IRS ISSUES

Issue 1: Income Tax Withholding
Issue 2: The Gig Economy *
Issue 3: Virtual Currency *
Issue 4: Cybersecurity
Issue 5: Tax Transcripts *
Issue 6: IRS Information Sources *
NEW FORM W-4

• New hires and rehires after 2019
• May ask for new W-4 but must say it’s not required
• No W-4: Single, no adjustments

Form W-4: Figure 5.1, Page 151
  1. Personal information + filing status
  2. Multiple jobs or spouse works: 3 options
  3. Claim dependents (+ other credits)
  4. Other adjustments – income, deductions, extra withholding
  5. Signature
NOTE: Form W-4V for voluntary withholding
  ◦ May include income in 4(a) of W-4 or
  ◦ May include additional $ in 4(c) of W-4 to cover
- W-4/W-4P entries, paycheck checkup
- No sensitive info used, no info saved
Example 5.1
Family of 4, 2 < 17 years old
$10,000/month, $710 w/h’g
$900 interest income
Running TWE in late March

Figure 5.3 – Results

Figure 5.4 – Refund option
Figure 5.5 – TWE recommendation
- Child tax credit 3(c): $3,727 ($273 annual reduction)
  ($208 short/9 remaining pay periods = $23/pay)
- Downloadable pre-filled Form W-4
For employers calculating withholding using Pub 15-T

Figure 5.7 - Downloadable Excel Spreadsheet – file for each EE

Using 2020 W-4

<table>
<thead>
<tr>
<th>IRS Income Tax Withholding Assistant For Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay frequency: Monthly</td>
</tr>
<tr>
<td>Employee's taxable wage or salary amount this paycheck: $10,000</td>
</tr>
<tr>
<td>Which version of Form W-4 did the employee use? 2020 or later</td>
</tr>
</tbody>
</table>

Please enter the W-4 information in the fields below:

Information from the employee's most recent Form W-4 if used 2020 or later version

Step 1. c. Filing status: Married Joint
Step 2. Did the employee check the box in (c)? No
Step 3. Total amount on line 3 $3,727
Step 4. Other adjustments a. Other income amount:
   b. Deductions amount:
   c. Extra withholding amount:

Result

Amount of Federal income tax to withhold from this paycheck: $733

Withhold no federal income tax if on the Form W-4 the employee claimed to be exempt from withholding.
GIG ECONOMY
Gig Service Provider
- Pros: More flexibility/control – when, where, for whom, career path
- Cons: Taxes, recordkeeping, lack of benefits, less job security

Gig Service Recipient
- Pros: No benefit costs, no training cost, more flexibility
- Cons: Worker reclassification, lack of reliable/qualified workers

Gig Service Coordinator (Online Platform)
- Fee for bringing worker and consumer together
- Potential of EE treatment of service provider
Survey of gig workers by Nat’l. Assoc. of Self-Employed found:
- 34% - had no knowledge of quarterly estimated tax rules
- 36% - had no idea of records needed for tax purposes
- 43% - had no $ set aside for taxes & did not know how much owed
- 69% - received no tax info from platform they used

IRS Gig Economy Tax Center
- Guidance for both provider and coordinator
- Emphasis that all income taxable
- Link to IRS webinar “Understanding the Gig Economy”
Common-Law Rules
○ Behavioral
○ Financial
○ Type of Relationship

Form SS-8 Determination of Work Status
○ Determination applies only to worker(s) requesting it
○ Not an examination – cannot compel business to change treatment
Any system o.k if clearly shows business income and expenses

Pub 583, *Starting a Business and Keeping Records*

Retain records for:
- At least 3 years from later of filing or due date
- If files claim for credit or refund:
  - Later of 2 years from date tax paid or 3 years from filing
  - 7 years if worthless securities or bad debt deduction
- Forever if fraudulent return filed
All income reportable net of related expenses

Gig worker may qualify for QBI deduction

Self-employment tax (see IRS Self-Employed Individuals Tax Center)
- If net income from SE ≥ $400
- Rates applied on 92.35% of net SE income
  - 12.4% soc. sec. on up to max earnings of $137,700 (2020)
  - 2.9% Medicare on all earnings
  - + .9% Medicare if wages + SE > $250K (MFJ), $125K (MFS), $200K (others)

**2020: Defer 50% of SE Tax: Pay ½ by 12/31/21, other ½ by 12/31/22**
Filing Requirement
- ≥ $400 in SE income
- < $400 SE income - must report if otherwise required to file

NOTE: Self-filing
- IRS Free File
- ≤ $56,000 income & disabled or limited English → VITA
- > 60 years → TCE program
- IRS zip code search for VITA or TCE sites
THE GIG ECONOMY – TAX ISSUES
INFORMATION REPORTING

Form 1099-NEC, Nonemployee Compensation beginning 2020
- Payments of $600

Form 1099-K, Payment Card and Third Party Network Transactions
- Issued by payment settlement entities if:
  - Gross reportable payments > $20,000 AND
  - > 200 total transactions
- FAQs about Form 1099-K on IRS website
First, let’s debunk one popular misconception:

- Just because the rental is used for an average period of fewer than seven days does not automatically mean the rental activity is subject to self-employment tax and reported on Schedule C.

- Comparing the rental to a hotel or motel, the time period does not in and of itself create self-employment tax, because there is a difference between the regulations under §469, where you find the seven-day rule, and §1402, where you find the definition of self-employment income.
The key factor between reporting this activity on Schedule E or Schedule C is what kind of amenities or services are offered. If significant services are offered, then the rental is reportable on Schedule C and subject to self-employment tax similar to a hotel or motel [Reg. §1.1402(a)-4(c)(2)].
Such as, but not limited to:

- Hot Tub
- Breakfast
- Gym
- Shampoo
- Hair Dryer
- Iron
- Hangers
IRS Virtual Currency Campaign
- Educational letters to taxpayers began in 2019
- 45 FAQs on IRS website

Virtual Currency
- “Digital representation of value that functions as a medium of exchange, a unit of account and/or a store of value”
- Equivalent value in legal tender of any country’s currency
- Used for goods or services or held for investment
- No intrinsic value or physical form – not backed by a central bank
VIRTUAL CURRENCY  PP. 169-170

Benefits
- Transfers can be immediate
- Fees may be less than credit card fees
- No payment info to merchant → less chance of identity theft
- No exchange rates (facilitates worldwide transactions)

Obtaining virtual currency
- Purchase and sell through centralized exchanges
- Purchase in a peer-to-peer exchange
- Transfers through digital wallet
- Keys (passwords) may be stored online or offline
VIRTUAL CURRENCY
TERMS

Cryptocurrency
- Uses cryptography to secure transaction – recorded digitally
- Blockchain – example of network storing encrypted data

Coins and tokens
- Digital money created thru encryption techniques
- Token = subset of virtual currency = representation of value
- Security token → generally a share in a virtual currency company
- Utility token → grants owner access to product or service
Miners
- Use of high-powered computers to solve complex equations
- Solving & validating a transaction yields digital token of the mined currency

Bitcoin ATM
- Kiosk allowing purchase of Bitcoin

Initial Coin Offering
- Offer of coin/token for fiat currency/other virtual currency
- Generally through a crowd-funding process
Airdrop
- Virtual currency distribution procedure
- Tokens/coins distributed free to promote
- Reward customers of exchange/trading platforms
- Distributed on pro-rata basis to customers

Giveaway
- Fixed virtual currency amount given for account creation
SELL – BUY - EXCHANGE
Identifying Units for Basis Purposes

- Can choose if can specifically identify units used in exchange
  - Unique digital identifier such as private key, public key, address
  - Records showing transaction info for all units in account, wallet, address
- If cannot identify, FIFO applies
- Must be able to show:
  - Date and time each unit acquired
  - TP’s basis and FMV of each unit at time acquired
  - Date and time each unit sold, exchanged or otherwise disposed of
  - FMV of each unit when sold, exchanged, or disposed of and amount of $ or property received for each unit
Unauthorized Access

- Facilitated by:
  - Clicking on malicious URL
  - Downloading malicious attachment
  - Using unsecure wireless connection
  - Revealing username / password
- Results:
  - Theft or alteration of information
  - System shutdown
Safeguards Rule (FTC)

GLBA – Gramm-Leach Bliley Act

• Applies to accountants, enrolled agents, other tax return preparers

• Requirements:
  ◦ Designate
  ◦ Identify
  ◦ Design & implement
  ◦ Use service providers that can maintain safeguards
  ◦ Evaluate
CYBERSECURITY PRACTITIONER DUTIES

✓ Revenue Procedure 2007-40
✓ Information Security Plan
✓ NISTIR 7621
✓ IRS PUB 4557
IRS checklist for protecting information

1. Antivirus Software - Scan computer & attached devices for malware
2. Firewalls - Protects against outside attacker, malicious traffic
3. Two-Factor Authentication – Beyond initial username & password
4. Backup Software/Services – Encrypted with strong passwords
5. Drive Encryption – Strong passwords
6. Virtual Private Networks (VPN) – Connections over the internet
• Minimum of 8 characters
• Combo of letters, numbers, symbols
• Avoid personal information
• Change default/temporary passwords
• Do not reuse or update passwords
• Do not use email addresses as usernames
• Secure physical password list / password manager program
• Do not disclose passwords to anyone
CYBERSECURITY
SIGNS OF DATA THEFT

- More returns filed with EFIN or PTIN than submitted
- Receive transcripts never requested
- Properly filed returns rejected because SSN already on filed return
- Authentication letters received by clients who have not filed
- Refunds received when no return filed
- Notice of online account access or account disabled
- Notice of online account when client did not create one
- Response to emails that practitioner never sent
- Office network computers running slower than normal
- Office network computers locking out tax practitioners
Monitor PTIN Accounts
- Find number of returns filed (if > 50)
- Through PTIN account
  - “Additional Activities”
  - “View My Summary of Returns Filed”

Monitor EFIN Accounts
- Find number of returns filed
- Through E-Services account
  - Name – “Application” – “e-File Application”
  - Name – “EFIN Status”
Data Recovery Plan
• Inventory – hardware, software applications, data
• Backup – routinely backup critical data, periodically validate
• Reinstall – maintain copies of program software
• Security Expert – consult as needed on breaches
• Testing – test plan periodically
• Reporting – report any data breach
• Local IRS stakeholder liaison
• Local FBI office (if directed by IRS)
• Local Secret Service office (if directed by IRS)
• Local police
• State agency where returns filed
• State attorney general
• Insurance company
• FTC at identitytheft.gov
• Three major credit bureaus
• Respond immediately to any IRS notice
• Complete IRS Form 14039 (see page 184)
• Continue to file and pay taxes
• If not getting resolution: contact IRS (800) 908-4490
• Obtain the 6-digit identify protection pin (IP PIN)
  ➢ Used for filing paper or electronic return
  ➢ If lost/not received: “Get an IP PIN” too
  ➢ Can opt-in and request in IP PIN (nationwide by Jan 2021)
    (requires account on IRS.gov)

IRS Identify Theft Central at www.irs.gov/identity-theft-central
TAX TRANSCRIPTS  PP. 186-188

Masked Transcripts (Figure 5.12, p. 187)
◦ Personally identifiable information partially masked
◦ Financial data fully visible
◦ Currently individuals – will be business transcripts by 12/13/2020
◦ Can be requested through Transcript Delivery System

Figure 5.13 (p. 188) – Getting transcripts

Unmasked Transcripts
◦ Wage and income transcripts only
◦ Mailed to TPs address if requested by TP or 3rd parties
◦ Tax Pros – thru PPS line or Secure Object Repository mailbox (SOR)
Customer File Number
- Replaces use of full SSN on 4506 series forms to enable match to a TP
- Designed for use by 3rd parties but TP & tax professional may also use
- If SSN used in number, transcript will reflect 9999999999

Transcript Delivery
- FAX to TPs, 3rd parties, Tax Pros ended 6/28/2019
- Mailing to 3rd parties ended 7/1/2019
- Mailings continue to TP’s address of record
- TP: Get Transcript Online
- Tax Pros: Mail to TP, TDS for masked transcript, call IRS for SOR
- Lenders/3rd parties: Income Verification Express Service (IVES)
IRS INFORMATION SOURCES P. 190-193

Social Media
- YouTube
- Twitter
- Facebook
- LinkedIn
- Instagram

IRS2Go – check refunds, make payment, tax help, links to social media

Podcasts (iTunes or IRS Multimedia Center)

e-News Subscriptions – 21 free registration-based e-News options (pp. 192-193)
QUESTIONS???