearly 750,000 information return statements. The IRS reviews the accuracy of the Taxpayer Identification Number (TIN) information contained on miscellaneous income statements and when incorrect information is identified, it may provide Federal entities with notification of the mismatches. This project was initiated to evaluate the effectiveness of the process to notify Federal entities when the IRS identifies missing or incorrect payee TINs on miscellaneous income statements.

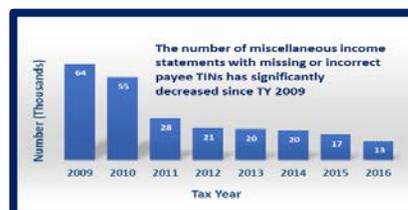
#### IMPACT ON TAXPAYERS

Federal entities are required to file accurate tax information statements listing reportable payments and potentially perform backup withholding when the payee TIN is missing or when notified by the IRS that the payee TIN is incorrect. Accurate TINs are essential to the success of IRS programs that match tax information reported by payers against filed tax returns to determine whether payees subsequently filed and reported the payments on their income tax returns.

#### WHAT TIGTA FOUND

According to IRS data, Federal entities have significantly improved the accuracy of payee

TINs submitted on Forms 1099-MISC. Between TY 2009 and TY 2016, the number of miscellaneous income statements submitted by Federal entities with missing or incorrect payee TINs listed on error notices has fallen 80 percent.



The IRS attributes these improvements to a General Services Administration TIN matching program that matches Federal payee information against IRS records at the time a company or individual registers to do business with the Federal Government.

According to IRS data, in TY 2015, Federal entities were notified by the IRS of more than 17,000 miscellaneous income statements with missing or incorrect TINs that reported more than \$5 billion in payments. However, TIGTA found that few Federal entities withheld Federal income tax, despite notification of their responsibility to do so. TIGTA estimates that these Federal entities could have potentially withheld nearly \$400 million in backup withholding in TY 2015 for missing and incorrect TINs if all payments were reportable and not exempted from backup withholding provisions.

TIGTA discussed the notification process with five Federal entities that received a notice from the IRS for missing or incorrect TINs submitted on TY 2015 miscellaneous income statements. The entities expressed concerns regarding technological barriers to accessing the notice and accounting systems that were not capable of performing backup withholding, among other concerns.

#### WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS explore alternative notification processes and conduct outreach activities with Federal entities so that they understand their filing and withholding requirements. The IRS partially agreed with one recommendation and disagreed with the other recommendation because they do not have an established file sharing system. TIGTA continues to believe that the IRS should consider alternative forms of delivering the error notice if this capability becomes available.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

June 10, 2019

**MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE**

**FROM:**

Gregory D. Kutz

Deputy Inspector General for Inspections and Evaluations

**SUBJECT:**

Final Evaluation Report – Improved Communication and Outreach  
With Federal Entities Could Further Reduce the Number of Incorrect  
Miscellaneous Income Statements Filed Each Year (#IE-18-006)

This report presents the results of our evaluation of the effectiveness of the process to notify Federal entities when the Internal Revenue Service (IRS) identifies missing or incorrect payee Taxpayer Identification Numbers on miscellaneous income statements.

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

Copies of this report are being sent to the IRS managers affected by the report recommendations. If you have any questions about this report, you may contact me or Heather Hill, Director, Special Tax Matters, Office of Inspections and Evaluations.



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## *Abbreviations*

CD	Compact Disc
CP	Computer Paragraph
IRS	Internal Revenue Service
SAM	System for Award Management
TIN	Taxpayer Identification Number
TY	Tax Year
TIGTA	Treasury Inspector General for Tax Administration



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*Background*

The Form 1099-MISC, *Miscellaneous Income*, is an information return statement used to report a variety of payments made to individuals and businesses (hereafter referred to as miscellaneous income statement or statement). Payers are required to submit payment information to the IRS to account for miscellaneous income payments and identify those who are compensated. Payees are required to report the income on their tax returns.

The types of payments reportable as miscellaneous income—shown in Figure 1—include nonemployee compensation, medical payments, rents, royalties, and proceeds paid to attorneys. Reporting is required for payments of \$600 or more, except for royalty payments that must be reported if there is at least \$10.

**Figure 1: Form 1099-MISC, Miscellaneous Income**

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Rents \$	OMB No. 1545-0115 <b>2018</b>	<b>Miscellaneous Income</b>
		2 Royalties \$	Form 1099-MISC	
		3 Other income \$	4 Federal income tax withheld \$	<b>Copy B For Recipient</b>
PAYER'S TIN	RECIPIENT'S TIN	5 Fishing boat proceeds \$	6 Medical and health care payments \$	
RECIPIENT'S name		7 Nonemployee compensation \$	8 Substitute payments in lieu of dividends or interest \$	This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.
Street address (including apt. no.)		9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale <input type="checkbox"/>	10 Crop insurance proceeds \$	
City or town, state or province, country, and ZIP or foreign postal code		11	12	
Account number (see instructions)	FATCA filing requirement <input type="checkbox"/>	13 Excess golden parachute payments \$	14 Gross proceeds paid to an attorney \$	
15a Section 409A deferrals \$	15b Section 409A income \$	16 State tax withheld \$	17 State/Payer's state no.	18 State income \$
Form <b>1099-MISC</b> (keep for your records)		www.irs.gov/Form1099MISC		Department of the Treasury - Internal Revenue Service

Source: IRS.gov.

Federal entities are required to file accurate tax information statements listing reportable payments and potentially perform backup withholding when the payee TIN is missing or when notified by the IRS that the payee Taxpayer Identification Number (TIN) is incorrect. According



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to Internal Revenue Service (IRS) data, in Tax Year (TY) 2015, Federal entities reported more than \$520 billion in miscellaneous income payments to the IRS on nearly 750,000 miscellaneous income statements. It is important that these miscellaneous income statements contain accurate information because IRS compliance efforts rely heavily on the information reported by payers.

A critical piece of information on the miscellaneous income statement is the TIN of the payee. In the case of an individual, the TIN is generally the Social Security Number. In the case of a business, such as a corporation or partnership, the TIN is a unique nine-digit number referred to as an Employer Identification Number. The TIN, together with the payee name, allows the IRS to match information on miscellaneous income statements to tax returns to determine whether payees subsequently filed and reported the payments on tax returns. This encourages a high level of voluntary tax compliance because taxpayers are aware the IRS has been provided the information, which reduces the likelihood that taxpayers will inadvertently neglect to include items on their tax returns. Documents containing missing or incorrect TINs 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.

According to IRS data, the vast majority of miscellaneous income statements submitted by Federal entities are filed with a valid TIN. Each year, the IRS reviews the accuracy of the TIN information submitted on miscellaneous income statements. When incorrect information is identified, the IRS provides Federal entities with notification of the mismatches using a Computer Paragraph (CP) 2100 notice, *Please Check Your Backup Withholding List* (hereafter CP 2100 or error notice).<sup>1</sup> Specifically, the payer should take the following actions:

- *Missing TIN* – The payer should have started backup withholding if the payee refused or neglected to provide a TIN when the relationship was established. However, if the payer is not already backup withholding, they are required to withhold 28 percent of all future payments until the payee provides a TIN. The IRS considers a TIN to be missing if it is

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<sup>1</sup> Payers with 50 or more missing or incorrect payee TINs receive the CP 2100 notice. Payers that submit fewer than 50 missing or incorrect TINs receive a CP 2100A, *Please Check Your Backup Withholding List*. In addition, the IRS may also use the Notice 1313 to inform Federal entities of missing or incorrect TINs on other types of information return statements. If the entity receiving the notice submits 250 or more income statements with missing or incorrect TINs, the payer will receive a Compact Disc (CD) listing the identified payee name and TIN combinations for potential correction. Payee lists with fewer than 250 records are provided to the payer on paper included with the notice. Because TIGTA previously reviewed the IRS's use of the Notice 1313 to inform Federal entities of missing or incorrect information in certain benefits statements, this report focuses on the use of the CP 2100 series of notices. See Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2018-IE-R007, *Improved Communication and Outreach With Federal Agencies Could Reduce the Number of Invalid Retirement Benefit Statements Filed Each Year* (Sept. 2018).



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not provided, has more or less than nine digits, or has an alpha character in one of the nine positions.<sup>2</sup>

- *Incorrect TIN* – The payer is required to obtain a corrected TIN by sending a “B” Notice and a Form W-9, *Request for Taxpayer Identification Number and Certification*, to the payee within 15 business days after receiving the CP 2100. If the payee does not respond within 30 business days, the payer must backup withhold 28 percent of any future payments until a corrected TIN is received from the payee. If a payer receives a second CP 2100 notice containing the payee within a three calendar-year period, the payer must send a second “B” notice to the payee.<sup>3</sup> The IRS considers a TIN to be incorrect if the TIN and name combination do not match or cannot be found in IRS or Social Security Administration files.

The purpose of this review was to evaluate the effectiveness of the process to notify Federal entities when IRS identifies missing or incorrect payee TINs on miscellaneous income statements. For additional information about the objective, scope and methodology, see Appendix I.

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<sup>2</sup> During the time period of our review, the backup withholding rate was 28 percent. In December 2017, the backup withholding rate was reduced to 24 percent for all payments beginning on January 1, 2018.

<sup>3</sup> When a second “B” notice is sent, the payee must provide the payer with a copy of a Social Security card with his or her correct name and Social Security Number. Payers may rely upon a Social Security card as being correct only if the name and Social Security Number combination appearing on the card differ from the name and Social Security Number combination appearing on the second “B” notice or if there is a date appearing on the Social Security Number card that is no earlier than six months prior to the date of the second “B” notice. If the TIN is an Employer Identification Number, the payee must contact and receive a Letter 147C from the IRS validating the Employer Identification Number and provide the information to the payer to stop backup withholding.



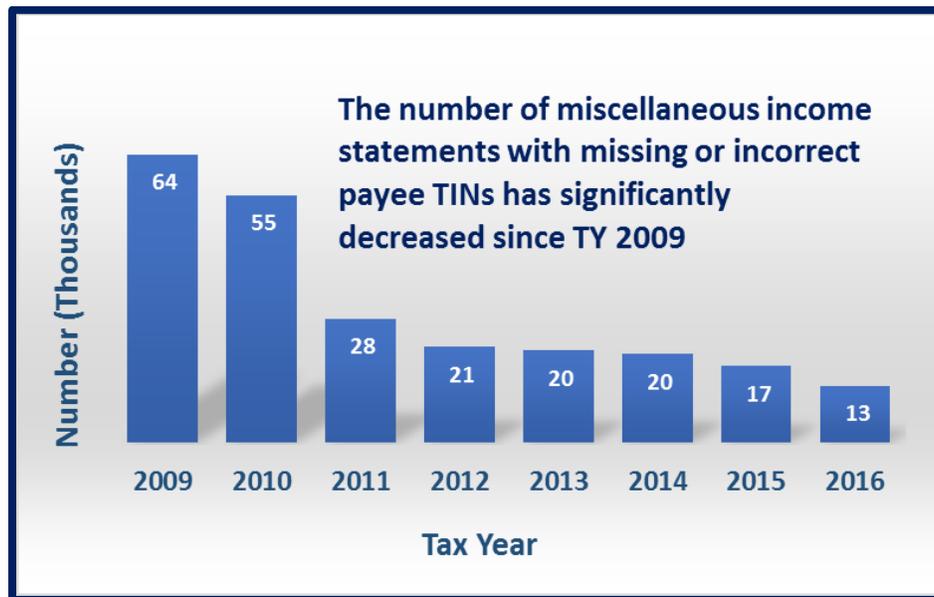
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*Results of Review*

**The Accuracy of Miscellaneous Income Statements Submitted by  
Federal Entities Has Significantly Improved**

According to IRS data, Federal entities<sup>4</sup> have significantly improved the accuracy of payee TINs submitted on Forms 1099-MISC. For TY 2009, the IRS notified Federal entities of more than 64,000 miscellaneous income statements submitted with a missing or incorrect TIN. By TY 2016, the number of miscellaneous income statements included on error notices had fallen by 80 percent to approximately 13,000. Figure 2 shows the number of missing and incorrect TINs identified by IRS in TYs 2009 to 2016.

**Figure 2: Number of Miscellaneous Income Statements Submitted by Federal Entities Included on Error Notices, TYs 2009 - 2016**



Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of CP 2100 Notice data.

Overall, according to IRS data, 97 percent of miscellaneous income statements submitted by Federal entities in TY 2015 contained accurate TIN information when they were submitted. The IRS attributes these improvements to a General Services Administration TIN matching program.

<sup>4</sup> Because some Federal entities have multiple TINs they use to file miscellaneous income statements with the IRS, we considered an entity to be a unique payer TIN associated with the Federal Government.



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In order to do business with the Federal Government, individuals and businesses must register in the System for Award Management (SAM). To have an active registration in the SAM, the TIN and taxpayer name combination provided by a registrant must match exactly to the TIN and taxpayer name combination in IRS records. This TIN resides in the SAM and is accessible to Federal Government procurement officials for use in all Governmental business activities including tax reporting requirements.

In addition, IRS officials stated that they expect the number of miscellaneous income statements with missing and incorrect TINs to further decrease because of a revised February 2017 agreement with the General Services Administration. Previously, the TIN and legal Business Name from the SAM were matched to IRS records (TIN and Name Control) during the validation phase. As part of the revised agreement, the IRS will now match the TIN and taxpayer name as provided by the SAM registrant to the TIN and IRS Name Control<sup>5</sup> combination to verify the information in the SAM system matches IRS records. The updated method more closely matches the criteria the IRS uses to determine whether a payee name correctly matches IRS records.

***Improvements to the Notification Process Could Further Reduce the Number of Incorrect Miscellaneous Income Statements Filed Each Year and Potentially Increase Backup Withholding***

The IRS sent notifications to most Federal entities that submitted missing or incorrect TINs on TY 2015 miscellaneous income statements; however, few Federal entities withheld Federal income tax. Annually, the IRS reviews the accuracy of TIN information on miscellaneous income statements and sends Federal entities written notification of any identified inaccuracies, including instructions on the circumstances which may warrant backup withholding. Our discussions with officials at five Federal entities that received an error notice identified a number of reasons why these notices may not have resulted in corrected TINs or withholding of Federal income tax. Representatives of Federal entities indicated that they found the notice data difficult to access and manipulate, notices may not have been routed to the function responsible for issuing the miscellaneous income statements, and Federal entity accounting systems were not capable of readily performing backup withholding. We estimate that the Federal entities could have potentially withheld nearly \$400 million in backup withholding in TY 2015 on miscellaneous income statements with an inaccurate or missing TIN if all payments were reportable and not exempted from backup withholding provisions.

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<sup>5</sup> The Name Control is the first four characters of the word used to validate the name. For a Social Security Number, it is the first four characters of the taxpayer's last name. For an Employer Identification Number, it is the first four characters of the business name. Publication 2108A, *On-Line Taxpayer Identification Number (TIN) MATCHING PROGRAM*, provides more information on TIN matching.



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According to IRS data, in TY 2015, Federal entities were notified of approximately 17,000 miscellaneous income statements in which the payee name and TIN combinations were incorrect or the payee TIN was missing.<sup>6</sup> The IRS considers a TIN to be incorrect if it is in the proper format, but the TIN and name combination do not match or cannot be found in IRS or Social Security Administration files. A TIN is considered “missing” if no TIN is provided, if the provided TIN has more or fewer than nine digits, or if the TIN has an alpha character in one of the nine positions. These 17,000 statements reported more than \$5 billion in miscellaneous income payments.<sup>7</sup> Despite notification of the responsibility to potentially begin backup withholding, Federal entities withheld a total of about \$250,000 in Federal income taxes.

We analyzed miscellaneous income statements that were submitted using the same incorrect name and TIN combination for three consecutive years. Our analysis identified approximately 5,000 miscellaneous income statements submitted with an incorrect TIN in TY 2015 that were also incorrect for the previous two years. For these 5,000 miscellaneous income statements, we estimate that nearly \$400 million in potential backup withholding could have occurred if all payments on these statements and those that were missing a TIN were reportable and not exempted from backup withholding requirements.<sup>8</sup> However, it is important to note that during our discussions with five of the Federal entities that were sent a notice, we were told that the Federal entities accounting systems may not be capable of performing backup withholding. For example, all five Federal entities indicated that their systems either would need to be reprogrammed in order to withhold the required 28 percent from the reportable payment, were unaware the system had the capability to perform backup withholding, or would have to perform the withholding manually. Additionally, some officials at these Federal entities stated that the payee name and TIN combinations might be inaccurate because they are either non-contractual payments or contracts in which the entity does not require the payee to register in the SAM system.

A number of improvements could enhance the notification process between the IRS and Federal entities. We believe that most of these improvements could be addressed by offering payee data in an alternative format to payers and conducting recurring outreach events with Federal agency

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<sup>6</sup> IRS officials stated that a number of business rules, including duplicate statements, statements that have a Social Security Number associated with a spouse, invalid payer documents, or documents that later validated after being initially received could prevent a payee TIN from appearing on the notice.

<sup>7</sup> In TY 2015, approximately 6,000 additional incorrect statements were submitted to the IRS. However, because the payments on each statement totaled less than \$600, the threshold at which agencies have to report the payment to the IRS, we did not include these in our backup withholding estimates.

<sup>8</sup> It is important to note that Federal payments reported on miscellaneous income statements can be very large. In TY 2015, just 10 statements represented nearly half of the total amount potentially subject to backup withholding, with the 30 largest statements representing approximately 60 percent. Apart from filtering for payments that were less than \$600, we did not determine whether the Federal entity correctly filed the miscellaneous income statement or if the payment was in fact reportable. We relied on the information as it was reported to the IRS using a TIN associated with the Federal Government.



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officials responsible for issuing information returns so they are continually aware of their responsibilities to correct missing or incorrect TINs.

**Some Federal entities would prefer the payee list to be provided in an alternative format**

The IRS should consider alternative, more user-friendly methods for delivering the error notice, especially for Federal entities that receive the notice on a compact disc (CD). The current error notice requires the agency to navigate multiple pages of technical directions to extract the CD's contents from a text file. Officials at multiple Federal entities reported instances in which they had difficulties extracting the notice data from their CD. Generally this required the agency to find a technical workaround to extract the text file into a more usable spreadsheet application. One entity explained that they needed to call the IRS for further instruction on how to extract the disk. Overall, most entities stated that they would prefer that the payee lists be provided on a spreadsheet rather than on a text file, which is more user friendly and will allow the Federal entity to quickly sort through the records and perform additional data analysis on reoccurring incorrect payee TINs. Additionally, this could more easily allow them to import records into local databases for further analysis and potential corrective actions.

The current method of providing large payee lists using a CD format has not always been standard practice. The IRS previously sent payers a list of miscellaneous income statements using tape cartridges. However, after requests from recipients to move away from the outdated delivery method, the IRS began providing the lists on a CD or digital video disc. Our discussions revealed that some Federal entities would prefer to receive the information directly from the IRS using an electronic transfer or a flash drive. In light of constantly changing technology, it may be time for the IRS to reconsider how these notices are provided to the payer and in what format.

**Notices sent to Federal entities may not be provided to all functions that file miscellaneous income statements with missing or incorrect TINs**

We found that the error notices may not always be routed to the function responsible for issuing the miscellaneous income statements with missing or incorrect TINs. \*\*\*\*\*1\*\*\*\*\*  
\*\*\*\*\*1\*\*\*\*\*  
\*\*\*\*\*1\*\*\*\*\*. However, because the error notice is based on the payer's TIN, all of the missing or incorrect TINs are consolidated into one payee list and sent to the address of record in the IRS's Business Master File. This address may not always be the location that issued the missing or incorrect miscellaneous income statement. As a result, the accounting function at the registered address would get the notice but may not forward it on to the other functions for additional corrections. We believe that targeted outreach could alert the Federal entities that other offices within their organization may have filed missing or incorrect payee TINs without having to send multiple notices to separate addresses.



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## **Recommendations**

**Recommendation 1:** The Commissioner, Tax Exempt and Government Entities Division, should conduct targeted, proactive outreach activities with Federal entities to ensure that they understand their filing and withholding requirements.

**Management's Response:** The IRS partially agreed with this recommendation. The IRS has undertaken a compliance strategy to examine all organizations, including Federal agencies, with indications of failure to comply with backup withholding requirements. Additionally, the IRS stated it has developed resources, available on the IRS website, for all entities to help them understand their filing and withholding requirements.

**Recommendation 2:** The Commissioner, Tax Exempt and Government Entities Division, should explore alternative notification processes that enable payee lists provided with the notice to be more easily accessed.

**Management's Response:** The IRS disagreed with this recommendation because it does not currently have an established file sharing system to transmit files to Federal agencies outside of 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 if the capability becomes available.



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## Appendix I

### Objective, Scope, and Methodology

The overall objective of our review was to evaluate the effectiveness of the process to notify Federal entities when the IRS identifies missing or incorrect payee TINs on miscellaneous income statements. To accomplish this objective, TIGTA:

- Reviewed prior TIGTA, Government Accountability Office, and Federal oversight organization reports on the accuracy of payee TINs 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 miscellaneous income statements submitted to the IRS by Federal entities. Our analysis throughout this report includes payers coded by the IRS as executive agencies of the U.S. Government, agencies of the Federal Government that are not part of any executive department or its components, instrumentalities and corporations wholly or principally owned by the Federal Government, and quasi-government entities collectively referred to as “Federal entities.”
- Performed a withholding analysis on miscellaneous income statements to determine if adequate income tax withholding occurs when the payee TIN is missing or incorrect. We relied on IRS’s determination of a TIN’s validity when performing this withholding analysis.
- 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 entities on error notices.
- Interviewed IRS management about the information return error notification and compliance process.
- Interviewed agency officials at five entities that received a notification of missing or incorrect TINs for TY 2015 to obtain an understanding of how the error notice is used and whether it is an effective tool to correct missing and incorrect TINs.

This review was performed at the Federal, State, and Local/Employment Tax area of Exempt Organizations of the Tax Exempt and Government Entities Division in Washington, D.C., during the period August 2017 through December 2018. We conducted this evaluation in accordance



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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, Supervisory Evaluator; and Earl Burney, Senior Evaluator.



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## **Appendix II**

### *Report Distribution List*

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



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**Appendix III**

*Management's Response*



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

May 10, 2019

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

FROM: Sunita B. Lough *Sunita Lough*  
Commissioner,  
Tax Exempt and Government Entities Division (TE/GE)

SUBJECT: Draft Evaluation Report – Improved Communication and  
Outreach With Federal Entities Could Further Reduce the  
Number of Incorrect Miscellaneous Statements Filed Each Year  
(#IE-18-006)

Thank you for the opportunity to review the draft evaluation report titled: "Improved Communication and Outreach With Federal Entities Could Further Reduce the Number of Incorrect Miscellaneous Statements Filed Each Year (#IE-18-006)."

We appreciate TIGTA's acknowledgment that, as a result of TIN matching efforts, Federal entities have significantly improved the accuracy of payee TINs submitted on Forms 1099-MISC. The number of statements with missing or incorrect payee TINs listed on error notices fell 80 percent between TY 2009 and TY 2016. In fact, in TY 2015, the accuracy rate was 97 percent, and, as described in the report, we expect the accuracy rate to continue to improve because of updated TIN matching methods.

As indicated in the report, IRS sends CP2100 and B notices to alert payors to potential backup withholding associated with incorrect or missing TIN information. While TIGTA purports to estimate potential withholding that could have occurred as a result of such notices, the report itself concedes such assertions are estimates based on an assumption that all payments were reportable and not otherwise exempted from backup withholding provisions.

Nevertheless, TE/GE continues to take a proactive, data-driven approach to identify federal agencies in need of direct outreach to support and foster voluntary compliance with filing and reporting requirements. In addition to the notices referenced above, TE/GE began a compliance strategy in FY 2018 that will continue in FY 2019, to examine organizations (including federal agencies) that received a CP2100 notice indicating there was a mismatch or missing taxpayer identification numbers on Form 1099, which may indicate failure to comply with backup withholding requirements. IRS



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also provides multiple resources on IRS.gov that federal agencies can utilize to understand their filing and withholding requirements, including recorded events, "Backup Withholding: Where and Why," "IRS B Notices and Backup Withholding," and "Why File Form 1099-Misc." Additionally, there are resources available for employers on "Information Returns" and "Employer and Pay Related Issues."

TIGTA suggests there may be benefits to electronic transmission of notices, including for federal agencies that receive the notices on a compact disc. 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 and the Treasury Banking and Financial Services Program, the IRS does not currently have such a capability. If it were to become available, IRS would pursue using such a system for notifications to federal agencies.

We appreciate the opportunity to review and comment on the draft evaluation report. Attached is a 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 Margaret A. Von Lienen, Director, Exempt Organizations, at (513) 975-6562.

Attachment



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Attachment

**Corrective Actions for TIGTA Draft Evaluation Report –  
Improved Communication and Outreach With Federal Entities Could Further  
Reduce the Number of Incorrect Miscellaneous Statements Filed Each Year  
(#IE-18-006)**

**RECOMMENDATION 1:**

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

**CORRECTIVE ACTION:**

IRS partially agrees with this recommendation. As described in the management response, the IRS uses a proactive, data-driven approach to promote compliance with filing and withholding requirements. We send notices to entities identified as filing erroneous Forms 1099-MISC to ensure accurate withholding. We have undertaken a compliance strategy to examine organizations (including federal agencies) with indications of failure to comply with backup withholding requirements. IRS has also developed resources available on irs.gov for payors (including Federal agencies) to understand their filing and withholding requirements. Due to our limited resources, we believe these efforts are an efficient and appropriate method to educate and assist payors (including Federal agencies) in understanding and meeting their tax obligations.

**IMPLEMENTATION DATE:**

October 15, 2019

**RESPONSIBLE OFFICIAL(S):**

Director, Exempt Organizations, Examination (EOE),  
Tax Exempt and Government Entities (TE/GE) Division

**CORRECTIVE ACTION MONITORING PLAN:**

IRS will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 2:**

The Acting Commissioner, Tax Exempt and Government Entities Division, should explore alternative notification processes that enable payee lists provided with the notice to be more easily accessed.

**CORRECTIVE ACTION:**

IRS disagrees with this recommendation. 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. We will pursue using such a system should one become available in the future.



*Improved Communication and Outreach With Federal Entities  
Could Further Reduce the Number of Incorrect Miscellaneous  
Income Statements Filed Each Year*

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**IMPLEMENTATION DATE:**

N/A

**RESPONSIBLE OFFICIAL(S):**

N/A

**CORRECTIVE ACTION MONITORING PLAN:**

N/A



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**[www.treasury.gov/tigta/](http://www.treasury.gov/tigta/)**

**Or Write:**

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

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