



*Increased Outreach Efforts Could Enhance
Taxpayer Awareness of the Benefits of the
Qualified Joint Venture Filing Option*

March 17, 2010

Reference Number: 2010-40-034

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax Return/Return Information



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 17, 2010

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

Michael R. Phillips

FROM: Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Increased Outreach Efforts Could Enhance
Taxpayer Awareness of the Benefits of the Qualified Joint Venture
Filing Option (Audit # 200940023)

This report represents the results of our review to determine whether taxpayers that appear to meet the requirements to elect Qualified Joint Venture (QJV)¹ treatment on their tax return were adequately informed of this information and the potential benefits it provides. The audit addresses the major management challenges of Taxpayer Rights and Entitlements and Reduction of Taxpayer Burden and is part of our Fiscal Year 2009 Annual Audit Plan.

Impact on the Taxpayer

For Tax Year 2007, approximately 40,000 U.S. Return of Partnership Income (Form 1065) and an additional 350,000 U.S. Individual Income Tax Returns (Form 1040) containing Profit or Loss From Business (Schedule C) were filed by taxpayers who could have potentially benefited by electing to use the new QJV option. We identified many potentially qualified individuals who were not aware of this option. The new option allows taxpayers to bypass the filing of the Form 1065 and the associated Supplemental Income and Loss (Schedule E) on Form 1040 and file only a Form 1040 with two supporting Schedules C and two Self-Employment Tax (Schedule SE). Married individuals currently filing a single Schedule C might benefit from the new option by allocating the Schedule C income and having both individuals receive Social Security credit, resulting in potential future Social Security benefits.

¹ The provision allows married taxpayers who wholly own a business to be treated as sole proprietors rather than partners for tax purposes.



Increased Outreach Efforts Could Enhance Taxpayer Awareness of the Benefits of the Qualified Joint Venture Filing Option

Synopsis

Prior to Tax Year 2007, joint husband-and-wife businesses with material participation by both spouses were considered partnerships and were required to file Form 1065 annually, as well as their regular Form 1040. Legislation was enacted to make the QJV option effective with the start of Tax Year 2007 to simplify the filing requirements for husband-and-wife businesses by allowing them 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 for his or her self-employment earnings.

Many taxpayers were not aware of the QJV filing option. Our review found two reasons contributing to the lack of awareness of this new option. First, the Internal Revenue Service (IRS) did not clearly present the new tax law provision and its associated benefits in some of its publications or provide sufficient outreach to emphasize the new tax law change to the paid preparer community. Second, the tax preparation software packages used by taxpayers and paid preparers did not adequately prompt or notify users of the new provision.

Recommendations

Increased outreach efforts could further taxpayer awareness and increase the number of qualified taxpayers electing treatment as a QJV. We recommended the Director, Tax Forms and Publications, Wage and Investment Division, and the Director, Examination, Small Business/Self-Employed Division, ensure publications and instructions for QJV election are clear and accurate. The tax products and IRS public web site, IRS.gov, should include explanations on partnership status and potential spousal benefits when electing the QJV filing option. The Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division, should work more closely with the tax preparation software vendor community to ensure software packages adequately alert users of tax preparation software about the QJV election. Also, the Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division, and the Director, Communications and Liaison, Wage and Investment Division, should design an outreach marketing plan for husband-and-wife businesses and tax practitioners to ensure the market segment and practitioner industry are aware of the QJV election and its benefits. The plan should explain the potential Social Security benefits and reduction of taxpayer burden.

Response

IRS management agreed with all of our recommendations. They committed to improve their efforts to provide clear and understandable information regarding QJVs, including various options available to taxpayers. They will update their publications and forms, update the content



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

on IRS.gov to ensure it is accurate and understandable, and enhance their marketing efforts to software industry professionals. In addition, they will undertake an effort to ensure the spousal elections, and their impact on Social Security benefits, are clearly communicated to the taxpayers. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services), at (202) 622-6513.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Table of Contents

Background	Page 1
Results of Review	Page 3
Many Taxpayers Are Not Aware of the Qualified Joint Venture Filing Option	Page 3
<u>Recommendations 1 through 3</u> :	Page 9
<u>Recommendation 4</u> :	Page 10
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 11
Appendix II – Major Contributors to This Report	Page 13
Appendix III – Report Distribution List	Page 14
Appendix IV – Outcome Measures	Page 15
Appendix V – Questions to Taxpayers	Page 18
Appendix VI – Management’s Response to the Draft Report	Page 23



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Abbreviations

IRS	Internal Revenue Service
QJV	Qualified Joint Venture
TIGTA	Treasury Inspector General for Tax Administration



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Background

During May 2007, legislation was enacted¹ to simplify the filing requirements for husband-and-wife businesses and also to help ensure both spouses get proper Social Security credits for their earnings while self-employed. A provision in the legislation known as the Qualified Joint Venture (QJV) provision was effective for Tax Year 2007 returns. The provision allows married taxpayers who wholly own a business to be treated as sole proprietors rather than partners for tax purposes.

The law provides taxpayers an additional option when reporting their income from a Qualified Joint Venture.

Previously, married taxpayers who materially participated in the business were considered partners, even if there was no official partnership agreement. As such, the taxpayers were required to file a U.S. Return of Partnership Income (Form 1065) annually, as well as their regular U.S. Individual Income Tax Return (Form 1040). The new law provides taxpayers an additional option when reporting their income from a QJV, allowing the taxpayers to decide how to file.

Because the partnership filing requirement was costly and time consuming, many taxpayers avoided the filing requirement by reporting the self-employed income as earned by only one of the spouses on the Form 1040, indicating the business was a sole proprietorship, a filing option allowed by the Internal Revenue Service (IRS). However, this resulted in the other spouse receiving no Social Security credit for his or her portion of the self-employment income.

Recognizing that this situation was burdensome for taxpayers, the IRS National Taxpayer Advocate recommended in her Fiscal Year 2002 and 2004 annual reports that the law be changed. According to the National Taxpayer Advocate, the issue arose as a 'common-sense change' and not because of some reported problems or specific taxpayer complaints. The Fiscal Year 2002 report stated there were approximately 2.1 million joint returns filed in Tax Year 1999 with a Profit or Loss From Business (Schedule C) for which the spouse did not have any wages. From this, the National Taxpayer Advocate inferred that these returns could be affected by the issue.

The practical effect of the law is that taxpayers are now allowed to split their business income on two Schedules C² and also split the net self-employment earnings on two Self-Employment Tax

¹ U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110-28, 121 Stat. 193 (2007).

² The provision also applies to farm income reported on Profit or Loss From Farming (Schedule F). However, for simplicity we limited the scope of our audit to Schedule C filers.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

(Schedule SE) forms. This will ensure that both taxpayers get proper Social Security credits. In addition, taxpayers are no longer required to file a Form 1065, which greatly reduces taxpayer burden when preparing and filing the returns.

The QJV election is one of three filing options available to husband-and-wife businesses. Figure 1 shows the forms to be filed and the potential advantages and disadvantages under each option.

Figure 1: Tax Year 2007 Filing Options for Husband-and-Wife Businesses

Filing Option	Filing Type	Forms / Schedules	Advantages	Disadvantages
Sole Proprietorship	Married Filing Jointly	- 1 Form 1040 - 1 Schedule C - 1 Schedule SE	- Taxpayer files only one type of tax return with two schedules: Form 1040, Schedule C, and Schedule SE.	- Only one spouse receives Social Security credit.
Qualified Joint Venture	Married Filing Jointly	- 1 Form 1040 - 2 Schedules C - 2 Schedules SE	- Taxpayer does not have to file Form 1065; Partner's Share of Income, Deductions, Credits, etc. (Schedule K-1); and Supplemental Income and Loss (Schedule E). - Both spouses receive Social Security credits	- Increased taxpayer burden to file additional Schedules C and SE.
Partnership	Married Filing Jointly	- 1 Form 1065 - 2 Schedules K-1 - 1 Form 1040 - 1 Schedule E - 2 Schedules SE	- Both spouses receive Social Security credits	- This option requires the highest number of forms and schedules.

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of IRS publications and instructions.

This review was performed at the IRS Fresno Submission Processing Site and included discussions with officials in the IRS National Headquarters in Washington, D.C. The review was conducted during the period November 2008 through September 2009 and included a survey of taxpayers nationwide. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



Increased Outreach Efforts Could Enhance Taxpayer Awareness of the Benefits of the Qualified Joint Venture Filing Option

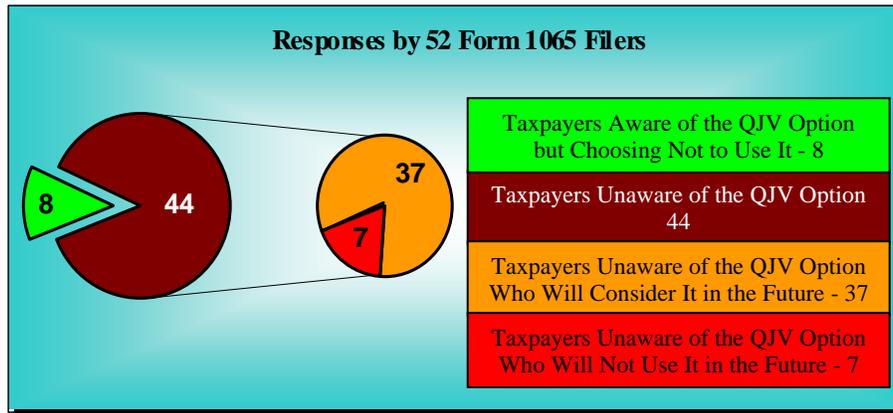
Results of Review

Many Taxpayers Are Not Aware of the Qualified Joint Venture Filing Option

To identify taxpayers who may be eligible for the QJV option and determine if they were aware of the option, we sent survey questionnaires to a random sample of 400 married taxpayers reporting income from a partnership (Form 1065) and to 800 married taxpayers reporting income from a sole proprietorship (Schedule C) in Tax Year 2007.³ Survey results indicated many joint taxpayers were not aware of the QJV filing option.

We received 95 replies from taxpayers filing Forms 1065. Fifty-two of the taxpayers who replied qualified for the QJV option. Only 8 of the 52 were aware of but chose not to elect the option.⁴ The remaining 44 (85 percent) were unaware of the option, and 37 (71 percent) of the 52 would consider using it in the future. Figure 2 shows the Form 1065 filers who were eligible for the QJV option.

Figure 2: Form 1065 Filers Who Were Eligible for the QJV Option



Source: TIGTA surveys of Tax Year 2007 married taxpayers filing Forms 1065.

³ We identified partnership tax returns with a single Schedule E, two Schedules SE, and no Schedule C or F. We also identified individual tax returns with a single Schedule C, one or more Schedules SE, and no Schedule F. We identified 104,300 Form 1065 filers and 4.8 million Schedule C filers potentially eligible for the QJV option.

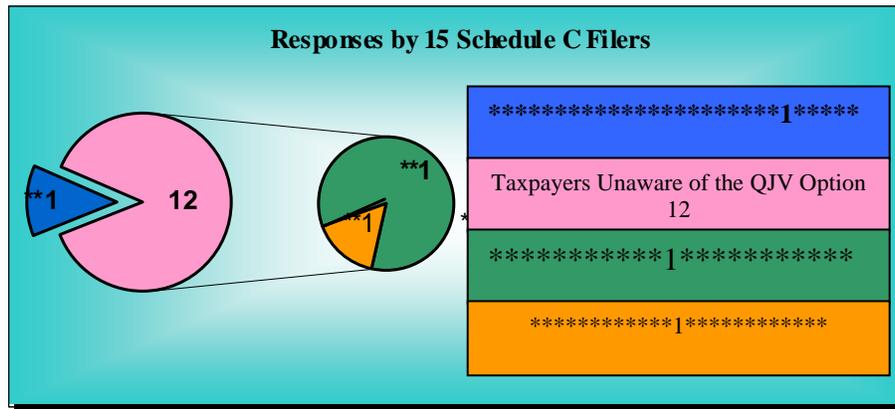
⁴ Taxpayers who were aware of the QJV option but did not use it either believed they would not qualify, preferred filing the old way they had in the past, or were advised by their tax preparer not to use the QJV option.



Increased Outreach Efforts Could Enhance Taxpayer Awareness of the Benefits of the Qualified Joint Venture Filing Option

We received 166 replies from taxpayers filing Schedules C. Fifteen of these taxpayers qualified for the QJV option. Only 3 of the 15 were aware of but chose not to elect the option. The remaining 12 (80 percent) were unaware of the option, and *****1*****of the 15 would consider using it in the future. Figure 3 shows the Schedule C filers who were eligible for the QJV option.

Figure 3: Schedule C Filers Who Were Eligible for the QJV Option



Source: TIGTA surveys of Tax Year 2007 married taxpayers filing Schedules C.

To determine reasons why many filers were not aware of the QJV option, we reviewed the instructions provided by the IRS in publications, forms, and tax preparation web sites. We also tested consumer tax preparation software to see if the software provided the preparer with QJV prompts whenever there was an indication of qualifying for the QJV option.

Some publications and instructions could be more complete or clear

Federal guidelines⁵ require information to be presented in a clear, accurate, and complete manner, including information disseminated via the Internet. We observed that the IRS did not always ensure that QJV information in forms and instructions was clear and complete.

The IRS updated forms and form instructions, as well as the IRS public web site, IRS.gov, with QJV information. QJV information was presented in the “What’s New” sections and in the text of instructions providing information that accurately described who is eligible and how to elect the option. Instructions related to one form, Schedule E, and two publications, *Taxable and Nontaxable Income* (Publication 525) and *Residential Rental Property* (Publication 527), presented QJV information in a clear, direct, and readable manner.

⁵ Office of Management and Budget, *Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies*, (Washington DC: OMB October 1, 2001).



Increased Outreach Efforts Could Enhance Taxpayer Awareness of the Benefits of the Qualified Joint Venture Filing Option

However, the QJV filing option information was not as clear in the *Farmer's Tax Guide* (Publication 225), *Tax Guide for Small Business* (Publication 334), and *Partnerships* (Publication 541), and was not presented clearly in Schedules C, E, and F. We found the benefits of the filing option were explained only in Publication 541. All these documents had the partnerships and QJV information presented in the same paragraphs, with the QJV filing option discussed only towards the end. For example, the QJV filing option is discussed after the partnership filing requirement in the instructions for Publication 541 (Rev. April 2008) presented below:

Husband-wife partnership. If spouses carry on a business together and share in the profits and losses, they may be partners whether or not they have a formal partnership agreement. If so, they should report income or loss from the business on Form 1065. They should not report the income on a Schedule C (Form 1040) in the name of one spouse as a sole proprietor. However, the husband and wife can elect not to treat the joint venture as a partnership if they meet each of the following requirements.

The first three sentences instruct taxpayers to file a partnership return. While the QJV option is presented in the example above, those first three sentences may cause taxpayers to read no further than the partnership filing requirement information, thus the taxpayer is left unaware of the new filing option. In addition, the IRS does not use a QJV information caption in this publication. Clarity could be improved by presenting QJV instructions separately under a QJV caption, as the IRS did in Tax Year 2007 Schedule SE instructions presented below:

Qualified Joint Ventures

If you and your spouse materially participate (see *Material participation* in the 2007 Instructions for Schedule C) as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make a joint election to be taxed as a qualified joint venture instead of a partnership. To make this election, you must divide all items of income, gain, loss, deduction, and credit between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C, C-EZ, or F. On each line of your separate Schedule C, C-EZ, or F, you must enter your share of the applicable income, deduction, or loss. You also must file a separate Schedule SE to pay SE tax on your share of the joint venture income.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

The information provided to the public does not adequately emphasize the benefits such as the Social Security benefit to the spouse or not having to file a partnership return when using the QJV filing option. Publication 541 (Rev. April 2008) provides only minimal information on Social Security benefits as shown below:

If the husband and wife do not make the election to treat their joint venture as sole proprietorships, each spouse should carry his or her share of the partnership income or loss from Schedule K-1 (Form 1065) to their joint or separate Form(s) 1040. Each spouse should include his or her respective share of self-employment income on a separate Schedule SE (Form 1040), Self-Employment Tax. This generally does not increase the total tax on the return, but it does give each spouse credit for social security earnings on which retirement benefits are based.

With the exception of Publication 541 and IRS.gov, none of the related instructions we reviewed in publications, forms, and schedules contained details of the Social Security benefits related to the QJV option. While IRS.gov presents information on the Social Security benefit, it states that certain married co-owners could avoid filing partnership returns, but the web site does not elaborate on this as a benefit derived from choosing the QJV filing option.

In addition, there may be some confusion that using the QJV filing option will terminate the partnership entity. Both Form 1065 instructions and IRS.gov state, “The partnership terminates at the end of the tax year immediately preceding the year the election takes effect.” The IRS has stated that only the partnership filing requirement is terminated and not the partnership itself. Taxpayers can use the partnership Employer Identification Number⁶ again if they no longer qualify for the QJV filing option. If taxpayers believe their partnership entity will be terminated, they may not want to use the QJV filing option.

Per the IRS web site, the Tax Forms and Publications office mission statement is to originate and improve tax forms, instructions, and publications that 1) are technically accurate, timely, understandable, and as easy to use as possible and 2) enable taxpayers to fulfill their tax filing and payment obligations. This office provides the tax forms, form instructions, and publications to the Submission Processing office for them to determine the record layout changes to communicate to the tax preparation software industry via the *Electronic Return File Specifications for Individual Income Tax Returns* (Publication 1346).

⁶ A unique nine-digit number used to identify a taxpayer’s business account.



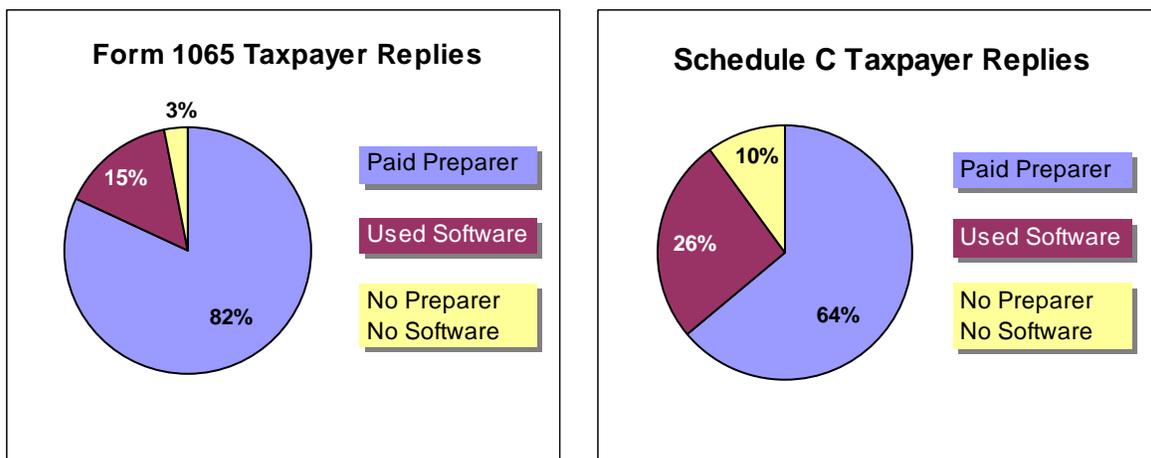
Increased Outreach Efforts Could Enhance Taxpayer Awareness of the Benefits of the Qualified Joint Venture Filing Option

The QJV filing option was not emphasized in tax preparation software

Many tax preparation software packages are designed to work in two ways. For taxpayers with limited knowledge of tax laws, there is a guided interview process to help determine what areas apply to the taxpayer depending on how they answer certain questions. Taxpayers with more advanced knowledge can choose to go directly to the sections that they want to complete to prepare their return in a minimal amount of time.

Replies from our random sample of taxpayer surveys showed that 97 percent of Form 1065 filers and 90 percent of Schedule C filers used a paid preparer or tax preparation software package to prepare their tax returns. Figure 4 gives detailed information on the replies we received from our taxpayer surveys.

Figure 4: Paid Preparers and Tax Preparation Software Packages



Source: TIGTA analysis of Form 1065 and Schedule C questionnaire replies for Tax Year 2007 returns filed.

To test if consumer tax preparation software prompted for the QJV election, we prepared seven Tax Year 2007 returns reporting income from a partnership or a sole proprietorship. Each return included the same basic criteria of a joint return that would result in Schedules E and SE for Form 1065 filers and in Schedules C and SE for the Schedule C filers. We reviewed the legal requirements for the QJV election as set forth in the law,⁷ IRS forms, and Publication 541 to ensure the sample test data qualified for the QJV election. In the scenario we used, the taxpayer is eligible for the election.

In the two major software packages we tested, there were no specific prompts about the QJV to alert the user to the potential benefits of electing the QJV option. The user needed to be aware of the QJV and/or have tax knowledge of how to answer questions in order to generate the forms

⁷ U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110-28, 121 Stat. 193 (2007).



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

and schedules required to elect the QJV option. One tax preparation software package did provide side margin Frequently Asked Questions for the user to obtain more information, but no specific prompts were provided to alert the user of potentially qualifying for QJV treatment.

In addition to the software we tested, we obtained tax preparation software screen prints for two other software packages. Both screen prints applied to preparation of Tax Year 2007 returns and should have generated whenever a joint Schedule C business was selected. The screen prints displayed a caution for the preparer to file a partnership return or elect the option to file two separate Schedules C. One screen print included an additional caution that their client may receive IRS inquiries if a joint Schedule C is filed. This caution may discourage preparers from the QJV election.

We also spoke with member practitioners from the American Institute of Certified Public Accountants and the National Association of Enrolled Agents to determine if the professional tax preparation software these practitioners used included adequate information to alert the user about the QJV election. The practitioners stated their professional tax preparation software⁸ did not prompt them for the QJV election; however, some of these practitioners stated that their software⁹ provided drop down menus or checkboxes needed to prepare the QJV schedules or provided a screen for joint Schedule C filers. Practitioners also stated the IRS did not emphasize the QJV filing option when issuing guidance.

The IRS Electronic Tax Administration office has a National Account Management program with a mission to “ease taxpayer burden and increase compliance by establishing and maintaining relationships with National Accounts, industry and IRS; and developing and exploring new electronic business opportunities and effectively managing associated issues.” Many top tax preparation software providers participate in the National Account Management program and have their own assigned IRS account manager. The Electronic Tax Administration office also provides assistance as a mediator between the industry and the IRS.

The Small Business/Self-Employed Division has a Communications office with a role that “designs, develops and implements communication strategies and plans, and delivers communications for internal and external stakeholders.” This role is accomplished by working with business owners to enhance understanding and taxpayer compliance, identifying objectives and appropriate communication and delivery channels that leverage relationships with stakeholders, supporting marketing efforts to practitioners and small business communities, and ensuring a communications link exists across the Small Business/Self-Employed Division business units and other IRS functions and operating divisions.

Consumer and professional tax preparation software packages did not adequately prompt the user to the QJV election, thus many taxpayers and preparers may be unaware of the QJV option. This

⁸ Lacerte, ProSeries, and Ultra Tax.

⁹ Lacerte, ProSystemFX, and Tax Works.



Increased Outreach Efforts Could Enhance Taxpayer Awareness of the Benefits of the Qualified Joint Venture Filing Option

presents a taxpayer burden to potentially 40,000 Form 1040 filers having to also file Form 1065 for their husband-and-wife business and could adversely affect taxpayer rights and entitlements for 350,000 Schedule C spousal taxpayers who do not split the income between both spouses in order to earn Social Security credit for each portion of their self-employment income. Based on the survey replies received from taxpayers and tax professionals, increased outreach efforts could further taxpayer awareness and increase the number of qualified taxpayers electing the QJV option.

Recommendations

Recommendation 1: The Director, Tax Forms and Publications, Wage and Investment Division, should ensure all tax products (forms, instructions, publications) that include a discussion on QJVs produced by Tax Forms and Publications are clear and accurate. The tax products should include explanations that are consistent on partnership status and potential spousal benefits when electing the QJV filing option.

Management's Response: IRS management agreed with this recommendation. Tax Forms and Publications office management will review all tax products containing information on QJVs to ensure the information is clear and accurate. They will also ensure the tax products include a consistent discussion on husband-and-wife businesses and provide information to show each spouse how to obtain credit for his or her respective Social Security earnings on which retirement benefits will be based.

Recommendation 2: The Director, Examination, Small Business/Self-Employed Division, should ensure all related IRS publications and instructions on the IRS.gov web site that include a discussion on QJVs are clear and accurate. The IRS.gov information should include explanations that are consistent on partnership status and potential spousal benefits when electing the QJV filing option.

Management's Response: IRS management agreed with this recommendation. They will review all related IRS publications and instructions located on the IRS.gov web site that discuss QJVs to ensure the information is clear and accurate. They will include explanations that are consistent on partnership status and refer to the potential spousal benefits that pertain to the QJV filing option.

Recommendation 3: The Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division, should work more closely with tax preparation software vendors to help ensure tax preparation software packages are adequately prompting taxpayers and paid preparers to the QJV election when it becomes apparent they may qualify for the election.

Management's Response: IRS management agreed with this recommendation. The Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division will work with the Small Business/Self-Employed Division to increase outreach to the software industry through their regularly scheduled meetings and conferences with



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

the industry throughout the year. The Examination function has agreed to provide a subject matter expert to address the industry and to fully explain the QJV option.

Recommendation 4: The Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division; the Director, Examination, Small Business/Self-Employed Division; and the Director, Communications and Liaison, Wage and Investment Division, should design an outreach marketing plan for husband-and-wife businesses and tax practitioners to ensure the market segment and practitioner industry are aware of the QJV election. The plan should explain the potential Social Security benefits and reduction of taxpayer burden.

Management's Response: IRS management agreed with this recommendation. The Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division; the Director, Examination, Small Business/Self-Employed Division; and the Director, Communications and Liaison, Wage and Investment Division agree to design an outreach marketing plan focused on the availability of the QJV election to certain taxpayers. This includes providing information to the husband-and-wife businesses market segment and the tax professional community to make them aware of potential spousal Social Security benefits and reduction of taxpayer burden when electing the QJV filing option.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine whether taxpayers who appear to meet the requirements to elect QJV treatment on their tax return were adequately informed of this information and the potential benefits it provides. To accomplish our objective, we:

- I. Determined whether the IRS provided adequate information related to the QJV provision in forms and publications and by other methods.
 - A. Evaluated the primary forms and publications related to the filing of a U.S. Return Partnership Income (Form 1065) or a Profit or Loss From Business (Schedule C) to determine if they adequately conveyed information about QJV treatment and the potential benefits to making the election.
 - B. Evaluated other methods the IRS used to disseminate QJV information (e.g., the IRS public web site, IRS.gov) to determine if they were adequate.
- II. Determined whether commercial software adequately informed professional tax preparers of the QJV election requirements and the benefits of the election.
 - A. Contacted committee members of the American Institute of Certified Public Accountants and National Association of Enrolled Agents to determine if professional tax preparation software adequately prompted the user to the QJV election.
 - B. Identified two major consumer tax preparation software packages and prepared seven sample returns using each software package to determine if these two consumer tax preparation software packages adequately prompted the user to the QJV election.
 - C. Contacted a professional tax preparation software company to determine how QJV information is presented and conveyed in their software.
- III. Determined other possible reasons why taxpayers did not claim QJV treatment.
 - A. Sent a survey questionnaire to 1,200 taxpayers and contacted the American Institute of Certified Public Accountants and National Association of Enrolled Agents professional accounting organizations to determine their reasons for not using the QJV filing option.

We selected a statistically valid random sample to project the population of filers who potentially qualified for the QJV election. Using a 95 percent confidence level, an expected error rate of 50 percent, and precision factor of ± 5 percent, we selected



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Tax Year 2007 samples of 400 taxpayers from the Form 1065 filing population of 104,300 and 800 taxpayers from the Schedule C filing population of 4.8 million.

All computer-processed data were extracted from the TIGTA Data Center Warehouse Returns Transaction Files (Individual Master File).¹ We validated the data by examining a random sample of 25 from each sample population. All criteria used to extract the data were confirmed in the data validation samples. This validation test demonstrated that the data were sufficiently reliable and could be used to meet the objectives of this audit.

- B. Evaluated the questionnaire responses and other information to determine the primary reasons why taxpayers did not make the election and why tax preparers would not use the QJV filing option.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: the Small Business/Self-Employed Division and the Wage and Investment Division policies, procedures, and practices for communicating new tax law changes. We evaluated these controls by reviewing instructions provided on related forms, publications, and web sites and by interviewing management and other employees associated with promoting awareness of new tax laws. We assessed the accuracy of information communicated via the IRS' forms, publications, and web site. In addition, we also reviewed survey responses from affected taxpayers and tax practitioners.

¹ The IRS database that maintains transactions or records of individual tax accounts.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Returns Processing and Account Services)

Kyle R. Andersen, Director

Richard J. Calderon, Audit Manager

Jennie G. Choo, Lead Auditor

Glory Jampetero, Senior Auditor

John B. Mansfield, Senior Auditor

Steven D. Stephens, Senior Auditor



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division
SE:S:CLD
Director, Communications and Liaison, Wage and Investment Division SE:W:C
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Customer Assistance, Relationships, and Education, Wage and Investment Division
SE:W:CAR
Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division
SE:W:ETARC
Director, Examination, Small Business/Self-Employed Division SE:S:E
Director, Media and Publications, Wage and Investment Division SE:W:CAR:MP
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Director, Tax Forms and Publications SE:W:CAR:MP:T
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Commissioner, Small Business/Self-Employed Division SE:S
 Chief, Program Evaluation and Improvement, Wage and Investment Division
 SE:W:S:PRA:PEI



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Appendix IV

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 40,000 U.S. Return of Partnership Income (Form 1065) joint taxpayers were burdened with additional time and cost in preparing forms to file their tax returns as partnerships (see page 3).

Methodology Used to Measure the Reported Benefit:

To determine the number of joint Form 1065 taxpayers who were burdened with filing additional forms, we first had to determine the number of joint Form 1065 taxpayers that potentially qualified for the QJV option.

All data were queried and extracted from the TIGTA Data Center Warehouse Returns Transaction Files (Individual Master File).¹ We queried for all Tax Year 2007 joint returns processed in Processing Year 2008 with a single Supplemental Income and Loss (Schedule E), two Self-Employment Tax (Schedule SE), and no Profit or Loss From Business (Schedule C) or Profit or Loss From Farming (Schedule F).² Our criteria identified 104,300 filers in the Form 1065 population that could potentially qualify for the QJV provision.

Our sample size was determined based on a 95 percent confidence level, an expected error rate of 50 percent, and a precision factor of ± 5 percent. A statistically valid random sample was taken because we wanted to project the number of joint taxpayers that were potentially eligible to elect the QJV option. A sample size of 383 was identified from our Form 1065 population. We increased our sample size to 400 to allow for cases that would need to be excluded from our sample. We sent a survey questionnaire to 400 joint taxpayers and received a 24 percent response rate. Based on the number of replies received, we adjusted our original precision factor of ± 5 percent to a precision factor of ± 10 percent.

¹ The IRS database that maintains transactions or records of individual tax accounts.

² We omitted Schedules C and F because we could not determine where the Schedule SE income came from and we would be unable to reconcile the Form 1065 income back to the Schedule SE without performing significant analysis.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

We received 95 Form 1065 taxpayer replies and identified that 52 (55 percent) of the taxpayers who replied potentially qualified for the QJV option. Of those qualified, 67 percent were not aware of the QJV option and another 2 percent believed they did not qualify but would consider the QJV election. We multiplied the 104,300 Form 1065 population by 55 percent to project the number of joint taxpayers potentially eligible to elect the QJV option, and then multiplied this total by the 69 percent³ potential taxpayer benefit to further project 39,582 joint taxpayers who potentially prepared additional forms to file their returns as partnerships.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 350,000 Schedule C spousal taxpayers did not receive Social Security credits for their portion of self-employment income (see page 3).

Methodology Used to Measure the Reported Benefit:

To determine the number of joint Schedule C spousal taxpayers who potentially did not receive Social Security credits for their self-employment income, we first had to determine the number of joint Schedule C taxpayers that potentially qualified for the QJV option.

All data were queried and extracted from the TIGTA Data Center Warehouse Returns Transaction Files (Individual Master File). We queried for all Tax Year 2007 joint returns processed in Processing Year 2008 with a single Schedule C and positive income, one or more Schedules SE, and no Schedule F.⁴ Our criteria identified 4.8 million Schedule C filers who may be eligible to qualify for the QJV option. We did not further refine our criteria because we did not want to exclude potentially qualified Schedule C filers from the population.

Our sample size was determined based on a 95 percent confidence level, an expected error rate of 50 percent, and precision factor of ± 5 percent. A statistically valid random sample was taken because we wanted to project the number of joint taxpayers that were potentially eligible to elect the QJV option. A sample size of 384 was identified from our Schedule C population. We doubled our sample size to 800 because we anticipated a majority of replies received would show that the taxpayers were not qualified for the QJV option. We sent a survey questionnaire to 800 joint taxpayers and received a 21 percent response rate. Based on the number of replies received, we adjusted our original precision factor of ± 5 percent to a precision factor of ± 8 percent.

We received 166 Schedule C taxpayer replies and identified that 15 (9 percent) of the taxpayers who replied potentially qualified for the QJV option. Of those qualified, ***1***** were not aware of the QJV option and another *****1*****

³ We combined the ***1*** who were not aware with *****1***** and identified them as missing the potential QJV benefit of reduction in taxpayer burden.

⁴ Schedule F would only be included (but not reviewed) in our population if the taxpayer also had a single Schedule C.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

****1****. We multiplied the 4.8 million Schedule C population by 9 percent to project the number of joint taxpayers potentially eligible to elect the QJV option, and then multiplied this total by the 80 percent⁵ potential taxpayer benefit to further project 349,875 spousal taxpayers who did not receive Social Security credits for their portion of the self-employment income.

⁵ We combined the 67 percent who were not aware with the 13 percent who would consider the QJV option and identified them as missing the potential QJV benefit of assigning Social Security credits to the spouse.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Appendix V

Questions to Taxpayers

U.S. Return of Partnership Income (Form 1065) Filers:

1. Indicate how your Tax Year (TY) 2007 tax return was prepared.
 - I used a paid tax preparer.
 - I used software (please write in the name of the software). _____
 - I did not use a paid tax preparer or computer software.

2. Did you and your spouse each 'materially participate' in the same self-owned business during TY 2007? See last page for the most common definitions used to define material participation.
 - Yes (go to next question).
 - No (stop here and return the questionnaire in the post-paid envelope).

3. Were you aware when you filed your TY 2007 return that you could elect to be treated as a 'Qualified Joint Venture', **and thereby avoid the Form 1065 (U.S. Partnership Income) filing requirement?** See definitions on the last page for an explanation of 'Qualified Joint Venture'.
 - Yes (go to next question).
 - No (go to Question 5).

4. What reason(s) did you have for not making the election to be treated as a 'Qualified Joint Venture'? Circle all that apply.
 - You believed you did not meet the qualifications for a Qualified Joint Venture.
 - You did not have enough information to enable you to make an informed decision.
 - You received advice not to file this way.
 - You believed filing with Form 1065 versus a Schedule C lowered your risk of a tax audit.
 - You forgot to make the election.
 - You qualified but opted not to make the election (please provide explanation at the end of the questionnaire).
 - Other (please provide explanation at the end of the questionnaire).

5. Now that you are aware of this provision, will you consider using it in the future if you meet the requirements?
 - Yes.
 - No.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

6. What are the primary means by which you receive information about tax law changes? Circle all that apply.
- IRS Forms and Instructions.
 - IRS Publications.
 - IRS Toll-Free phone assistance.
 - IRS Walk-In Site assistance (face-to-face).
 - Internet - IRS.gov website.
 - Internet – other websites (please describe). _____
 - Tax Professional (please describe). _____
 - Other (please describe). _____
7. If possible, please estimate the time and cost incurred to file your TY 2007 Form 1065 (U.S. Partnership Income).

Additional information. Please include any additional information from the questions above, as well as anything else you feel is pertinent to our inquiry. An additional page can be attached if needed.

Definitions

Material Participation (taken from IRS Schedule C Instructions):

Participation generally includes any work you did in connection with an activity if you owned an interest in the activity at the time you did the work. The capacity in which you did the work does not matter. However, work is not treated as participation if it is work an owner would not customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses or credits from activity under the passive activity rules. Work you did as an investor in an activity is not treated as participation unless you were directly involved in the day-to-day management or operations of the activity.

You materially participated in the operation of this trade or business if you met **ANY** of the following seven tests:

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals for the tax year.
3. You participated in the activity for more than 100 hours during the tax year and you participated at least as much as any other person for the tax year.
4. The activity is a significant participation activity for the tax year and you participated in all significant participation activities for more than 500 hours during the year.
5. You materially participated in the activity for any 5 of the prior 10 years.
6. The activity is a personal service activity in which you materially participated for any 3 prior tax years.
7. You participated in the activity on a regular, continuous, and substantial basis for more than 100 hours during the tax year.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Qualified Joint Venture (taken from IRS Form 1065 instructions):

If you and your spouse materially participate as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make an election to be treated as a qualified joint venture instead of a partnership. By making this election you will not be required to file Form 1065 for any year the election is in effect and will instead report the income and deductions directly on your joint return.

To make this election, you must divide all items of income, gain, loss, deduction, and credit between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C, C-EZ, or F. On each line of your separate Schedule C, C-EZ, or F, you must enter your share of the applicable income, deduction, or loss. Each of you also must file a separate Schedule SE to pay self-employment tax.

Once made, the election cannot be revoked without IRS consent. If you and your spouse filed a Form 1065 for the year prior to the election, you do not need to amend that return or file a final Form 1065 for the year the election takes effect. However, the partnership terminates at the end of the tax year immediately preceding the year the election takes effect.

Profit and Loss From Business (Schedule C) Filers:

1. Indicate how your Tax Year (TY) 2007 tax return was prepared.
 - I used a paid tax preparer.
 - I used software (please write in the name of the software). _____
 - I did not use a paid tax preparer or computer software.

2. Did you and your spouse each 'materially participate' in the same self-owned business during TY 2007? See last page for the most common definitions used to define material participation.
 - Yes (go to next question).
 - No (stop here and return the questionnaire in the post-paid envelope).

3. Were you aware when you filed your TY 2007 return that you could elect to be treated as a 'Qualified Joint Venture', **which would help ensure that you and your spouse get proper credit with the Social Security Administration for your earnings?** See definitions on the last page for an explanation of 'Qualified Joint Venture'.
 - Yes (go to next question).
 - No (go to Question 5).



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

4. What reason(s) did you have for not making the election to be treated as a 'Qualified Joint Venture'? Circle all that apply.
 - You believed you did not meet the qualifications for a Qualified Joint Venture.
 - You did not have enough information to enable you to make an informed decision.
 - You received advice not to file this way.
 - You believed filing a single Schedule C lowered your risk of a tax audit.
 - You forgot to make the election.
 - You qualified but opted not to make the election (please provide explanation at the end of the questionnaire).
 - Other (please provide explanation at the end of the questionnaire).

5. Now that you are aware of this provision, will you consider using it in the future if you meet the requirements?
 - Yes.
 - No.

6. What are the primary means by which you receive information about tax law changes? Circle all that apply.
 - IRS Forms and Instructions.
 - IRS Publications.
 - IRS Toll-Free phone assistance.
 - IRS Walk-In Site assistance (face-to-face).
 - Internet - IRS.gov website.
 - Internet – other websites (please describe). _____
 - Tax Professional (please describe). _____
 - Other (please describe). _____

7. If possible, please estimate the time and cost incurred to file the Schedule C (Profit or Loss From Business) attached to your TY 2007 Form 1040 (U.S. Individual Income Tax Return).

Additional information. Please include any additional information from the questions above, as well as anything else you feel is pertinent to our inquiry. An additional page can be attached if needed.

Definitions

Material Participation (taken from IRS Schedule C Instructions):

Participation generally includes any work you did in connection with an activity if you owned an interest in the activity at the time you did the work. The capacity in which you did the work does not matter. However, work is not treated as participation if it is work an owner would not customarily do in the same type of activity and one of your main reasons for doing the work was to avoid the disallowance of losses



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

or credits from activity under the passive activity rules. Work you did as an investor in an activity is not treated as participation unless you were directly involved in the day-to-day management or operations of the activity.

You materially participated in the operation of this trade or business if you met **ANY** of the following seven tests:

1. You participated in the activity for more than 500 hours during the tax year.
2. Your participation in the activity for the tax year was substantially all of the participation in the activity of all individuals for the tax year.
3. You participated in the activity for more than 100 hours during the tax year and you participated at least as much as any other person for the tax year.
4. The activity is a significant participation activity for the tax year and you participated in all significant participation activities for more than 500 hours during the year.
5. You materially participated in the activity for any 5 of the prior 10 years.
6. The activity is a personal service activity in which you materially participated for any 3 prior tax years.
7. You participated in the activity on a regular, continuous, and substantial basis for more than 100 hours during the tax year.

Qualified Joint Venture (taken from IRS Schedule SE instructions):

If you and your spouse materially participate as the only members of a jointly owned and operated business, and you file a joint return for the tax year, you can make a joint election to be taxed as a qualified joint venture instead of a partnership. To make this election, you must divide all items of income, gain, loss, deduction, and credit between you and your spouse in accordance with your respective interests in the venture. Each of you must file a separate Schedule C, C-EZ, or F. On each line of your separate Schedule C, C-EZ, or F, you must enter your share of the applicable income, deduction, or loss. You also must file a separate Schedule SE to pay Self-Employment tax on your share of the joint venture income.



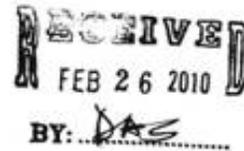
*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Appendix VI

Management's Response to the Draft Report

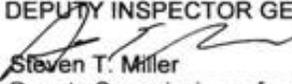


DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



February 24, 2010

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: 
Steven T. Miller
Deputy Commissioner for Services and Enforcement

SUBJECT: Draft Audit Report – Increased Outreach Efforts Could
Enhance Taxpayer Awareness of the Benefits of the
Qualified Joint Ventures (Audit No. 200940023)

Thank you for the opportunity to review your draft report entitled, "Increased Outreach Efforts Could Enhance Taxpayer Awareness of the Benefits of the Qualified Joint Ventures."

We are committed to improving our current efforts to provide clear and understandable information regarding Qualified Joint Ventures including various options available to taxpayers. We will update our publications and forms, update the content on IRS.gov to ensure it is accurate and understandable, and enhance our marketing efforts to software industry professionals. In addition, we will undertake an effort to ensure the spousal elections, and their impact on social security benefits, are clearly communicated to the appropriate taxpayers.

If you have any questions, please contact me, or a member of your staff may contact Christopher Wagner, Commissioner, Small Business/Self Employed Division, at (202) 622-0600.

Attachment



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

Attachment

RECOMMENDATION 1:

The Director, Tax Forms and Publications, Wage and Investment Division, should ensure all tax products (forms, instructions, publications) that include a discussion on QJVs produced by Tax Forms and Publications are clear and accurate. The tax products should include explanations that are consistent on partnership status and potential spousal benefits when electing the QJV filing option.

CORRECTIVE ACTION:

We agree with this recommendation. Tax Forms and Publications will review all tax products containing information on Qualified Joint Ventures (QJV) to ensure they are clear and accurate. We will also ensure the tax products include a consistent discussion on husband-wife partnerships, and ensure they provide information to show each spouse how to obtain credit for their respective social security earnings on which their retirement benefits will be based.

IMPLEMENTATION DATE:

March 15, 2011

RESPONSIBLE OFFICIAL:

Director, Media and Publications, Wage & Investment Division (W&I)

CORRECTIVE ACTION MONITORING PLAN:

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2:

The Director, Examination, Small Business/Self Employed Division, should ensure all related IRS publications and instructions on the IRS.gov web site that include a discussion on QJVs are clear and accurate. The IRS.gov information should include explanations that are consistent on partnership status and potential spousal benefits when electing the QJV filing option.

CORRECTIVE ACTION:

We agree with this recommendation. We will review all related IRS publications and instructions located on the IRS.gov web site that discuss Qualified Joint Ventures to ensure they are clear and accurate. We will include explanations that are consistent on partnership status and refer to the potential spousal benefits that pertain to the QJV filing option.

IMPLEMENTATION DATE:

March 15, 2011



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

2

RESPONSIBLE OFFICIAL:

Director, Examination Policy, Small Business/Self-Employed Division (SB/SE)

CORRECTIVE ACTION MONITORING PLAN:

The Director, Examination Policy, SB/SE will advise the Director, Examination, SB/SE of any delays in implementing this corrective action.

RECOMMENDATION 3:

The Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division, should work more closely with tax preparation software vendors to help ensure tax preparation software packages are adequately prompting taxpayers and paid preparers to the QJV election when it becomes apparent they may qualify for the election.

CORRECTIVE ACTION:

We agree with this recommendation. The Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division will work with SB/SE to increase outreach to the software industry through our regularly scheduled meetings and conferences with the industry throughout the year. SB/SE Examination has agreed to provide a subject matter expert to address the industry and to fully explain the Qualified Joint Venture (QJV) option.

IMPLEMENTATION DATE:

March 15, 2011

RESPONSIBLE OFFICIAL:

Director, Electronic Tax Administration and Refundable Credits, Wage and Investment Division (W&I)

CORRECTIVE ACTION MONITORING PLAN:

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 4:

The Director, Communications, Liaison, and Disclosure, Small Business/Self Employed Division, the Director, Examination, Small Business/Self Employed Division, and the Director, Communications and Liaison, Wage and Investment Division, should design an outreach marketing plan for husband-and-wife businesses and tax practitioners to ensure the market segment and practitioner industry are aware of the QJV election. The plan should explain the potential Social Security benefits and reduction of taxpayer burden.



*Increased Outreach Efforts Could Enhance Taxpayer Awareness
of the Benefits of the Qualified Joint Venture Filing Option*

3

CORRECTIVE ACTION:

We agree with this recommendation. The Director, Communications, Liaison and Disclosure, Small Business/Self Employed Division, the Director, Examination, Small Business/Self Employed Division, and the Director, Communications and Liaison, Wage and Investment Division agree to design an outreach marketing plan focused on the availability of the Qualified Joint Venture (QJV) election to certain taxpayers. This includes providing information to the market segment of husband-and-wife businesses and the tax professional community to make them aware of potential spousal Social Security benefits and reduction of taxpayer burden when electing the QJV filing option.

IMPLEMENTATION DATE:

March 15, 2011

RESPONSIBLE OFFICIAL:

Director, Examination Policy, SB/SE

CORRECTIVE ACTION MONITORING PLAN:

The Director, Examination Policy, SB/SE will advise the Director, Examination, SB/SE of any delays in implementing this corrective action.