

Current Federal Tax Developments

Week of February 7, 2022

Edward K. Zollars, CPA
(Licensed in Arizona)

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INTERIM K-2/K-3 ELECTRONIC FILING METHOD ALLOWS RETURNS TO BE FILED BEFORE IRS GETS MEF/XML SUPPORT FINALIZED

Citation: “Schedules K-2 and K-3: Interim Electronic Filing for Tax Year 2021,” IRS website, 12/3/21

Advisers have been noting that the IRS does not currently allow filing Schedules K-2 and K-3 electronically via MeF/XML, with the expected dates when such filing will be supported coming just after the original unextended due date for partnerships, but not until mid-June for S corporations. However, advisers should note that the IRS does provide an interim solution to attach PDFs of the forms to returns filed before the MeF/XML system is operational.¹

The official timeframes for Schedules K-2 and K-3 to be available to be filed via the MeF/XML system as announced by the IRS is:

Form Number	Date Available
Form 1065	March 20, 2022
Form 1120-S	Mid-June 2022
Form 8865	January 2023

Because many advisers will find that small partnerships and S corporations will not want to wait until these expected availability dates to file their returns, the IRS does provide an alternative noted on their interim filing website:

Modernized e-File (MeF)/Extensible Markup Language (XML) electronic filing capability for the schedules K-2 and K-3 for TY 2021 will not be available as of the beginning of the 2022 filing season (January 2022). Schedules K-2 and K-3 will be available for MeF/XML filing in the following timeframes. If you electronically file your return before the timeframes (Interim Period), submit the schedules as separate PDF files attached to the return.²

At the moment it's not clear which tax software providers will allow the use of the PDF attachment option under the interim method or which will simply wait for the MeF/XML system to be updated. However, given the long wait to get the S corporation MeF/XML option it seems likely that most vendors will be forced to provide PDF attachment support at least for S corporation filings and some vendors

¹ “Schedules K-2 and K-3: Interim Electronic Filing for Tax Year 2021,” IRS website, December 3, 2021, <https://www.irs.gov/e-file-providers/schedules-k-2-and-k-3-interim-electronic-filing-for-tax-year-2021> (retrieved February 5, 2022)

² “Schedules K-2 and K-3: Interim Electronic Filing for Tax Year 2021,” IRS website, December 3, 2021

are already supporting the PDF method to file S corporation returns that are required to prepare these schedules.³

SECTION: CIRCULAR 230 IRS DIRECTOR OF OPR OUTLINES EXPECTED NEW FEATURES FOR TAXPROS ACCOUNTS, INDICATES A DRAFT OF CIRCULAR 230 CHANGES MAY BE ISSUED THIS YEAR

Citation: Nathan J. Richman, “IRS Plans Two Batches of Tax Pro Account Updates,” *Tax Notes Today Federal*, 2/7/22

IRS Director of the Office of Practice Sharyn Fisk stated that the IRS is looking at expanding functions available via the TaxPros account at the ABA Section of Taxation’s virtual meeting as reported by *Tax Notes Today Federal* in their February 7, 2022 edition.⁴

The IRS rolled out the TaxPros account in July 2021.⁵ The primary feature it offered at that time was the ability to electronically submit a power of attorney or information authorization form online, with the taxpayer and tax professional signing the form online. While the system in the vast majority of cases provides the tax professional with access to transcript information immediately once both parties have signed electronically, the system only allowed these submissions for a limited number of situations (with individual taxpayer matters being by far the most significant).

Ms. Fisk indicated that the first batch of new features are scheduled to go public in the third quarter of fiscal 2022.⁶ Given that fiscal 2022 runs from October 1, 2021 to September 30, 2022, that would put these changes as coming out sometime before the July 1, 2022 anniversary of the debut of the TaxPros account.

Ms. Fisk indicated the functions that are scheduled to be added to the account in this first update include:

- View and print the tax professional’s powers of attorney and information authorizations once they have been approved. The system will include a search function, allowing those with a substantial number of authorizations outstanding to find a particular client’s authorizations on file.

³ Thomson Reuters’ Ultratx has been reported by some users as supporting electronically filing S corporation returns with these schedules, though partnerships are still to come with a later update.

⁴ Nathan J. Richman, “IRS Plans Two Batches of Tax Pro Account Updates,” *Tax Notes Today Federal*, February 7, 2022, <https://www.taxnotes.com/tax-notes-today-federal/practice-and-procedure/irs-plans-two-batches-tax-pro-account-updates/2022/02/07/7d5fl> (retrieved February 5, 2022, subscription required)

⁵ “Use Tax Pro Account,” IRS website, December 12, 2021 edition, <https://www.irs.gov/tax-professionals/use-tax-pro-account> (retrieved February 5, 2022)

⁶ Nathan J. Richman, “IRS Plans Two Batches of Tax Pro Account Updates,” *Tax Notes Today Federal*, February 7, 2022

- An email and in-app notification when clients have electronically signed the authorizations. Currently professionals must continually check the site to see if the client has completed the process.
- Professionals will be able to save their work in process, coming back later to finish up work on a power of attorney or authorization before asking the client to electronically sign the documents. Currently a tax professional must complete the entire process through sending the power of attorney or authorization to the client for electronic signing in one sitting.
- An expiration system will exist to allow authorizations that have been pending for 120 days without a taxpayer signature to be automatically removed from the system.⁷

Ms. Fisk continued to talk about features expected to be added in the following fiscal year:

- Professionals will be able to see all of their outstanding authorizations, whether or not made via the TaxPro system. The system, which Ms. Fisk indicated is being referred to as “Claim-a-CAF” internally until a better name is settled upon, will eliminate the need to resort to the CAF 77 procedure, a specialized form of a Freedom of Information Request, to obtain a list of active authorizations.
- The site will also become a single access point for all IRS online services.
- New maintenance features will be added to allow professionals to withdraw authorizations, taxpayers to revoke authorizations, will lock out users who attempt and fail to submit authorizations too many times and allow taxpayers (rather than only professionals) to initiate power of attorney and authorization forms.⁸

Ms. Fisk also indicated that Treasury has completed its review of proposed revisions to Circular 230 and stated that hopefully a proposed draft will be issued this year.⁹

⁷ Nathan J. Richman, “IRS Plans Two Batches of Tax Pro Account Updates,” *Tax Notes Today Federal*, February 7, 2022

⁸ Nathan J. Richman, “IRS Plans Two Batches of Tax Pro Account Updates,” *Tax Notes Today Federal*, February 7, 2022

⁹ Nathan J. Richman, “IRS Plans Two Batches of Tax Pro Account Updates,” *Tax Notes Today Federal*, February 7, 2022