Written Statement of the

Securities Industry and Financial Markets Association

Internal Revenue Service “Real-Time Tax System” Initiative

Wednesday, January 25, 2012

I. Introduction

Thank you for the opportunity to appear today to discuss this very important initiative. My name is Nicole Tanguy, Director and Tax Counsel at Citigroup Inc., and I am here representing the views of the Securities Industry and Financial Markets Association (SIFMA). SIFMA member firms are among the largest generators of information reporting returns, and we are proud of our contribution to the smooth functioning of our nation's tax system and of our relationship with the IRS.

Our members created SIFMA to represent the shared interests of hundreds of securities firms, banks, and asset managers. The industry employs approximately 7.6 million Americans and generates nearly 6 percent of the United States' gross domestic product. Every year, SIFMA member firms collect tens of millions of information returns and we compile and send millions of payee statements to clients. The resources we expend every year on this effort are substantial.

We also share a belief that the vision articulated by the Commissioner in his April 2011 speech is the right way to think about reforming the tax system in the future. The "look-back" approach the Commissioner rightly criticizes generates expensive and unnecessary conflicts with taxpayers that can escalate into full-blown tax controversy or even financial calamity for some taxpayers because of the long gap between filing and follow-up.

Therefore, we very much welcome this opportunity to discuss ways in which we can improve the information return filing process and realize efficiencies for the millions of taxpayers and clients whom we both serve.

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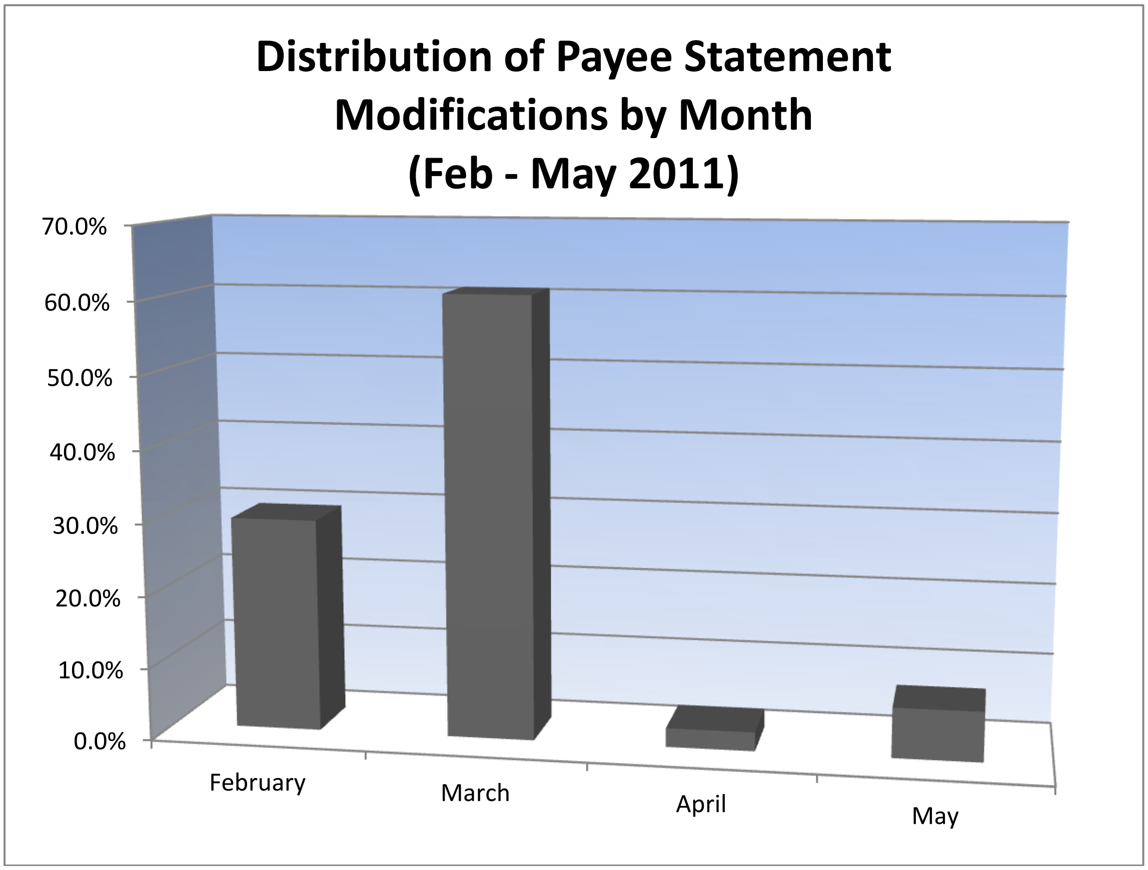
II. SIFMA Survey Results

In preparation for this panel, we conducted an informal survey of our members to find out how many information returns our members file and the number of corrected payee statement that we furnish to clients. These correction numbers are significant, because they illustrate the substantial work our member firms do to insure that the information we later provide to the IRS is as accurate and complete as possible. Most commonly, these corrections occur because we receive new information from mutual funds, real estate investment trusts, and other non-standard securities after the February 15 deadline to provide consolidated payee statements to taxpayers.

Overall, the members who responded to our survey sent 10.4 million consolidated payee statements to our clients in 2011 with respect to transactions occurring in 2010. During the following four months, our members also sent out 1.3 million corrected payee statements. In other words, 12.7% of the statements we mailed in January and February were subsequently updated with new information that we received from third parties or processing errors discovered after the statutory mailing deadline. Of the corrected payee statements, 29% were delivered to clients in the second half of February, 61% in March, 2.6% in April and 7% in May. The crescendo of payee statements furnished in March reflects the additional Forms 1099 and supplemental information on regular interests in Real Estate Mortgage Investment Conduits ("REMICs") and widely held fixed income trusts ("WHFITs"). The payee statements for these financial instruments have a later due date of March 15 because of the complexity of their tax treatment. The following chart shows the distribution of modifications by month, according to our survey.



Because substantially all member firms are required to file information returns electronically with the IRS, the data further demonstrates that our members work diligently to file all these information returns and correct any erroneous information in the Forms 1099 prior to April 30, the extended due date for electronically filed Forms 1099. The low post-April 30 filing rate reflects the effectiveness of the working partnership between taxpayers, enrolled agents and securities firms who endeavor to review and perfect the tax information before the Forms 1099 are filed with the IRS. Thus, the result of this collaboration is to reduce the potential for conflicts with the IRS and the number of amended tax returns. We strongly believe that the review period between the due date for payee statements and the IRS filing date for information returns is critical to an efficient and accurate information return filing process.

III. Providing Accurate Information to Taxpayers

Prior to 2009, securities firms were required generally to provide payee statements to taxpayers by January 31st. Because our members often rely on issuers and third parties with tax relevant information to compile these statements - - such as mutual funds, and real estate investment trusts - - it was impossible to provide fully accurate and complete payee statements to taxpayers by that date. Taxpayers and enrolled agents complained that the receipt of multiple amendments to the payee statements each year made it difficult to determine when the payee statements were truly final and that caused the filing of a higher volume of amended federal income tax returns. Recognizing the problem, Congress moved the deadline for furnishing consolidated payee statements to February 15th. While the statutory due date (generally, 60 days after the end of the fund's taxable year) for many mutual funds and REITS to designate long-term capital gain and exempt interest dividend distributions is later than February 15, our members have worked diligently with our partners in the mutual fund and REIT industries to improve the timeliness and accuracy of their reporting to us. Each year we agree to a uniform format for presenting the tax character, amount and timing information on distributions from such funds and agree to a common target date in mid-January for providing the reclassification information to securities firms. In combination, these efforts have allowed us to provide more accurate information to clients by the February 15th deadline, and we are confident that this will reduce the overall burden of tax filing for our clients and tax administrators for many years to come. Taxpayers who have more accurate information in hand are more likely to file accurate returns.

Our members have also taken steps to facilitate the delivery of payee statement to taxpayers and their integration into federal income tax returns. Most large firms offer electronic delivery of payee statement, in lieu of mailing paper forms, as permitted by IRS procedures. Even if a taxpayer does not opt out of paper forms, some firms will make the statements electronically available in the same secure manner as monthly account statements. In addition, payee statements often can be downloaded by the taxpayer into the most commonly used tax return preparation software programs (e.g., Turbo Tax and Tax Cut). These electronic facilities improve the reliability of the delivery of the payee statements to taxpayers but also improve the efficiency of their use in tax return preparation.

We also note that practical problems can arise when Forms 1099 filed with the IRS are repeatedly corrected. The processing burden placed upon the IRS is increased, especially when corrections are filed on paper, and there can be difficulties in overriding the earlier files with the later corrections. If corrected files are not carefully managed, the income reported in multiple filings might be aggregated instead of overriding the earlier filing.

It is important to recognize that when Congress acted to address the timing problem experienced by taxpayers, the problems of the "look-back" system were addressed by extending a reporting deadline, not by accelerating it. The tax system does not benefit from accelerating the deadline for information that ultimately will be inaccurate and need to be corrected, costing time and money. We believe it is better to provide accurate information at a later date than to provide contingent and changeable figures earlier.

IV. Recommendations for Achieving "Real Time" Objectives

SIFMA shares the Commissioner's objective to progress toward "real time" tax returns and we would like to suggest some measures that could be taken toward this objective. First, we suggest that a cross-check be performed of the name and taxpayer identification number stated on a tax return against the IRS master file at the time a federal income tax return is filed to validate the name/TIN combination in real time. Perhaps the technology used in the IRS's TIN matching progress could be used for this purpose. If a match is achieved, then the IRS could be confident that a claim for a refund on the tax return is being made by a real taxpayer rather than a fictitious person. If no match is achieved, the requested refund could be denied at least until the identity of the taxpayer can be verified. This upfront TIN matching process would also have a collateral effect of reducing the number of incorrect TIN notices ("B Notices") that might otherwise be issued by the IRS at a later date.

Second, the ability of a tax return preparer to collect all of the information returns filed for a particular taxpayer and needed to prepare an accurate federal income tax return might be enhanced if payors had official authority to furnish payee statements directly to the enrolled agents, either in addition to or in lieu of delivery to the taxpayer. The hope would be that delivery directly to the return preparer would minimize occurrences of lost or misplaced payee statements. This might be accomplished by introducing an IRS-approved consent form, which if signed by the taxpayer, would enable a payor to deliver the payee statement to a specified enrolled agent.

Third, the IRS might consider testing electronically filed tax returns for complete reporting of dividend and interest income. Perhaps the existing underreporter program (i.e., "C Notice" program) could be accelerated in time and used for this purpose. However, this would work only if the tax return is filed after the date the payors have completed their filings of Forms 1099-DIV and 1099-INT. Thus, the test would probably need to be performed sometime after April 30 but could be performed well before the end of that calendar year.

Fourth, we understand that the IRS wishes to improve the likelihood that the taxpayer files an initial tax return that includes or accounts for all of the income reported on any type of information return. For this proposition to work, the evaluation, whether electronic or manual, would need to be performed after all the information returns are filed for the taxpayer. Rather than accelerating the filing of information returns, which we believe will re-introduce significant inaccuracies in Forms 1099, our members believe that the traditional period for filing federal tax returns needs to be postponed until after the due date for most information returns. The tax return filing period might not start before March 15, but to avoid compression of the work period for enrolled agents, the tax return due date (without regard to extensions) would need to be moved, for example, to June 15.

V. Conclusion

In conclusion, we hope that the IRS will find these suggestions helpful in advancing the Real Time Tax Initiative. SIFMA would appreciate an opportunity to contribute to the further development of any of these or other ideas and would be happy to answer any questions you may have. Thank you.