

FY2013

FEDERAL, STATE AND LOCAL
GOVERNMENTS

WORK PLAN



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Executive Summary

The primary objective of the office of Federal, State and Local Governments (FSLG) is to promote compliance with employment tax withholding/reporting and information reporting requirements by governmental units and their subordinate agencies. FSLG is also responsible for ensuring compliance with, and assisting in, the administration of Social Security and/or Medicare taxation under the provisions of Section 210 and 218 of the Social Security Act.

In FY2013, FSLG will continue to maintain an effective balance between traditional compliance work and educational activities.

FSLG supports the Internal Revenue Service (IRS) and the Tax Exempt and Government Entities (TE/GE) Division strategic goals:

- Improve service to make voluntary compliance easier
- Enforce the law to ensure everyone meets their obligations to pay taxes
- Invest for high performance

In support of these goals, FSLG has committed to the following work plan areas:

FSLG's FY2013 outreach program will include teleconferences, webinars, and phone forums, and will target larger events to make the most efficient use of travel resources. FSLG will continue to conduct outreach with various stakeholder groups. Topics will focus on the Service-wide implementation of Affordable Care Act of 2010 (ACA) provisions, international tax compliance, and traditional employment tax and information reporting issues.

FSLG will devote significant resources to complete the remainder of the examinations selected for the Servicewide Employment Tax National Research Program (ET-NRP). ET-NRP is an examination project designed to develop data to identify and quantify the tax gap related to employment taxes. We will increase the number of examinations with potential international tax issues and the number of large entity examinations. We will continue to conduct examinations in all market segments. FSLG expects to address a greater volume of claims for refund primarily related to Section 218 coverage agreement issues and to conduct a "soft-letter" compliance campaign and some limited scope examinations to assess HIRE Act credits that were claimed by ineligible government entities.

Overview of FSLG

The office of Federal, State and Local Governments is responsible for Federal tax administration issues relating to almost 110,000 government entity employer identification numbers. FSLG's primary objective is to promote compliance with employment tax withholding/reporting and information reporting requirements by governmental units and their subordinate agencies. Our employment tax focus covers such issues as worker classification, fringe benefit taxation, taxability of employment related settlements, pension, and/or deferred compensation benefits, which are frequently negotiated via collective bargaining. Many governmental employers offer a benefits package and retirement benefits that are as complex as those offered by the largest for-profit corporations. FSLG is also responsible for ensuring compliance with, and assisting in, the administration of FICA coverage agreements under the provisions of Section 218 of the Social Security Act. FSLG also insures compliance with information reporting requirements and excise taxes, and insures compliance with international issues which include examinations of Forms 1042, government entities located in U.S. Territories, and employees under various alien visas.

FSLG's interaction with its customer base affects the degree of compliance by the governmental employers and their 24 million employees. These entities employ approximately 18% of the American workforce, pay wages in excess of \$1 trillion annually, and pay employment taxes in excess of \$250 billion. In addition, governments own fixed assets in excess of \$10 trillion and government consumption and investments are greater than \$3 trillion, which is approximately 20% of the US Gross Domestic Product.

In FY2013, FSLG will continue to maintain an effective balance between compliance work and educational activities, which will be a major focus for all field groups.

WORK PLAN

FSLG will use a balanced measures approach to assess performance and to identify opportunities for improving our service level and operational impact. FSLG will support the TE/GE major strategies and operating priorities for FY2013. These include actions to:

- **Incorporate taxpayer perspectives to improve service interactions:** FSLG will continue to use employee input, customer feedback, and data analysis to secure a comprehensive knowledge of key compliance issues and causes of noncompliance. The information will be used to improve service and compliance within its customer base.
- **Provide targeted, timely guidance and outreach:** FSLG will work with stakeholders to ascertain customer needs and develop outreach tools and guidance to address these needs. The *FSLG Newsletter*, educational products and outreach will be used to address compliance questions and issues. FSLG will utilize technology, such as phone forums, webinars, and web articles, to provide timely guidance and outreach to a geographically dispersed audience.
- **Strengthen partnerships with tax practitioners, other agencies, and other IRS business units to ensure effective tax administration:** FSLG will work closely with Exempt Organizations (EO) and Employee Plans (EP) and IRS operating divisions. It will continue to work with the National Conference of State Social Security Administrators (NCSSSA) and the Social Security Administration (SSA) to assess Section 218 Agreement coverage in each state and to address this issue using a unified approach. FSLG Specialists work with designated officials at SSA regarding the interpretation of Section 218 Agreements during examinations. FSLG Specialists contact the State Social Security Administrator (SSSA) for the specific state if assistance with Section 218 Agreements and other State specific issues is needed. FSLG is working cooperatively with these organizations to assess the Section 218 framework of each state to identify commonalities, differences and problem areas in an effort to improve our outreach and service delivery. In addition, it continues to partner with SSA in the development of important legal questions and collaborate to identify opportunities for improvement related to compliance with Section 218. FSLG will continue to work with NCSSSA and SSA to develop Section 218 Agreement scenarios/case studies that will be used for internal and external training. FSLG works with the Advisory Committee on Tax-Exempt and Government Entities (ACT) on projects which help FSLG increase the quality and level of customer service, increase customer knowledge, and further working relationships among our stakeholders.

- **Enforce law in a timely manner while minimizing taxpayer burden:** FSLG will promote the use of information available from various nontraditional sources, such as government entity websites and the Federal Audit Clearinghouse, as well as technology tools such as Information Return Analysis System to identify issues prior to starting examinations in order to minimize taxpayer burden and reduce cycle time.
- **Expand enforcement approaches and tools:** FLSG will continue to encourage participation in fast-track settlements and closing agreements when appropriate to resolve examination issues. FSLG will use soft letter campaigns when warranted to address small, focused non-compliance issues and encourage self-correction. FSLG will continue to support the Service-wide Voluntary Classification Settlement Program.
- **Allocate compliance resources using a data-driven approach to focus on existing and emerging high-risk areas:** FSLG will continue to utilize data analysis to improve case selection and identify high risk issues. It will continue to evaluate and refine its program to identify customer participation in abusive schemes and tax fraud.
- **Address Noncompliance Related to International Issues and Activities:** FSLG will continue to collaborate with other business operating divisions (BOD) within TE/GE and Large Business and International (LB&I) Division to improve international tax compliance, including enhancing employee training and audit tools, identifying cases with high risk of non-compliance, seeking additional targeted outreach opportunities, expanding data-exchange agreements with U.S. territories, and supporting its newly implemented international employment tax training program for U.S. territories.
- **Continue focused oversight of the government entities:** FSLG will increase the percentage of its resources devoted to examinations of Federal agencies and large government entities. FSLG will continue to address compliance issues within all market segments within state and local government entities. FSLG will collaborate with other BOD's on implementation of the Affordable Care Act.
- **Build a Highly-Qualified and Satisfied Work Force:** FSLG will continue to enhance employee training to ensure that employees have the skills necessary to meet customer needs. It will use results of the Federal Employee Viewpoint Survey to identify opportunities for improvements in employee satisfaction and involve managers and employees in improving processes for FSLG. It will continue to utilize the *FSLG CPM Quarterly* newsletter to provide timely internal communication for its employees.

- **Use information technology systems and tools to improve efficiency and productivity:** FSLG will continue to support the development and implementation of Reporting Compliance Case Management System (RCCMS) as the TE/GE work-center, including identifying ways to upgrade RCCMS reporting and develop best practices. FSLG will continue to promote more effective use of technology in business processes, i.e. classification, compliance work, as well as operational analysis and reporting. For example, FSLG will continue to promote effective use of examination tools such as the Information Reporting Analysis System (IRAS) and work with LB&I on enhancements of this tool.
- **Use data and research to make informed decisions and allocate resources:** FSLG will continue to implement the use of the FSLG Case Data form, which was developed in FY 2012, to gather closed case data. It will use this data to identify, track, and measure the impact of field compliance activities, improve case selection, and allocate resources. FSLG will continue efforts to identify government entities and ensure that IRS systems correctly identify them as governments.

PRE-FILING EDUCATION AND ASSISTANCE

This section discusses pre-filing education and assistance, which includes customer education and outreach, stakeholder relationships, and coordination of assistance actions between FSLG and other functions.

Customer Education and Outreach

FSLG recognizes the potential positive impact on taxpayer compliance resulting from providing customer education and outreach. FSLG continues to address key areas of noncompliance through a combination of targeted outreach, development of new educational products, and various field assistance activities.

FSLG outreach efforts will include large associations and/or audiences, and will seek to leverage cost-effective alternative delivery methods, such as webinars and phone forums to reduce travel costs; for example: Federal Agency Seminars, phone forums with National Conference of State Social Security Administrators (NCSSSA), National Association of State Auditors, Comptrollers and Treasurers (NASACT), American Payroll Association (APA) and other state/national associations, etc. Areas of focus for outreach will be related to traditional employment tax issues; special FICA coverage rules for government employees including Section 218; accuracy of Information Return Filing/Reporting, including TIN (Taxpayer Identification Number) matching; international issues including the U.S. Territories; and implementation of ACA provisions.

FSLG will collaborate with IRS offices including Large Business and International, Small Business/Self-Employed, Exempt Organizations (EO), and Employee Plans (EP) to insure compliance across functions. It will partner with EP to insure compliance related to governmental pension and special pay plans. It will partner with EO to insure compliance with colleges and universities and government entities that are exempt under IRC 501(c).

FSLG is also cognizant of and will monitor the significant events occurring or proposed in the governmental pension plan area. There are major plan changes underway or under active consideration that will fundamentally alter the nature and composition of many governmental pension systems. These may have an impact on FICA coverage for many of these entities. Specific areas of concern include employers who require IRS assistance when entering into a Section 218 agreement, or employers losing their FICA exemption when their employee retirement plan ceases to qualify as a FICA replacement plan.

FSLG will continue to publish its semiannual newsletter. The *FSLG Newsletter* serves as a useful means for providing information on current issues, such as tax law changes, helpful tips and reminders, and newly published guidance to over 175,000 subscribers.

Other Actions

FSLG is developing an Information Return Audit Guide (IRAG) that provides the FSLG Specialist with comprehensive reference materials to conduct an examination of information return compliance. TIN matching, backup withholding, legal research, civil penalty procedures and more are addressed in this guide. FSLG is also working to ensure that the guide can be used by other business units. Project completion is expected by mid-FY2013.

In FY2012, FSLG worked with the ACT to address improving use of the IRS TIN matching system by government payers. It will implement these recommendations and support additional collaborative efforts in FY 2013.

COMPLIANCE SERVICES

This area represents the resources devoted to Field Compliance Services, including compliance checks, examinations, research projects, and related support work.

Workload Selection

FSLG will continue to refine the workload selection criteria used in prior years. In addition, FSLG will partner with Exempt Organizations (EO) in situations where the government entity is also an exempt organization (e.g., community colleges, charter schools, hospitals) and Employee Plans (EP) where the government entity is participating in a retirement plan or similar arrangement.

Workload selection will be monitored to ensure that key areas identified through environmental scanning, research, and other means are addressed, and that the actions being assigned represent the optimal approach to the identified issue.

Compliance Plan

FSLG will continue to use compliance checks as a mechanism to provide broad-based compliance coverage, to identify customer needs, and to foster self-correction. FSLG generally conducts compliance checks on smaller entities (those with annual payroll less than \$10 million) to determine their compliance with employment tax and information return reporting obligations. Compliance checks do not include review of the books and records of the taxpayer and are designed to foster compliance through self-correction. If the Specialist determines that the government entity is not in compliance, the case is converted into an examination or an advisory letter is issued to the government entity, depending upon the extent of non-compliance.

FSLG examinations of books and records relating to the determination of a tax liability will generally address employment tax issues, including worker classification, taxability of fringe benefits, FICA coverage issues including Social Security Act Section 218 compliance issues and FICA replacement plan issues, as well as information return reporting, identification of abusive tax avoidance transactions and tax fraud.

In FY2013, FSLG will increase the number of Large Entity examinations to increase examination coverage of these large, complex entities in future years. It will maintain the same level of Federal Agency examinations.

For FY2013, FSLG will devote significant resources to completing the remainder of examinations selected for the ET-NRP. In FY2013, NRP examinations will make up almost one-third of FSLG's examination closures.

In FY2013, FSLG will continue to work cooperatively within TE/GE and with LB&I to improve international tax compliance. FSLG will examine international tax issues such as Form 1042 compliance, employment tax issues relating to visa and/or residential alien status, and compliance activities in the U.S. Territories.

FSLG will use soft letter campaigns when warranted to address small, targeted non-compliance issues and encourage self-correction. This approach will be used to assess Hiring Incentives to Restore Employment (HIRE) Act credits claimed by ineligible government entities and to address possible Form 1042 non-filers.

FSLG supports the IRS wide effort to identify and eliminate abusive tax avoidance transactions and tax fraud. The FSLG customer base is directly impacted by these schemes. We will work with our customers to identify and address participation in abusive schemes and fraud. We will evaluate and refine fraud identification and referral job aides, procedures, and training that it provided to its compliance personnel in FY2012.

Research

In FY2013, FSLG will continue to identify government entities that do not have the appropriate employment codes and make corrections. Employment codes are used to identify governments on the IRS Business Master File (BMF).

TRAINING

FSLG will build a highly qualified work force by conducting training that meets the technical needs of FSLG employees, including the following major areas:

Continuing Professional Education (CPE) is planned for all FSLG Specialists, analysts, managers, and support staff. This training will address technical topics, emerging issues, and work process changes. CPE will be conducted in a cost-effective manner using non-traditional delivery methods such as online training.

FSLG will continue to conduct new hire training in three phases. These phases will address RCCMS, employment tax law, and audit techniques. Emphasis will be placed on the unique aspects of governmental employers such as the differing FICA coverage rules for these employers. We will also work with our Section 218 partners (SSA and NCSSSA) to develop case studies that can be used internally and externally as interactive tools to increase technical awareness on this subject.

FSLG will continue to implement its revised new-hire training which incorporates non-traditional means to deliver the training. For example, FSLG revised its

Phase I and II training modules into a blended learning format. In addition, it will work to modify and improve on-the-job training for new hires.

FSLG will conduct specialty training as necessary this year to support key areas of focus including, International, SSA Section 218 and Government Plans.