

## TAX NOTES TODAY®

### IRS Set to Meet Forms and Pubs Deadline

**Despite the complex changes to the tax code wrought by the Taxpayer Relief Act of 1997, the IRS is ready to develop all necessary forms and publications in time for the 1998 filing season.**

**Date:** Sep. 15, 1997

#### ===== HIGHLIGHT =====

Lawmakers spent months haggling over the details of the recently enacted Taxpayer Relief Act of 1997 (H.R. 2014; P.L. 105-34). Some of the provisions included in the bill have been years in development. But from the Internal Revenue Service's perspective, the long and difficult process of passing a tax law pales in comparison to the rush to develop the new forms and publications necessary to administer the new law's complex, comprehensive set of changes.

"The forms are designed so taxpayers don't have to understand the law; all they need to do is follow the form," IRS spokesman Don Roberts said. This leaves the Service in the unenviable position of translating about 440 items changed by the new tax law into forms and publications that taxpayers can understand.

It is not an easy task. "At this stage, we're just grateful that they got a bill signed and finalized in August," Roberts said, as he recalled past years in which major tax bills were not completed until October or November, leaving the agency with even less time to prepare. The good news is that the IRS expects to have its forms and pubs revised in time for the filing season. Unfortunately, that's about the only good news.

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#### ===== FULL TEXT =====

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### **Forms for the Upcoming Filing Season**

The capital gains provisions have multiple effective dates in 1997, making them by far the most immediate concern for form drafters. Schedule D, used to report capital gains and losses, was in the past a 19-line form, accompanied by a 13-line worksheet in the instructions that taxpayers used to calculate their maximum rate. According to IRS officials, the prototype for the 1997 Schedule D includes 37 new lines. Sheldon Schwartz, IRS national director of forms and publications, said that the new lines are necessary because there will be at least nine brackets by 2000, depending on when capital assets are sold.

"What happened to simplicity?" asked San Antonio CPA Steven **Bankler**, a consultant for Time Magazine and The Wall Street Journal. "Thirty-seven lines -- that's keeping it simple? . . . People are going to have to do gymnastics to determine how much they're eligible for."

The alterations for the capital gains forms are in the final stages of review and approval, according to the IRS. The new 1997 forms will have to be finalized before October to be ready for distribution in January.

Form 2119, "Sale of Principal Residence," is another form that could possibly cause a bit of confusion. According to the new law, if a taxpayer sold a residence after May 6 but before August 5, the taxpayer has the option of choosing whether the old law or the new law will apply to the transaction. This will require two separate sets of instructions for Form 2119.

### **Form 1040, 1997 and Beyond**

The 1040 will undergo significant revision next year to accommodate new items such as the child tax credit and education provisions, according to Rich Washart, an IRS official who deals with forms and publications.

The 1040 already has to add some lines in 1997 because of 1996 tax law changes. Medical savings accounts, for example, have to be reflected on the form. Will the Taxpayer Relief Act of 1997 force the IRS to make the 1040 three pages long? "We just don't know," said IRS spokesman Steve Pyrek.

The new law also makes the 1040 more complex for the very people Congress intended to help. While parents of qualifying children under 17 may benefit from claiming a \$400-per-child deduction in 1998 and \$500 for subsequent years, low-income taxpayers have to first go through various steps to see if they qualify. What it boils down to, **Bankler** said, is if the earned income credit is larger than their tax liability, including the FICA tax, it is unclear whether or not they actually receive any benefit.

"This is forcing low-income people to incur fees on professional tax return preparation services to determine whether they are entitled to the credit," **Bankler** noted. "I hope there is not a repeat

of the 1995 filing season where the IRS issued notice upon notice asking taxpayers to correct their tax returns. It was the filing season from hell and a major burden on people."

The IRS will also devote a separate line on the 1040 for the HOPE scholarship credit and lifetime learning credit. The additional lines on the 1040 are necessary because there is no space left on line 42, where "other credits" are currently reported, Washart said.

### **Hand-in-Hand**

Also accompanying the revised forms are the publications -- which will be ready for taxpayers in December or January, according to Marilyn Ward, the IRS's chief of review of publications.

The pubs are generally designed to "simplify things," added Pyrek. There are different levels of information available and the taxpayers can pick the level of detail they need to properly access what form accommodates their needs. Still, the sense of urgency regarding the pubs is considerably less, he said.

Publication 17, "Your Federal Income Tax," the IRS's largest publication, deals with a compilation of different individual tax issues. Included in the publication are comprehensive examples to assist the taxpayer. Even with all of changes, it will meet the target date scheduled for January, Ward said.

Pub. 334, "Guide for Small Businesses," also appears to be on track for January delivery. Pub. 553, "Highlights of 1997 Tax Changes," will be particularly valuable this year for its in-depth coverage of 1997 and 1998 issues. In fact, 75 percent of the products are being revised to accommodate tax law changes for 1997 and 1998.

### **Going Electronic**

For those who will rely on CD-ROMs to receive updated information on the new tax forms, the IRS will issue, as it has in the past, two separate discs. The first will be an early release of the first forms completed, while the second will be a more comprehensive volume that includes all of the confirmed form changes.

As the IRS finishes updating each form for its CD-ROM releases, the modifications are loaded immediately onto its Web site. The Internet versions of forms may be available later than the print versions, but "for good reason," Pyrek said.

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### **Tax Analysts Information**

**Jurisdiction:** United States

**Subject Area:** Legislative and Policy Issues

IRS Practice and Procedure

**Index Terms:** IRS forms

publications

tax administration

legislation, tax

**Author:** Rieschick, Jacqueline

**Institutional Author:** Tax Analysts

**Tax Analysts Document Number:** Doc 97-25872 (4 pages)

**Tax Analysts Electronic Citation:** 97 TNT 178-4

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