

Withholding Compliance System (WHCS) – Privacy Impact Assessment (PIA)

PIA Approval Date: October 15, 2009

System Overview

The Withholding Compliance Program (WHC) uses Form W-2 Wage and Tax Statement (W-2) information to identify taxpayers with insufficient withholdings resulting in tax compliance problems. Through the issuance of a notice, commonly known as a “lock-in letter”, the IRS directs employers to disregard the taxpayer's Form W-4 and withhold using the marital status and number of allowances specified by the Service. The goal is to correct withholding to ensure that taxpayers have enough income tax withheld to meet their withholding tax obligations.

Systems of Records Notice (SORN):

- Treasury/IRS 34.037 IRS Audit Trail and Security Records System
- Treasury/IRS 42.021 Compliance Programs and Projects Files
- Treasury/IRS 24.030 CADE Individual Master File
- Treasury/IRS 24.046 CADE Business Master File

Data in the System

1. Describe the information (data elements and fields) available in the system in the following categories:

A. Taxpayer Data

- Taxpayer Identification Number (TIN)
- Spouse's TIN
- Taxpayer's name
- Taxpayer's address
- Taxpayer's phone number
- Aggregate wages reported on Form(s) W-2
- Aggregate withholding reported on Form(s) W-2
- Total wages reported on Form 1040 (including spouse's wages if joint return was filed)
- Total withholding reported on Form 1040 (including spouse's wages if joint return was filed)
- Total tax liability minus total payments from Form 1040
- Payments
- Refund
- Tax due
- Total income shown on Form 1040
- Federal Employee indicator
- IRS Employee indicator
- Combat Zone indicator
- Killed in Terrorist Action indicator
- Filing extension indicator
- Bankruptcy indicator
- Criminal investigation indicator
- Offer in Compromise indicator
- Installment agreement indicator

- Frivolous filer indicator
- Source code
- Reason code
- Outcome 3/Referral code
- Referral disposition code
- W2 count
- Date of death
- Spanish Indicator

B. Employee

- Standard Employee Identification number (SEID)

C. Audit Trail Information

- AUDIT TRAIL NUMBER
- AUDIT TRAIL TIN
- AUDIT TRAIL EIN
- AUDIT TRAIL TAX YEAR
- AUDIT TRAIL DATE
- AUDIT TRAIL TIME
- AUDIT TRAIL ACTION
- AUDIT TRAIL REMARKS
- AUDIT TRAIL SOURCE
- AUDIT TRAIL USER ID
- AUDIT TRAIL SEID

D. Other

- Employer Data
 - EIN
 - Name and address
- Case actions
 - Lock-in rate, defined as the marital status, and number of allowances at which the IRS directs the employer to withhold income tax from the taxpayer's wages.
 - Letter type and date
 - Closed date
 - Disposition code

2. Describe/identify which data elements are obtained from files, databases, individuals, or any other sources.

A. IRS – The WHCS database is populated via batch processes from the Individual Master File (IMF) and the Payer Master File (PMF). IMF provides all taxpayer related return information, fact of filing, and balance due. PMF provides the W2 employer address. WHC employees may also manually add records.

B. Taxpayer – None.

C. Employee – The user's SEID is assigned from the Online 5081 (OL5081) application.

3. Is each data item required for the business purpose of the system? Explain.

Yes. The data elements are required to allow us to apply business rules to withholding compliance cases.

4. How will each data item be verified for accuracy, timeliness, and completeness?

Records from IMF are trusted and accepted as-is, however WHCS requires manual input checks performed by tax examiners and analysts to validate accuracy and completeness.

5. Is there another source for the data? Explain how that source is or is not used.

No. No other source is used.

6. Generally, how will data be retrieved by the user?

WHCS users can retrieve WHC case data by querying the taxpayer's TIN.

7. Is the data retrievable by a personal identifier such as name, SSN, or other unique identifier?

Yes, data can be retrieved by TIN or SSN.

Access to the Data

8. Who will have access to the data in the system (Users, Managers, System Administrators, Developers, Others)?

WHCS-related duties are separate and disbursed among various IRS organizations.

- WHCS developers' create/test/debug application code, and maintain the WHCS production data. WHCS developers are only given access rights necessary to complete the tasks associated with their job.
- User access is granted via the OL5081 application and is dependent on the user's role.
- Database administrators maintain access to the database for administration purposes only and cannot modify the data itself.

WHCS does not outsource development or maintenance activities to third-party providers. Development and maintenance of the application is performed by IRS employees only.

WHCS has identified the following users:

- Tax Examiners – Ability to query/ read/update taxpayer cases that may have under withholding of income taxes; Ability to add, but not delete records; Ability to update portions of the taxpayer and employer screen, including the taxpayer address.
- Tax Analysts – Full functionality to the WHCS test system; Ability to query/ read/update taxpayer cases that may have under withholding of income taxes.
- Managers/Leads – Same access as tax examiners, with additional capabilities to access alternate employer address input screens, security screens for what tax examiners can access, and the ability to delete certain letter transaction records.
- Developers – Read/write privileges to the development Logical Partitions (LPARs); No access to the production environment.
- Database Administrators – Access to the DB2 database for administration purposes.

9. How is access to the data by a user determined and by whom?

Data access to the WHCS application is restricted based on the principles of least privilege and separation of duties; access is granted on a need-to-know basis. WHCS personnel are required to apply for access using the Online (OL) 5081 form. The OL5081 enrollment process requires that an authorized manager approve access requests on a case by case basis. Upon

approval, WHCS users are assigned user accounts based on their role(s) and responsibilities. Management determines which employees are selected to work these cases.

10. Do other IRS systems provide, receive, or share data in the system? If YES, list the system(s) and describe which data is shared.

Yes. The WHCS database is populated via batch processes from the IMF and the PMF. IMF provides all taxpayer related return information, fact of filing, and balance due. PMF provides the W2 employer address.

11. Have the IRS systems described in Item 10 received an approved Security Certification and Privacy Impact Assessment?

Application Name	ATO Date	PIA Date
• IMF	6/21/2007	6/07/2007
• PMF	6/14/2007	4/18/2007

12. Will other agencies provide, receive, or share data in any form with this system?

Yes. Information may be shared as allowed by law, treaty, or policy. In addition, IRS shares WHCS information with the Treasury Inspector General for Tax Administration (TIGTA) and Government Accountability Office (GAO) for auditing purposes.

Administrative Controls of Data

13. What are the procedures for eliminating the data at the end of the retention period?

Data will be retained for three (3) years after lock-in is released, or ten (10) years after lock-in date, whichever is earlier, as set forth in Exhibit 1.15.29-1, Item 85 (5) of IRM 1.15.29, Records Management - Records Control Schedule for Service Center Operations. At the end of the retention period, data will be archived and purged from the system.

14. Will this system use technology in a new way?

No. WHCS is not using technologies in ways that the IRS has not previously employed.

15. Will this system be used to identify or locate individuals or groups? If so, describe the business purpose for this capability.

Yes, the information is used to identify individuals or businesses that are not in compliance with withholding regulations. WHCS contains the TIN's of both the taxpayers and their employers. Using the TIN, records are identified and updated within WHCS.

Additionally, the system enables WHCS to identify employers who do not comply with the instructions in the lock-in letter, a notice instructing the employer to withhold income tax from the taxpayer's wages at the rate specified by the IRS.

Through its audit trail, WHCS identifies and monitors the actions of users accessing the system to ensure conformance with applicable security guidelines.

16. Will this system provide the capability to monitor individuals or groups? If yes, describe the business purpose for this capability and the controls established to prevent unauthorized monitoring.

No. WHCS does not provide the capability to monitor individuals or groups.

17. Can use of the system allow IRS to treat taxpayers, employees, or others, differently?

No. All taxpayers meeting criteria established by the business are selected and housed in WHCS. This ensures equitable treatment for all taxpayers.

18. Does the system ensure "due process" by allowing affected parties to respond to any negative determination, prior to final action?

No. Lock-in determinations are not subject to "due process". Treasury Regulation § 31.3402(f)(2)-1(g)(2)(v) provide that the earliest that the notice of lock-in may be effective is 45 days from the date of the letter in order to give the taxpayer an opportunity to dispute our determination.

19. If the system is web-based, does it use persistent cookies or other tracking devices to identify web visitors?

Not Applicable. WHCS is not web-based and therefore, does not use persistent cookies or other tracking devices to identify web visitors.

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