

FY2012

FEDERAL, STATE AND LOCAL
GOVERNMENTS

WORK PLAN



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FY2012 FSLG 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 FY2012, 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:

- 1) Improve service to make voluntary compliance easier; and
- 2) Enforce the law to ensure everyone meets their obligation to pay taxes.

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

In FY2012, FSLG will continue to conduct outreach with various stakeholder groups as well produce webinars for large audiences. It will conduct outreach related to various specialty topics including Section 218, IRC 3402(t), accuracy of formation return filing and reporting, international issues (including the U.S. Territories), government plans, and new legislation related to health care.

In FY2012, FSLG expects a reduction in compliance checks and examinations due to staffing changes and modifications to the types of examinations conducted. FSLG will significantly increase examinations conducted for the Servicewide Employment Tax National Research Program (ET-NRP), identify and examine potential international tax issues, maintain Federal and Large Entity Strategic Initiatives and will continue to conduct examinations in all market segments. FSLG will enhance selection criteria to address inaccuracy of information returns highlighted in TIGTA Report #2011-30-019 entitled "*Targeted Compliance Efforts May Reduce the Number of Inaccurate Information Returns Submitted by Government Entities*".

Planning Process

OVERVIEW OF FSLG

The office of Federal, State and Local Governments is responsible for Federal tax administration issues relating to over 109,000 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. 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. Issues addressed by FSLG include employment taxes, excise taxes, and information return reporting.

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,¹ 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.²

In FY2012, FSLG will continue to maintain an effective balance between traditional compliance work and educational activities. Compliance activities will be a major focus for all field groups.

FSLG continues to develop an annual comprehensive compliance plan involving managers, Field Specialists and CPM staff. This compliance plan is incorporated into the FSLG Annual Work Plan. Responsibility for the development of the Annual Work Plan is vested with the Manager, Compliance and Program Management.

¹ Based upon U.S. Bureau of Labor Statistics; [Table B-1. Employees on non-farm payrolls by industry sector and selected industry detail \(in thousands\)](#) Plus active duty military personnel as published by the [Office of the Secretary of Defense](#).

² Based upon data from the Bureau of Economic Analysis

METHODOLOGY

Trends, Issues, and Problems (TIPs) were identified in the Strategic Business Plan for FY2012 at the time of its formulation. The FSLG office involved the field Specialists, managers, and CPM staff in the development of the work plan.

The foundation for the formulation of the FY2012 FSLG Work Plan is based on the TIP areas, but refined to specific issues through the analysis of IRS data, stakeholder input, and employee input. These issues form the basis for the compliance and outreach activities to be undertaken in FY2012. In general, compliance activities are made up of examinations, compliance checks, and information return examinations.

The employment tax field in general and the governmental sector in particular, have not been the subject of significant research activity or information gathering at the IRS level. Governments generally file only employment tax and information returns, thus there are no additional returns to provide compliance indicators, resulting in limited classification avenues. An additional complicating factor is the ability of governments to file “consolidated” employment tax returns, a process unavailable to any other group of employers.

This lack of basic information has been considered in developing the FSLG compliance workload selection process. FSLG has considered anecdotal evidence, customer contact data, results from past compliance contacts, and employee input in developing its examination plans. To evaluate and improve the process, FSLG:

- has developed a formal workload selection plan to ensure consistency and impartiality in its examination process;
- has collected state specific information (Section 218 Agreements, employee pension plan information, etc.), which are useful tools in workload selection;
- will conduct a portion of its examinations based on market segments and compliance projects to determine compliance levels and identify significant issues in those segments; and
- will continue to analyze the data collected from closed compliance checks and examinations, and use this data for workload selection and to design future outreach activities tailored to address specific issues.

WORK PLAN AREAS

FSLG will support the TE/GE major strategies and operating priorities for FY2012. These strategies address key challenges FSLG faces in delivering top quality service to customers, and productivity through a quality work environment. These include actions to:

- **Improve Voluntary Compliance:** 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 compliance within its customer base.
- **Meet Customer Needs:** FSLG will work with stakeholders and the Advisory Committee on Tax-Exempt and Government Entities (ACT) to ascertain FSLG customer's needs, as well as design and deliver mutually agreeable remedies to identified compliance concerns and problems whenever possible. In addition, the FSLG Newsletter and educational products will be used to address compliance questions and issues.
- **Improve Organizational Performance:** FSLG will use balanced measures and analyze the results to effect operational enhancements to improve performance.
- **Improve Knowledge and Information Management:** FSLG will expand its gathering and use of data, and develop tools to improve its abilities to identify, track, and measure the impact of field activities. It will continue to support the development and implementation of Reporting Compliance Case Management System (RCCMS) as the TE/GE work-center.
- **Address Federal Agency and Large Entity Compliance:** FSLG will continue examinations of Federal agencies and large government entities during FY2012.
- **Address Abusive Tax Avoidance Transactions and Tax Fraud:** FSLG will incorporate steps to identify customer participation in abusive schemes and fraud. Its efforts will include developing information for use in educational programs as well as providing guidance to its personnel.
- **Address Noncompliance Related to International Issues and Activities:** FSLG will increase resources devoted to its international compliance program. This program includes outreach activities, as well as examinations of employment tax returns related to international issues.
- **Continue Work on Market Segment Compliance Projects:** FSLG will continue to address various compliance issues of specific market segments within state and local entities.
- **Build a Highly-Qualified and Satisfied Work Force** FSLG will continue to train its workforce to ensure that employees have the skills necessary to meet customer needs. It will continue its use of the employee survey to identify opportunities for improvements in employee satisfaction. It will continue to involve managers and employees in improvement processes for FSLG.

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 will continue 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, phone forums and internet conferencing to reduce travel costs and use less employee resources; for example: Federal Agency Seminars, phone forums with NCSSSA, NASACT, and State/National Associations, etc. Areas of focus for outreach will be related to various specialty topics including Section 218, IRC 3402(t), accuracy of Information Return Filing/Reporting, international issues including the U.S. Territories, Government Plans, and new legislation related to health care.

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. As of July 2011, there were nearly 134,000 subscribers.

Stakeholder Relationship

Social Security Administration

FSLG will continue to partner with the Social Security Administration (SSA) as a major external stakeholder while maintaining and increasing partnership activities with other stakeholders. FSLG employees contact designated officials at SSA

regarding the interpretation of Section 218 Agreements during examinations. FSLG continues to monitor this process and will implement improvements if necessary. FSLG will continue 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.

National Conference of State Social Security Administrators

The National Conference of State Social Security Administrators (NCSSSA) is an organization with which FSLG partners regularly in providing education and outreach to government entities. Additionally, 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. In FY2012, FSLG will continue to work with NCSSSA to develop Section 218 Agreement scenarios or case studies that will be used for both internal and external training. FSLG Specialists will be encouraged to collaborate with the appropriate SSSA when conducting outreach events.

Advisory Committee on Tax-Exempt Government Entities

The Advisory Committee on Tax-Exempt Government Entities (ACT) includes three members who represent government entities and work on projects related to FSLG issues. The ACT makes recommendations that improve compliance by government entities. For example, in FY2010 and 2011, FSLG worked with the ACT to complete and implement the FSLG Compliance Self-Assessment Tool for Public Employers, which is a questionnaire that enables government entities to privately assess their level of compliance. In FY2011, the ACT made recommendations related to the Government Accountability Office (GAO) Report to Congressional Requesters Entitled "Social Security Administration — Management Oversight Needed to Ensure Accurate Treatment of State and Local Government Employees," and evaluated and recommended improvements to the FSLG Website. In FY2012, FSLG will work to implement these recommendations and support additional collaborative efforts.

Other Actions

FSLG will continue to use balanced measures to determine employee satisfaction, customer satisfaction, and business results. Results of these measures will assist FSLG in ensuring that actions undertaken do not adversely impact any of these three areas, and will assist FSLG in identifying areas in need of operational improvements in subsequent years.

The FSLG measures being used for employee satisfaction and business results are generally consistent with measures used by other functions. FSLG will continue use of the employee survey to identify opportunities for improvements in employee satisfaction. The survey will continue to involve managers and employees in improvement processes for FSLG. As described below, FSLG will continue to provide training to its workforce to ensure that employees have the skills necessary to meet the visions and goals of FSLG.

During FY2012, FSLG will enhance our use of the functionality of RCCMS by incorporating electronic copies of prior compliance cases in the case building process. This will improve compliance contact pre-planning, reduce burden on taxpayers and improve overall efficiency of the compliance contact. In addition, FSLG is making changes to the method used to capture compliance case data, which is expected to be easier to use and provide more accurate, consistent data. Both of these enhancements are expected to be operational in FY2012.

FSLG is developing an Information Return Audit Guide (IRAG) that provides the user 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-FY2012.

COMPLIANCE SERVICES

This area represents the resources devoted to Field Compliance Services, including compliance checks, return 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 examinations of books and records relating to the determination of a tax liability will generally address employment tax issues, Social Security Act Section 218 compliance issues, information return issues, FICA replacement plan issues, Abusive Tax Avoidance Transactions and other priority work.

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 self-compliance. 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 will continue the Federal Agency Initiative and the Large Entity Initiative.

For FY2012, FSLG will continue to devote significant resources to the ET-NRP. ET-NRP is designed to develop data to identify and quantify the tax gap related to employment taxes. In FY2012, NRP examinations will make up over 50% of FSLG's examination program. FSLG will also continue other special compliance projects in FY2012.

In FY2012, FSLG will increase resources devoted to its international compliance program. This program includes outreach activities, employment tax

examinations related to international issues Form 1042 compliance issues, issues relating to visa and/or residential alien status, and compliance activities in the U.S. Territories.

FSLG supports the IRS wide effort to identify and eliminate abusive tax avoidance transactions and fraud. It will continue with its efforts to identify customer participation in abusive schemes and fraud. The FSLG customer base is primarily tax-neutral enablers of certain schemes. Its efforts will include developing information for use in educational programs, providing guidance to its compliance personnel, and making referrals to other IRS business units when necessary.

Research

FSLG will continue efforts to consistently identify governments and ensuring that IRS systems correctly identify them as governments. FSLG has initiated systemic changes to ensure that once entities are coded correctly, they will not be recoded to another entity type. In FY2012, FSLG will continue to identify additional government entities and correct the employment codes, which are used to identify governments on the IRS Business Master File (BMF), as necessary.

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 is planned for all FSLG Specialists, analysts, managers, and support staff. This training will address technical topics, emerging issues, and work process changes. The training will be conducted in a cost-effective manner using non-traditional delivery methods.

When additional staffing is available, FSLG will 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.

FSLG is modifying new-hire training to use non-traditional means to deliver the training. For example, FSLG is revising its Phase I training module into a blended learning format.

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