

SUPPORTING STATEMENT

Form 14420
OMB # 1545-2236

1. CIRCUMSTANCES NECESSITATING COLLECTION OF INFORMATION

The Exam Payment Mix Method pilots are aimed at determining the best method for and value of using the Form 1099-K information to identify and treat non-compliance. This is expected to result in the identification of new cases of gross receipts underreporting. As a result, this effort will also test new treatment streams to allow the IRS to work these cases. One of these treatment streams is a notice process. Requesting the books and records needed to verify the gross receipts discrepancy through a notice process would result in extensive taxpayer burden. Instead, the taxpayer can fill out the Form 14420, which requests the minimum information needed for us to refine our analysis of the taxpayer's return and determine if there are any reporting errors/business characteristics that may explain their outlier reported figures.

2. USE OF DATA

The pieces of information requested on this form serve multiple key purposes:

- 1) Verification of 1099-K data: we want to provide the taxpayer the opportunity to correct any 1099-K data errors. This will not only help us properly access the taxpayer's return, but also allow us to use this information to improve the IRS' information capture in future years
- 2) Additional information on reporting methods and business characteristics - This information could potentially be explanatory factors for taxpayer's outlier figures. Understanding the frequency and nature of these explanatory factors as well as gaining a better general knowledge of the card-accepting small business community could help the IRS refine 1099-K compliance treatments going forward.

3. USE OF IMPROVED INFORMATION TECHNOLOGY TO REDUCE BURDEN

There are no current plans to have electronic submission.

4. EFFORTS TO IDENTIFY DUPLICATION

This form requests taxpayers to verify the information reported on their Form(s) 1099-K and provide additional information to refine the case selection criteria developed based on 1099-K information. There are no other forms that request the same information as the Form 1099-K. The treatment of these cases is also set up so that no taxpayer will be asked to provide the same information twice.

5. METHODS TO MINIMIZE BURDEN ON SMALL BUSINESSES OR OTHER SMALL ENTITIES

Only a small percentage of the overall small business or other small entity population is required to fill this form. In addition, the information requested are only the data items necessary to help us better evaluate the taxpayer's return. These data elements will help us determine whether the business has reasonable explanations for their reported gross receipts resulting in no further action by the IRS. Additionally, we have asked for estimates where exact values may be more burdensome for taxpayers to provide.

6. CONSEQUENCES OF LESS FREQUENT COLLECTION ON FEDERAL PROGRAMS OR POLICY ACTIVITIES

If the IRS did not collect this information, the IRS would not be able to collect this data, which will permit the IRS to address potential underreporting of gross receipts in a manner less burdensome for both the taxpayer and the IRS than a field examination.

7. SPECIAL CIRCUMSTANCES REQUIRING DATA COLLECTION TO BE INCONSISTENT WITH GUIDELINES IN 5 CFR 1320.5(d)(2)

There are no special circumstances requiring data collection to be inconsistent with guidelines in 5 CFR 1320.5(d)(2).

8. CONSULTATION WITH INDIVIDUALS OUTSIDE OF THE AGENCY ON AVAILABILITY OF DATA, FREQUENCY OF COLLECTION, CLARITY OF INSTRUCTIONS AND FORMS, AND DATA ELEMENTS

In response to the Federal Register notice dated April 21, 2016 (81 FR 23551), we received no comments during the comment period regarding this form.

9. EXPLANATION OF DECISION TO PROVIDE ANY PAYMENT OR GIFT TO RESPONDENTS

No payment or gift has been provided to any respondents.

10. ASSURANCE OF CONFIDENTIALITY OF RESPONSES

Generally, tax returns and tax return information are confidential as required by 26 USC 6103.

11. JUSTIFICATION OF SENSITIVE QUESTIONS

The questions are appropriate for tax purposes. The form requests taxpayer to verify the accuracy of reported information and provide additional information on their reporting methodology and general business characteristics.

12. ESTIMATED BURDEN OF INFORMATION COLLECTION

We anticipate that it will take approximately 3-6 hours for the taxpayer to complete the form depending on the taxpayer's record-keeping practices. The estimate is based on experienced knowledge of the typical availability of the records needed to complete this form. Additionally, it may take examiners approximately 1-2 hours to process the information received from this Form.

13. ESTIMATED TOTAL ANNUAL COST BURDEN TO RESPONDENTS

There are no start-up costs associated with this collection.

14. ESTIMATED ANNUALIZED COST TO THE FEDERAL GOVERNMENT

We don't anticipate significant cost to the federal government for sending this form. A potential cost to the government would be the labor resources and time necessary to print and mail these forms, and process information gathered.

15. REASONS FOR CHANGE IN BURDEN

The Form 14420 was reformatted by adding 'yes/no' response boxes for each item and space for the taxpayer to provide a written response when the item is applicable to the taxpayer. Bulleted items were replaced with numbers making it easier for the taxpayer to respond to specific items. The current form's purpose was added to the instructions box at the top of page 1, which provides transparency. The form provides the taxpayer up to five Forms 1099-K. To benefit taxpayers with up to ten Forms 1099-K, online information was added. The taxpayer has the option of going to www.irs.gov to retrieve their Forms 1099-K filed with the IRS. Due to additions to the Form 1099-K, columns were added to the Form 14420 table to account for 'card not present' (online sales) and 'number of payment transactions.' The form's length remains at three pages. The changes provide clarity, resulting in reduced time and reduced burden on the taxpayer to complete the form and for the tax examiners to review and evaluate taxpayer responses. The amount of time per response is reduced by an hour and is estimated to be 3 hours.

In addition, the estimated number of responses has decreased as the form will no longer be used by the agency and will become obsolete in the near future. The agency estimated that 1,000 forms will be utilized by taxpayers before the form becomes obsolete. Due to the changes above, the number of responses has decreased (5,600 to 1,000), with a new total burden of 3,000 hours. We are also making this submission to renew the OMB approval.

16. PLANS FOR TABULATION, STATISTICAL ANALYSIS AND PUBLICATION

Extensive statistical analyses were conducted using Form 1099-K information to develop case selection criteria. Information gathered from this Form and other parts of the Pilots will help us refine these case selection criteria in the future.

17. REASONS WHY DISPLAYING THE OMB EXPIRATION DATE IS INAPPROPRIATE

We believe that displaying the OMB expiration date is inappropriate because it could cause confusion by leading taxpayers to believe that the form sunsets as of the expiration date. Taxpayers are not likely to be aware that the Service intends to request renewal of the OMB approval and obtain a new expiration date before the old one expires.

18. EXCEPTIONS TO THE CERTIFICATION STATEMENT

There are no exceptions to this certification statement.