

# ITG News

Keeping First Nations Informed



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July 2005

## Message From The Director

### Annual Customer Satisfaction Survey

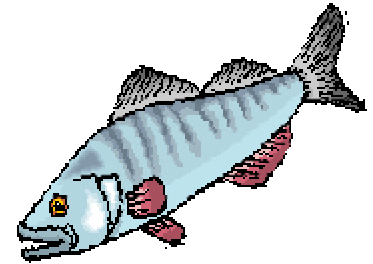
As we begin the final quarter of the federal government's 2005 fiscal year, our office will be undertaking the annual Customer Satisfaction Survey. This will be our third year for the survey which is a valuable tool that helps us better understand the federal tax administration needs of Indian tribal governments.

I want to take this opportunity to communicate how strongly I feel about the survey and how important the results are in the formulation of future activities. Our initial survey in 2003 showed a strong overall level of satisfaction but clearly demonstrated some differences between geographic areas. For example, tribes in Alaska told us that our Internet site at [www.irs.gov/tribes](http://www.irs.gov/tribes) was not user friendly, whereas, tribes throughout the remainder of the country gave our web site high marks. We were able to follow-up and determine that the feedback from the Alaska tribes related primarily to access problems that are compounded by a lack of major communication infrastructure in rural Alaska. Our activities were then directed to better meeting their needs through the issuance of a CD-Rom to the tribal villages that contained common tax forms and publications relating to tribal tax issues.

Our second annual survey in 2004 yielded feedback related to the lack of adequate ITG staffing in the Pacific Northwest and navigational confusion with the landing page of our web site. We were able to address the staffing concern by hiring two additional ITG Specialists in Washington and Alaska as well as relocating the area manager to Portland as the opportunity arose. We have worked diligently to reconfigure the entire structure of our web site to make it easier to locate needed information and more easily navigate between pages. The feedback from the 2004 survey started that process, and the Advisory Committee to the TEGE Commissioner helped us through the process by contributing suggestions and providing feedback on proposed changes.

The 2005 Customer Satisfaction Survey will be mailed to each tribe in July. I urge you to complete and return it in the postpaid envelope as soon as possible. All responses are anonymous unless you choose to identify yourself, but your feedback is invaluable to us. As always, we will publish a summary of the results as well as a listing of activities we will undertake to further improve our performance. I want to thank everyone in advance for their participation in this vital process.

**Christie Jacobs**



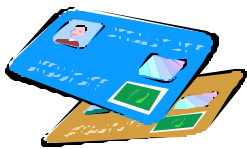
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## Combating Credit Card Abuses - Creating Effective Internal Controls

As tribes continue to develop their economies and find an increased need to have employees travel on tribal business, they need to be cognizant of the creation and maintenance of effective internal controls over tribal charge cards and travel reimbursement programs.



The initial step is to determine the authority granted to employees to use tribal charge cards to pay for travel expenses. Many tribes have issued credit cards to the tribal council members and key operating officials of tribal enterprises. This procedure generally includes a provision where the tribal finance office receives the credit card invoices and directly pays the expenses. It allows the tribal official to avoid carrying large sums of cash or traveler's checks or having to use a personal charge card. Such processes are common, but tribes will usually want to carefully control the distribution of cards that are in the name of the tribe/tribal entity and the level of authority granted to those who have them in their possession. It is a general practice to issue such cards only to those individuals who travel on a regular basis on behalf of the tribe.

The second and most crucial step is the establishment of "accountability" for the expenses. The fact that the tribe/tribal entity may be directly billed for the expenses of the individual and pays such expenses on their behalf does not eliminate the need for the individual to properly document the purpose of the expense. Tribes need to ensure that expense reports are filed, actual receipts are provided that match each charged expense, and the business purpose for the expense is clearly established. The expense reports should be reviewed by an independent party within the tribal administration to maximize the integrity of the process. Any issues that cannot be resolved by the individual making the charge must be brought to the attention of tribal finance officials. Amounts which are not properly documented as being directly related to official tribal business will constitute taxable income to the individual and must be reported as such on Form W-2 for employees and Form 1099-MISC for nonemployees at the close of the calendar year.

While most tribes follow strict procedures that meet or exceed these requirements, cases have surfaced in recent months where there have been abuses. These cases have involved personal use of tribal charge cards as well as situations where the tribe has paid an expense twice - once as a directly billed cost on a tribal card charge and again as a payment to the individual through an advance or expense report that was never reconciled to the charge card bills.

We encourage every tribe that allows tribal employees/officials the use of charge cards issued in the name of the tribe to conduct a periodic review of their procedures to ensure that adequate internal controls are in place. Your assigned ITG Specialist is available to assist in that process or to address any questions you may have regarding the potential tax consequences of inappropriate charge card use. Working together, we can eliminate potential problems and better protect tribal revenues for the benefit of members and tribal programs.

### **Publication 4268—Employment Tax Guide for Tribes**

**Our on-line Employment Tax Guide continues to receive a very positive response from tribal payroll and finance employees.**

**You can download this comprehensive guide from a link on our landing page at [www.irs.gov/tribes](http://www.irs.gov/tribes).**



## Help Tribal Members Resolve Tax Problems with the Internal Revenue Service (IRS)

Do you have tribal members who have tried everything to resolve a tax problem with the IRS but are still experiencing delays? Or facing what you consider to be an economic burden or hardship due to IRS collection or other actions?

Tribal members may be unable to provide for basic necessities such as housing, transportation, or food because of IRS actions. A delay of more than 30 days to resolve a tax related problem or no response by the date promised may also qualify for assistance. If you have tribal members in these situations, they should request the assistance of the Taxpayer Advocate.

Here are a few ways you can educate members of your community about the Taxpayer Advocate.

### **Launch a Taxpayer Advocate Service (TAS) Outreach Campaign**

- Download free resources at [www.irs.gov/advocate](http://www.irs.gov/advocate) to help get the word out to individuals who are currently experiencing delays or facing economic hardships due to IRS collection or other actions.
- Run public service announcements and articles in local newspapers.
- Through tribal service providers, distribute Publication 1546, "How to Get Help With Unresolved Tax Problems."

### **Publicize how to contact the Taxpayer Advocate Service**

- Publicize the Taxpayer Advocate Service toll-free phone number — 1-877-777-4778.
- Publicize the Taxpayer Advocate Service TTY/TTD help line — 1-800-829-4056.
- Publicize the Anchorage Taxpayer Advocate Service phone number — 1-907-271-6877.

### **Educate Tribal Members about what to expect from the Taxpayer Advocate**

Case Advocates will listen to the Tribal member's point of view and will work with them to address their concerns. Advocates will provide:

- An impartial and independent look at the problem
- Timely acknowledgement
- Their name and toll-free phone number
- Updates on progress
- Time frames for action
- Speedy resolution and
- Courteous service



### **ACT Report**

The Advisory Committee to the TEGE Commissioner has issued its annual report of recommendations.

The report is available on the ITG web site at [www.irs.gov/tribes](http://www.irs.gov/tribes).

We encourage everyone to review the report and to continue to provide input to the committee.



## Alaska Native Claims Settlement Act (ANCSA) Dividends

The Internal Revenue Service (IRS) will begin levying on Alaska Native Claims Settlement Act (ANCSA) dividends to individual shareholders effective June 1, 2005.

Congress has authorized the Internal Revenue Service to collect delinquent federal taxes by levying upon the property of taxpayers who have refused or neglected to make arrangements for the payment of their accounts. The Internal Revenue Code (IRC) exempts certain types of property from levy, but the list is very short and does not include dividends from Alaska Native Corporations. IRC Section 6334(c) clearly states that, despite any other federal law to the contrary, property which does not appear on the list is not exempt from IRS levies.

When Congress enacted ANCSA in 1971, it included a provision within the Act that exempted individual shareholders' stock rights, including dividend payments, from most common forms of attachment by creditors for an initial period of 20 years. That exemption period was subsequently extended by amendments to ANCSA. Although Congress has never added ANCSA dividends to the IRC's exempt property list, the IRS has refrained, as a matter of practice, from serving levies to attach individual shareholders' ANCSA dividend payments. Businesses, local tribal governments and other entities have always been subject to the IRS' levy provisions.

Beginning on June 1, 2005, the IRS will no longer refrain from serving levies, in appropriate cases, to attach ANCSA dividend payments of delinquent shareholders.

Before IRS issues a levy, we send taxpayers a series of notices about the liability and explain various ways to resolve it. Taxpayers can contact the toll-free telephone center listed on the notice to work out a payment schedule, a long-term installment agreement, or other payment method. Provisions are in place to prevent a hardship, and significant appeal rights are available to anyone who disagrees with a Collection determination.

If a taxpayer does not contact us to resolve the delinquency, we will assign the case to a Revenue Officer for personal contact. The Revenue Officer will explain the Taxpayer's rights and work with him or her to resolve the account. A formal levy is usually a last resort after multiple attempts to resolve the matter.

Should a levy be necessary, ANCSA Corporations will receive a Notice of Levy that will attach to the upcoming dividend of each person named on the levy. If there are specific questions about the levy or levy process, the Taxpayer can contact the Revenue Officer who issued it at the telephone number listed on the first page of the levy.

We would appreciate it if you would share the above information with your tribal members.

### Reporting Abuses and Schemes

We continue to work with tribes and tribal officials to address financial abuses and schemes being promoted in Indian country. Working together can help ensure the integrity of tribal finances and eliminate the threats posed by individuals with schemes that appear "too good to be true" and often are. If you are aware of any financial impropriety or of a promoter advocating a scheme that appears highly suspect, you can contact the ITG Abuse Detection and Prevention Team at (716) 686-4860 or via e-mail at [tege.itg.schemes@irs.gov](mailto:tege.itg.schemes@irs.gov).



## Form W-2 for Tribal Council Members' Meeting Fees

The following information was provided in the October 2003 Edition of ITG News. However, we have encountered numerous tribes who are not following the correct reporting requirements.

Revenue Ruling 59-354 holds that 1) tribal council members are employees, 2) the payments made for services performed as tribal council members do not constitute wages for purposes of FICA or income tax withholding, and 3) the payments are includible in the council member's gross income.

Since tribal council members are employees, they must be issued **Form W-2** for the stipends, honorariums, or meeting fees received. However, the employer does not withhold any taxes from these payments to tribal council members. Payments of \$600 or more are reported on **Form W-2**. Box 14 of the **Form W-2** should have the notation "Rev Rul 59-354." The council members report their stipends, honorariums, or meeting fees on their individual Form 1040, line 7.

Do not report these payments on Form 1099-MISC. When they are incorrectly reported on Form 1099, the tribal council member's income is subject to self-employment tax (rate of 15.3%) on their individual Form 1040.

Examples follow to help clarify any questions you may have.

Situation A: Tribal government A pays an individual \$200 in a calendar year for meeting stipends as a tribal council member. Tribal government A does not employ the council member in any other capacity.

Neither FICA tax nor income tax withholding applies to the \$200 payment. Because the council member earns fees that are less than \$600, tribal government A is not required to issue Form W-2. However, the individual must still report the \$200 as wages on their federal income tax return.

Situation B: Tribal government B pays a tribal council member \$1,100 in the calendar year for meeting stipends. Tribal government B does not employ the council member in any other capacity.

Neither FICA tax nor income tax withholding applies to the \$1,100 paid to the council member for the calendar year. Tribal government B must report on Form W-2 Box 1 the meeting fees of \$1,100. There are no entries in boxes 2, 3, 4, 5, or 6. Box 14 should have the notation "Rev Rul 59-354." The employee must report the \$1,100 as wages on their federal income tax return. See example on page 6.

Situation C: Tribal government C pays a council member \$200 in a calendar year for meeting stipends as a tribal council member. Tribe C also employs the council member in another capacity in which the employee earned wages of \$300 that are subject to income tax and FICA withholding.

Neither FICA tax nor income tax withholding applies to the \$200 paid to the employee for services as a tribal council member, but the \$300 wage is subject to income tax and FICA withholding. Tribal government C must report on Form W-2 the \$300 payment and the income tax withheld. The \$200 payment is not required to be reported on Form W-2 because the total of the two payments is less than \$600 for the calendar year. However, the full \$500 must be reported as wages by the employee on their federal income tax return. See example on page 6.

Continued on page 6



a Control number		OMB No. 1545-0008		<b>Situation B Example</b>			
b Employer identification number 92-0000000		1 Wages, tips, other compensation <b>1100.00</b>		2 Federal income tax withheld			
c Employer's name, address, and ZIP code  Tribal Government B PO Box 999 Village B, AK 99999		3 Social security wages		4 Social security tax withheld			
		5 Medicare wages and tips		6 Medicare tax withheld			
		7 Social security tips		8 Allocated tips			
d Employee's social security number 574-00-0000		9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial Last name  Sam R. Councilmember  PO Box 111 Village B, AK 99999		11 Nonqualified plans		12a See instructions for box 12			
		13 Security employee <input type="checkbox"/> Federal plan <input type="checkbox"/> Three-part sick pay <input type="checkbox"/>		12b			
		14 Other <b>Rev Rul 59-354 \$1100.00</b>		12c			
				12d			
f Employee's address and ZIP code							
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2** Wage and Tax Statement **2004** Department of the Treasury—Internal Revenue Service

a Control number		OMB No. 1545-0008		<b>Situation C Example</b>			
b Employer identification number 92-0000000		1 Wages, tips, other compensation <b>300.00</b>		2 Federal income tax withheld <b>9.00</b>			
c Employer's name, address, and ZIP code  Tribal Government C PO Box 888 Village C, AK 99999		3 Social security wages <b>300.00</b>		4 Social security tax withheld <b>18.60</b>			
		5 Medicare wages and tips <b>300.00</b>		6 Medicare tax withheld <b>4.35</b>			
		7 Social security tips		8 Allocated tips			
d Employee's social security number 574-00-0000		9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial Last name  Sally R. Councilmember  PO Box 222 Village C, AK 99999		11 Nonqualified plans		12a See instructions for box 12			
		13 Security employee <input type="checkbox"/> Federal plan <input type="checkbox"/> Three-part sick pay <input type="checkbox"/>		12b			
		14 Other		12c			
				12d			
f Employee's address and ZIP code							
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name	

Form **W-2** Wage and Tax Statement **2004** Department of the Treasury—Internal Revenue Service

Continued on page 7





a Control number		OMB No. 1545-0008		<b>Situation D Example</b>	
b Employer identification number 92-0000000		1 Wages, tips, other compensation <b>700.00</b>		2 Federal income tax withheld <b>29.00</b>	
c Employer's name, address, and ZIP code  Tribal Government D PO Box 777 Village D, AK 99999		3 Social security wages <b>500.00</b>		4 Social security tax withheld <b>31.00</b>	
		5 Medicare wages and tips <b>500.00</b>		6 Medicare tax withheld <b>7.25</b>	
		7 Social security tips		8 Allocated tips	
d Employee's social security number 574-00-0000		9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial Last name Joe R. Councilmember  PO Box 333 Village D, AK 99999		11 Nonqualified plans		12a See instructions for box 12	
		13 <input type="checkbox"/> security employee <input type="checkbox"/> nonqualified plan <input type="checkbox"/> third-party sick pay		12b	
		14 Other <b>Rev Rul 59-354 \$200.00</b>		12c	
f Employee's address and ZIP code				12d	
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

Form **W-2** Wage and Tax Statement

**2004**

Department of the Treasury—Internal Revenue Service

Situation D: Tribal government D pays a council member \$200 in a calendar year for meeting stipends. Tribe D also employs the council member in another capacity, in which the employee earned wages of \$500 that are subject to income tax and FICA withholding.

Neither FICA tax nor income tax withholding applies to the \$200 paid to the employee for services as a tribal council member. **The \$500 payment is subject to income tax and FICA withholding.** Because the total of the two payments is \$600 or more for the calendar year, Tribal government D must report on Form W-2 both the \$200 and the \$500 payments, and the amount of income tax withheld. **Box 1 of Form W-2 will reflect \$700 for total wages**, Box 3 will reflect \$500 for FICA wages, and Box 5 will reflect \$500 for Medicare wages. The applicable federal income tax withheld (from the \$500) will be shown in Box 2, while Boxes 4 and 6 will reflect the FICA and Medicare tax withheld (from the \$500). **Box 14 should have the notation "Rev Rul 59-354; \$200."** The full \$700 must be reported as wages by the employee on their federal income tax return. See above example.

If you have any questions, please contact your ITG Specialist (see page 11 for listing).

### Consultation Policy Update

We continue to progress with the issuance of an IRS/Tribal Consultation Policy. We have received feedback from Treasury Department officials and are now making final edits to the draft policy that was developed jointly with tribal representatives. We plan to implement the section of the policy that will direct a minimum of two annual listening meetings in early FY 2006. Our web site will contain the latest news as we finalize the process and move forward to implement this long overdue policy.

# Federal Tax Calendar for Third Quarter 2005

## July 2005

SUN	MON	TUE	WED	THU	FRI	SAT
					1 * Make a deposit for 6/25-6/28	2
3	4	5	6	7 * Make a deposit for 6/29-7/1	8 * Make a deposit for 7/2-7/5	9
10	11 Employees earning tips in excess of \$20 in June must report amount to employer	12	13 * Make a deposit for 7/6-7/8	14	15 Make a deposit for 7/9-7/12 ** Make a deposit for June if a monthly depositor	16
17	18	19	20 * Make a deposit for 7/13-7/15	21	22 * Make a deposit for 7/16-7/19	23
24	25	26	27 * Make a deposit for 7/20-7/22	28	29 * Make a deposit for 7/23-7/26	30
31						

## August 2005

SUN	MON	TUE	WED	THU	FRI	SAT
	1	2	3 * Make a deposit for 7/27-7/29	4	5 * Make a deposit for 7/30-8/2	6
7	8	9	10 * Make a deposit for 8/3-8/5 Employees earning tips in excess of \$20 in July must report amount to employers	11	12 * Make a deposit for 8/6-8/9	13
14	15 ** Make a deposit for July if a monthly depositor	16	17 * Make a deposit for 8/10-8/12	18	19 * Make a deposit for 8/13-8/16	20
21	22	23	24 * Make a deposit for 8/17-8/19	25	26 * Make a deposit for 8/20-8/23	27
28	29	30	31 * Make a deposit for 8/24-8/26			

\* = Make a Payroll Deposit if you are under the semi-weekly deposit rule.

\*\* = Make a Monthly Deposit if you qualify under that rule.

NOTE: Deposits made through EFTPS are due one day prior to the dates listed.



# September 2005

SUN	MON	TUE	WED	THU	FRI	SAT
				1	2 * Make a deposit for 8/27-8/30	3
4	5	6	7	8 * Make a deposit for 8/31-9/2	9 * Make a deposit for 9/3-9/6	10
11	12 Employees earning tips in excess of \$20 in August must report amount to employer	13	14 * Make a deposit for 9/7-9/9	15 ** Make a deposit for August if a monthly depositor	16 * Make a deposit for 9/10-9/13	17
18	19	20	21 * Make a deposit for 9/14-9/16	22	23* make a deposit for 9/17-9/20	24
25	26	27	28 * Make a deposit for 9/21-9/23	29	30 * make a deposit for 9/24-9/27	

\* = Make a Payroll Deposit if you are under the semi-weekly deposit rule.

\*\*= Make a Monthly Deposit if you qualify under that rule.

NOTE: Deposits made through EFTPS are due one day prior to the dates listed.

## Return Filing Dates

### July 1st

- > Form 11-C for the Occupational tax if you are in the business of taking wagers.

### August 1st

- > File Form 941 for the 2nd quarter of 2005. If all deposits paid on time and in full, file by August 10th.
- > File Form 730 and pay the tax on applicable wagers accepted during June.

### August 31st

- > File Form 730 and pay the tax on applicable wagers accepted during July.

### September 30th

- > File Form 730 and pay the tax on applicable wagers accepted during August.

## Required Returns for Pull-tabs

Tribes selling pull-tabs should be aware that they are required to file:

- Form 730 Monthly Tax Return for Wagers
- Form 11-C Occupational Tax and Registration Return for Wagering

Form 730 is a **monthly** return that must be filed by the last day of the month following the month for which taxable wagers are reported. The wagering tax is imposed on gross wagers received and is based on the total amount received before any payout of prizes or other expenses. If the wager is authorized under the law of the state in which it is accepted, the rate of tax is 0.25 percent of the amount of the wager. Thus, if the gross wagers are \$1,000, the tax is \$2.50 (\$1,000 x .0025).

Form 11-C is an **annual** return which applies to persons receiving taxable wagers whether they receive compensation or are volunteers. Both the tribal government and agents (persons who accept taxable wagers on behalf of the tribe) must file Form 11-C to register and to pay the occupational tax before wagers are accepted and annually thereafter. If the wager is authorized under the law of the state in which it is accepted, the amount of the occupational tax is \$50 per year per person.



**July 1, 2005 is the due date for the next Form 11-C.**

## New Manager and Specialists

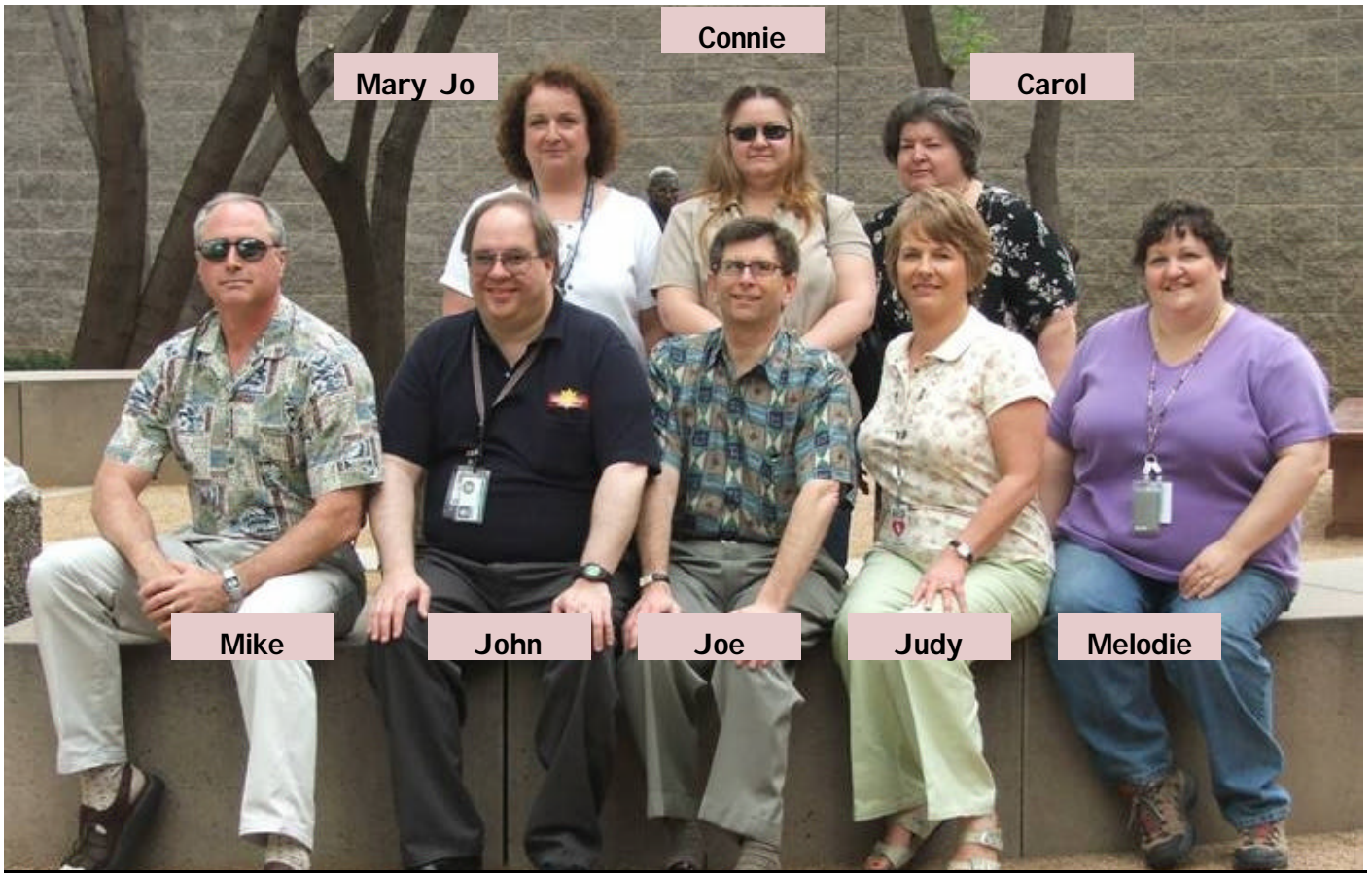
The Pacific-Northwest group extends a welcome to three new members of our staff. Joe Kincaid, PNW Manager, works from the Portland office. He has lived in Oregon since 1963 and has worked for IRS since 1987. Joe is looking forward to working with the tribes and villages in the Pacific Northwest.

Melodie Gren, Specialist, joins the Spokane office. She is originally from Spokane and was hired by IRS in 2001 as a Revenue Agent.

Mary Jo Audette, Specialist, joins the Anchorage office. She hails from Minnesota but has lived in Anchorage since 1980. Her IRS career began in 1988 where Mary Jo spent most of her time as a Revenue Officer in IRS Collection. She has traveled to many of the Alaskan villages and is familiar with issues that affect them.

## Telephone, Internet, and Mailing Address

**Call:** Customer Account Services toll free **1-877-829-5500**  
**Visit:** Indian Tribal Governments web site at [www.irs.gov/tribes](http://www.irs.gov/tribes)  
**Write:** Internal Revenue Service  
Indian Tribal Governments SE:T:GE:ITG  
1111 Constitution Ave., NW  
Washington, DC 20224



### ITG Specialists for the Pacific Northwest

<b>Judy Pearson</b>	Anchorage, AK	907-271-6949	Judy.M.Pearson@irs.gov
<b>Mary Jo Audette</b>	Anchorage, AK	907-271-6874	MaryJo.Audette@irs.gov
<b>Carol Czolowski</b>	Ogden, UT	801-620-5048	Carol.A.Czolowski@irs.gov
<b>Connie Perkins</b>	Salem, OR	503-399-5623 ext. 251	Connie.K.Perkins@irs.gov
<b>John Mandeville</b>	Spokane, WA	509-353-0816	John.M.Mandeville@irs.gov
<b>Melodie Gren</b>	Spokane, WA	509-353-0824	Melodie.F.Gren@irs.gov
<b>Michael Fehrenbacher</b>	Vancouver, WA	360-696-7643 ext. 227	Michael.Fehrenbacher@irs.gov
<b>Joe Kincaid, Manager</b>	Portland, OR	503-326-3132 ext. 2	Joe.Kincaid@irs.gov

#### Toll-free Pager Number

In response to your feedback, we want to make it easier for you to contact us. You can contact **Judy Pearson**, one of our Indian Tribal Governments Specialists in **Alaska**, by calling her **toll-free pager** at **1-888-733-6502** and leaving a callback telephone number. Judy will return your call as soon as possible.