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Hi, Robin. Here is your e-newsletter for July 26, 2011.

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IRS Relaunches Pilot Program for Tax IDs



Reduce the Risk of Identity Theft

The IRS has announced in new guidance that it is extending and modifying a "pilot program" allowing certain information filers to use truncated versions of taxpayer ID numbers. (*IRS Notice 2011-38*)

The initial program, which was formulated two years ago, was explained in *IRS Notice 2009-93*. It is designed to reduce the risk of misuse of identifying numbers through misappropriated statements.

First, here's some background information: The IRS often requires "information returns" to be sent to the tax agency. This includes various returns, statements, forms and other documents, which are filed as a means of reporting certain payments or distributions to payees, or amounts received from payors, during the year.

A filer must also provide a statement to each payee with the same information being reported to the IRS. Generally, filers are required to furnish these payee statements to the appropriate recipients by January 31 (February 15, in some cases) of the year following the calendar year for which the information return is being made.

Typically, the information returns include the identifying numbers of the payees. The three types of identifying numbers that are applicable to individuals are Social Security numbers, IRS individual taxpayer identification numbers and IRS adoption taxpayer identification numbers. All three of these identifying numbers are nine-digit numbers using the format of 000-00-0000.

Of course, a person's ID number is sensitive personal information. Accordingly, there's a risk that the number might be misappropriated and misused by con artists and other nefarious parties who gain access to it. The IRS recognizes that filing information returns has created problems and potential issues for taxpayers relating to identity theft.

As a result, in *Notice 2009-93* the IRS authorized filers of certain information returns to truncate an individual's nine-digit ID on Forms 1098, 1099 and 5498. Now, *IRS Notice 2011-38* extends this program for paper statements furnished for 2011 and 2012. The extension will provide more time for the benefits of the pilot program to be evaluated. The IRS has invited public comments on the issue.

The new Notice also modifies the requirements by excluding Form 1098-C, *Contributions of*

Motor Vehicles, Boats, and Airplanes, from the pilot program. Reason: The IRS considers this form to be an "acknowledgement" required by the charitable deduction rules rather than a payee statement. Therefore, the IRS states it should not have been included within the scope of the initial pilot program.

To qualify for the extended truncation program, the following requirements must be met:

1. The identifying number is a Social Security number, IRS individual taxpayer identification number or IRS adoption taxpayer identification number.
2. The identifying number is truncated by replacing the first five digits of the nine-digit number with asterisks or Xs. For example, a Social Security number 123-45-6789 could appear on a paper payee statement as ***-**-6789 or XXX-XX-6789.
3. The truncated identifying number appears on a paper payee statement (including substitute and composite substitute statements) in the Form 1098 series (excluding the aforementioned Form 109-C), the Form 1099 series or the Form 5498 series for 2011 and 2012.

During this pilot program, truncation will be permitted only for individual identifying numbers on the paper payee statements specified by the IRS. Truncation of other employer identification numbers (EINs) or other filer identifying numbers isn't permitted. Furthermore, truncation of identifying numbers is not allowed for information returns filed with the IRS or on any payee statements furnished electronically.

If you have any questions relating to the extended IRS program, contact your tax adviser.

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