



Treasury Inspector General for Tax Administration Office of Audit

INCREASED OUTREACH EFFORTS COULD ENHANCE TAXPAYER AWARENESS OF THE BENEFITS OF THE QUALIFIED JOINT VENTURE FILING OPTION

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Highlights

Highlights of Report Number: 2010-40-034 to the Internal Revenue Service Commissioners for the Small Business/Self-Employed Division and the Wage and Investment Division.

IMPACT ON TAXPAYERS

For Tax Year 2007, approximately 40,000 taxpayers filed a U.S. Return of Partnership Income (Form 1065) and an additional 350,000 taxpayers filed a U.S. Individual Income Tax Return (Form 1040) with a single Profit or Loss From Business (Schedule C). These taxpayers could have potentially benefited by electing to use the Qualified Joint Venture (QJV) filing option. The QJV option allows taxpayers to bypass the filing of Form 1065 and the associated Supplemental Income and Loss (Schedule E) and only file two Schedules C and two Self-Employment Tax (Schedule SE) with their Form 1040. Married individuals filing a single Schedule C may allocate the Schedule C income. Thus both individuals receive Social Security credit.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether taxpayers who potentially qualified for the QJV filing option were adequately informed of the election and the potential benefits it provides.

Previously, married individuals in a business together were considered partners and required to file an annual Form 1065 as well as a Form 1040 return. The QJV option simplifies the filing requirements by allowing husband-and-wife businesses to be treated as sole proprietorships rather than partnerships for tax purposes. The option also helps to ensure each spouse gets proper Social Security credit.

WHAT TIGTA FOUND

Many potentially qualified individuals were not aware of the QJV filing option. Of the respondents to our survey who filed an annual Form 1065 but qualify for the QJV option, 85 percent were not aware of the option. A smaller percentage of the Form 1040, Schedule C, filers qualified for the QJV option;

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however, of those who did qualify, 80 percent were not aware of the option. In both categories, most of the taxpayers who were not aware of the option said that they would consider using it in the future.

The Internal Revenue Service (IRS) did not clearly present the new tax law provision in some of its publications or provide sufficient outreach to emphasize the new tax law change to the paid preparer community. Furthermore, tax preparation software packages did not adequately prompt or notify preparers about the new provision.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure all tax products, including those on the IRS.gov web site, that include a discussion on QJVs are clear and accurate and include explanations on partnership status and potential spousal benefits when electing the QJV option.

The IRS should also work more closely with the tax preparation software vendors to help ensure tax preparation software packages are adequately alerting taxpayers and paid preparers about the QJV election. An outreach marketing plan should be designed for husband-and-wife businesses and tax practitioners to ensure they are aware of the QJV election and its potential Social Security benefits and reduction of taxpayer burden.

IRS officials agreed with all of our recommendations. They are committed to improving their current efforts to provide clear and understandable information regarding the QJV filing option. They plan to update their publications and forms, update the content on the IRS.gov web site to ensure it is accurate and understandable, and enhance their marketing efforts to software industry professionals. They also plan to undertake an effort to ensure the spousal elections, and their impact on Social Security benefits, are clearly communicated to the appropriate taxpayers.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201040034fr.pdf>.

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