

# ***IRS releases proposed regulations implementing pilot program to truncate taxpayer identification numbers***

*January 7, 2013*

## ***In brief***

The US Department of Treasury and Internal Revenue Service (IRS) released proposed regulations on January 2, 2013 (the proposed regulations) to implement and expand the application of a voluntary IRS pilot program that permits filers of certain information returns to truncate taxpayer identification numbers (TINs). The program was originally announced in Notice 2009-93 and applied to statements for calendar years 2009 and 2010. The IRS instituted the pilot program as a tool to combat identity theft and extended and modified the program in Notice 2011-38 to apply through 2012.

## ***In detail***

Persons filing certain information returns must request a TIN from the payee and include that TIN on information returns furnished to the payee and filed with the IRS. A TIN includes social security numbers (SSNs), individual taxpayer identification numbers (ITINs), adoption taxpayer identification numbers (ATINs) and employer identification numbers (EINs). Prior to the pilot program in 2009, filers of information returns, which include Forms 1099, 5498, and 1098 series, were required to include the

payee's entire nine-digit TIN on the payee statement whether the statement was provided electronically or by paper. To improve the security of taxpayer data, the pilot program permits filers to conceal a portion of a payee's TIN and mask the payee's TIN by replacing the first five numbers with either an asterisk or letter "x."

There are several requirements filers must comply with to participate in the pilot program:

- TIN truncation is only available for paper payee statements. Filers are still

required to list the recipient's complete TIN on a payee statement that is delivered electronically.

- The complete TIN has to be listed on all information returns filed with the IRS.
- Truncation is only allowed for certain TINs: SSNs, ITINs and ATINs. EINs cannot be truncated either on a statement delivered to the payee or filed with the IRS.

**PwC Observation:** While many taxpayers viewed the pilot program as a step in the right direction to address identify theft, these limitations reduced participation in the program. Filers of information returns commented that their current technology does not distinguish between EINs and other TINs and consequently many filers could not participate in the pilot. As a result of increased information reporting obligations more broadly, many filers are currently in the process of modifying and updating their information reporting systems. Consideration should be given to whether systems should be modified to allow for the TIN masking as permitted by these proposed regulations.

### Truncated TIN Program

The proposed regulations also expanded the pilot program initiated in 2009 and create a new TIN, the truncated TIN (TTIN). The truncation program remains voluntary. The guidance provides that filers of certain information returns may use a TTIN on certain payee statements as an alternative to a complete SSN, ITIN, or ATIN. The most notable change from the pilot program that will have a significant impact on filers is the expansion of the program to allow the use of a TTIN on payee statements furnished either electronically or by paper.

Some of the original limitations of the pilot program remain in effect. While Forms 1099, 5498, and 1098 series (except for Form 1098-C) are still included under the proposed regulations, filers may not use a TTIN on Forms W-2 furnished to employees. However, EINs still can't be truncated on furnished payee statements. The IRS indicated that the payee statements excluded from the program require a TIN by statute

or are a type of statement that is an acknowledgement and not a statement that reports a payment or receipt of a payment.

**PwC Observation:** Although the proposed regulations amend several information reporting sections to conform with the option to use TIN masking when delivering payee statements, certain information reporting sections such as 6041 and 6050W are not amended. It appears that these information reporting sections were not amended because the current language does not prohibit the use of a TTIN nor does it require that payees receive the copy of the statement filed with the IRS. These regulations do not apply to Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding.

A comment period is in effect that allows taxpayers to provide observations on the proposed regulations. The comments must be received by the IRS no later than February 21, 2013 and the IRS will hold a public hearing on March 13, 2013.

**PwC Observation:** Taxpayers whose systems limitations prevent them from using a TTIN due to the inability to exclude EINs from this process should provide comments highlighting and explaining the limitations of these provisions.

### The takeaway

The mechanism created by the pilot program and implemented by the proposed regulations still allow filers to enhance privacy and data security address concerns about the rising risk of identity theft. The expansion of the program under the proposed regulation for electronically furnished payee statements is expected to significantly increase participation. However, if any system modifications

needed for a filer to use the truncation alternative should be considered well in advance to allow sufficient time to make any necessary changes.

### Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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