



T A X W A R E

N e w s - J u l y 2 0 1 7



C o n t e n t s

- ▶ Trade Shows
- ▶ IRS Developers Conference
- ▶ Identity Theft & Security
- ▶ Wintax Next Generation

Trade Show Dates

We look forward to seeing you at various seminars and trade shows. Be sure to stop by and say hello.

- **IRS Orlando July 11th - 13th**
- **IRS Dallas July 25th - 27th**
- **Latino Tax Las Vegas August 8th - 10th**
- **IRS Las Vegas August 29th - 31st**
- **IRS San Diego September 12th - 14th**
- **NATP Las Vegas September 26th - 27th**
- **Latino Tax Anaheim October 7th**



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R e f e r A F r i e n d





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The IRS hosted their annual Software Developers Conference in Washington DC on June 21st. A variety of topics were presented that concern us in the software development world, but they also provided some insights on a number of topics that directly affect you, the preparer.

In general, the IRS reported that this was one of the smoothest technical years that they have ever had. Individual income tax 1040 returns transmitted electronically are up to 88%, direct deposit usage is up significantly, and no major server or hardware issues occurred this year. I think we can all remember years in the recent past where the IRS has had servers going down or communications ports failing. This year they had a slight issue when they tested the failover system for a few hours but other than that the system was able to handle the volume with no issues. We continue to support them in their efforts and hope that the upcoming years will be as problem free.

Error Resolution System – ERS

After a tax year recap session, we then had a break out session led by the IRS administrator of the Error Resolution System team.

First, they let us know that the number of processing centers is being reduced from five centers to two. If a tax return is being processed through one of the processing centers, that return will be processed potentially slower than in prior years because of the reduction in processing centers. A tax return is pulled into a processing center for various reasons but the main three are:

1. Through IRS algorithms, a tax return that is electronically filed gets flagged for additional verification.
2. The tax return was flagged by the ERS system usually due to missing information like 8962 part 1.
3. The tax return was paper filed.

The cost to process a tax return that goes through the normal electronic filing validation process is roughly 1/8 the cost of a tax return that gets processed at an IRS processing center. Needless to say, the IRS would love to have as many clean electronically filed returns as possible. The following are some of the reasons that during tax year 2016 electronically filed tax returns were accepted on the front-end IRS system but moved into the ERS processing system.

Error 1 (caused 20% of ERS) – ACA Form 8962 Part 1 was missing. The IRS is asking preparers to verify that

the numbers being input are consistent with the 1095A. Also verify that you haven't checked both annual coverage and monthly coverage checkboxes.

We did receive word from the IRS MEF side that for tax year 2017 this will now reject on the front end. They don't know exactly the wording for the reject yet, but it will be something like "Form 8962 Part 1 missing and is required". If you receive that reject you will need to go into the ACA Form 8962 and add the additional information and retransmit.

Error 2 – ACA Form 8962 Part 2 is missing. Basically, if a 1095A was received then part 2 should be included. I am not sure if this will reject on the front end like the part 1 issue above so be careful to double check your ACA forms.

Error 3 – Name and SSN/ITIN mismatch. When they shared that I immediately thought, wait those reject right on the front-end system, however there are instances where the name control (first four characters of the last name) and the SSN match. If they match the return will get through the initial validation. As the return gets processed, if the entire name and SSN doesn't match the SSA records, it will get pulled into the ERS system.

The IRS is asking preparers to be diligent in asking clients if they have had a name change due to marriage or other reasons. They are asking preparers to be careful when inputting basic information to avoid typos. They are also asking preparers, when possible, to confirm the name on the actual social security card.

Error 4 – Excessive withholding. This is usually a result of a typo when inputting W2 information. They have seen an increase in errors created by software using Optical Character Recognition or OCR to scan W2's. In general OCR is having trouble reading the difference between cents and whole dollars. Basically, it struggles with commas and periods. Taxware has been concerned with OCR consistency and supports the 2D barcode scanning when available.

Error 5 – EIC working with self-employment income. Preparers should double check that they have input the correct self-employment income on Schedule C and other self-employment schedules. In general, for EIC using the "Other Income" line of the 1040 doesn't generate schedule SE unless that other income item has the checkbox selected as "Earned Income".



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Error 6 – Path Act deactivated ITIN. Preparers should ask clients if they have renewed their ITIN prior to filing if an ITIN is being used. If an ITIN has not been used in the last three consecutive years there is a good chance that the ITIN has been deactivated.

Error 7 – Unreported payments. This an omission error usually involving estimated tax payments not being reported properly. We have all seen this when we set up estimated tax amounts at tax return time but the client either does not make the payments, or changes the payment amount and does not let us know.

There were some other errors they shared but these were what stood out to me as items preparers have some influence over. When trying to keep happy clients with the quickest refund and processing times possible, if we can keep tax returns from going into the ERS system it will keep that tax return from being processed at a much slower rate.

Forms and Publications

As you know we haven't had too many federal tax laws changes this year. They are monitoring things closely on Capitol Hill regarding different bills being introduced. They of course don't know if any that do pass will affect tax year 2017. Here is a summary of what they shared, and will be shared at the upcoming continuing education forums.

Expired provisions – Form 8917, Mortgage Insurance Premiums, Form 5695, Discharge of Principle Mortgage Debt, 7.5% Medical Expense AGI floor to 10%(although there is talk of this going back to 7.5%).

Expired Business Provisions – TV, Film, and Theatrical Production Expenses. Special rates for Qualified Timber Gains. Alternative Fuel excise tax provisions.

Qualifying Widow provisions are being changed and reworded. There are certain new provisions to be a Qualifying Widow without a dependent. The flow and the rules will be similar to Head of Household where the qualifying person may not be a dependent. The 1040 form description will be changed from "Qualifying widow(er) with dependent child" to "Qualifying widow". The non-dependent person information then must be entered similar to a non-dependent for Head of Household.

Another change this year is working with Taxpayer Identification Numbers(TIN) and tuition reporting on the education credit forms. A TIN is now required on Form 8863 even if a 1098-T wasn't issued or received. The

question came up immediately as to how the preparer can obtain the schools TIN. The IRS didn't have a great answer for that but suggested going to the school's website, making a phone call, or googling it. The IRS then restated that if an 8863 is received without a TIN it will reject for this upcoming year.

The next item for educational credits is more informational as I don't think this will really effect you as a preparer. The 1098-T qualified tuition reporting is being changed to be on the amounts of tuition actually received verses the tuition that the school billed. I think this will concern the education facilities creating the 1098-T and not so much the tax preparation community but I still found it interesting.

For W-2's they are still working with the verification code and will add a box for payroll providers and businesses for the verification code. This is still a pilot program for this upcoming season but the new W2 will include this new box. I believe they said it will be box 9 and be titled "Verification code".

For Partnerships the TEFRA audit rules are being replaced by the BBA rules. This will be the last year for the 1065B.

There are some other additional new forms and credits but they seemed to be for very targeted credits or institutions that must have some good well-paid lobbyists so I won't mention them here.

IRS.gov

Over the next few years the entire IRS.gov website is going to be overhauled. They showed us some mock ups of some of the new pages and they look nice with an updated look and feel. They are going to strengthen their search and find engines to be similar to what you might find on Amazon®.

They are going to strengthen the individual taxpayers page to allow them to make payments easier, show past payments, show status, AGI, and have more of a home page feel for the taxpayer. They asked for preparers to encourage your clients to use the online payment systems.

Hopefully you found some of their suggestions and ideas interesting and beneficial to your practice.

Identity Theft, Fraud, and Computer Security

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Identity Theft, Fraud, and Computer Security

The IRS has held a session regarding identity theft, fraud, and computer security during the last few conferences. This is a topic that we need to all partner together on, it isn't going away. Although it's an upsetting topic because we are talking about criminals, I find it interesting. Every year I am amazed at the latest scams and new ways criminals are stealing identities and money.

As tax professionals, we always need to be on guard to shred tax documents with names and SSN's on them. We need to be careful not to leave tax returns laying around our desks where a person could quickly take a picture with a camera phone in a waiting room or on a casual walk to the bathroom.

As tax professionals, I think we should take part to educate our tax clients regarding how the IRS would really make contact with them via letters, telephone calls, etc., with real IRS credentials. They have some great resources available at IRS.gov. Simply searching "Phishing", "Malware", "Scam" at IRS.gov will bring up a lot of information. I found this link beneficial because it summarizes a lot of information and even has a video educating people regarding Phishing and Malware.

<https://www.irs.gov/uac/report-phishing>

To quote IRS.gov "The IRS doesn't *initiate* contact with taxpayers by email, text messages or social media channels to request personal or financial information. This includes requests for PIN numbers, passwords or similar access information for credit cards, banks or other financial accounts"

This year I personally received a robot call from a scammer claiming to be the IRS and that I needed to pay them immediately or there would be additional penalties. When a taxpayer hears the words "IRS" and "Penalties" they panic and pick up the telephone and give credit card information and or bank account information.

The latest scam the IRS shared this year is usually an email contact but can also be by telephone. The person claims to an executive and they have somehow obtained the real executive or bosses name. (Probably from public business annual filings of company directors) They make contact with a company employee and claim that they are being audited by the IRS and they need the employee to email them the employees W2's.

A variation of that same scam is that they have been audited by the IRS, they owe money, and could they send

the banking information to them so they can have the money withdrawn by the "IRS". Of course, it's not actually the IRS that will be making the withdrawal.

These scams will be an ongoing battle so we need to do the best we can to educate ourselves and our clients about them. When we do come across them I think it's good to report them.

Quoting the IRS again, "Report all unsolicited email claiming to be from the IRS or an IRS-related function to phishing@irs.gov. If you've experienced any monetary losses due to an IRS-related incident, please report it to the [Treasury Inspector General Administration \(TIGTA\)](#) and file a complaint with the Federal Trade Commission (FTC) through their [Complaint Assistant](#) to make the information available to investigators."



Computer and Network Security

At the Software Developer Conference one of the sessions was led by the STAR team (Strategic Threat Assessment & Response) I won't get into cyber security framework, but I do think it's a good thing to remind ourselves to review your security efforts. The IRS monitors and stops about 1 million attempts to hack into the IRS system every day. The threats are very real and cyber security and good office security are very important.

We have advised you of this already but we do NOT support, and Microsoft does not support Windows XP. If you are still currently using this operating system please upgrade. There are security issues with this operating system.

Identity Theft, Fraud, and Computer Security Continued



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Incorporate good office procedures and policies. Some of these might include shredding documents, locking documents up, making sure your office is locked and secured, don't leave tax returns or other documents face up outside of files, etc.

You need to password protect your computer. Strong passwords that are changed regularly are highly encouraged. Passwords that include a combination of uppercase, lowercase, alphanumeric, and some special characters are stronger passwords than a password that uses the word "password" or "1234". We have set the systems up so that your tax return data is not stored in the cloud. This means your tax return data is fairly secure. Unless you have a virus or malware on your computer, the best way for a criminal to get at that information is to break into your office and turn on your computer. If you are using a strong password this will go a long way in disrupting that effort even if your office is broken into.

Be careful when emailing sensitive information. I am still amazed at what I see people emailing. I just sold my house and I was amazed at what the escrow company and real estate agency felt comfortable emailing. At a minimum, we recommend password protecting your documents when emailing them.

If your office or firm does use a public server, or even a non-public server, it might be a good idea to make sure your IT professional looks through National Institute of Standards and Technology (NIST) cybersecurity framework and do an evaluation.

This upcoming season they will continue the pilot program of verifying EFINS. This is sad to say but most of the tax return fraud comes from fraudulent tax preparers. If you have heard of someone using a stolen EFIN they would like you to report that. The cases we hear about the most is when a former employee uses your EFIN because they don't have an EFIN yet. This is of course illegal. If this happens to you be careful because the IRS will just shut the EFIN down. You will probably want to get a new EFIN prior to that and will require you to contact the IRS and apply for a new EFIN.

To leave on a good note, the Authentication working group reported that Identification theft returns dropped by about 44% this year. That is a huge drop over last year! This is partially due to a variety of the new data elements gathered with the tax return authentication record. Example information gathered are driver's license information.

I also was able to talk the IRS about the effectiveness of rejecting, or not allowing, tax returns to have multiple returns direct deposited into the same account. They wouldn't give me an exact percentage but the person I was talking to smiled and said that helped a lot.

Identification security and Cybersecurity are things as professional tax preparers we need to constantly educate ourselves and be diligent about safe guarding.

Medieval Times

Medieval Times for our work party this year





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2017 tax season will most likely be the last year we support the Legacy Wintax System.

We are really excited about the new development and level of testing that the new “Wintax 1040 Next Generation” is receiving. The rich features, look, and functionality raise the bar on professional tax software.

As we migrate different forms, schedules, and states into the new system we will continue to use pieces of the “Legacy 1040” system, however this upcoming 2017 tax season will probably be the last year that we will support the Legacy platform.

If you haven’t had a chance to check out the new Wintax system we would encourage you to load it up and take a look. We also have a video on our website that will give you an overview of the new program <https://youtu.be/xszthPHx81s>

This Summer we working on updating most of our tutorial videos so that they are rooted in the new Wintax Next Generation platforms. These videos will be available on our videos web page in about a month. We are updating our front end webpages and those videos are slated to be included in that release.

Wintax Next Generation - 1040



Features

- Enhanced Windows 10
- Native PDF Print
- User Interface Scaling
- “Bread Crumb” Navigation
- Easier Networking
- Enhanced E-File Validation
- Enhanced Client Selection and Filters
- Expanded Client Information
- Live View Forms Preview
- Expanded E-File Tracking
- Increased Security

In our November 2016 newsletter we included an article regarding the new system and its features. If you did not get a chance to read about some of the new features here is a link to that newsletter

<http://www.taxwaresystems.com/bulletins/NewsletterNov2016.pdf>