

IDENTIFYING NUMBERS

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Mr. BYRD of Virginia, from the Committee on Finance, submitted the following

R E P O R T

[To accompany H.R. 8876]

The Committee on Finance to whom was referred the bill (H.R. 8876) to amend the Internal Revenue Code of 1954 to permit the use of identifying numbers, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. SUMMARY OF BILL

The bill is designed to improve enforcement and collection of internal revenue taxes by facilitating the expanded use of automatic data processing equipment by the Internal Revenue Service and by enabling the Service to match information returns now filed with tax returns.

This bill provides that persons required to file tax returns may be required to record their account numbers on their tax returns. Similarly, persons filing information returns (such as those relating to dividends or interest) are to request the account numbers of persons with respect to whom information is supplied and include those numbers on the information returns they send to the Internal Revenue Service. Also, the bill requires that persons, with respect to whom the information returns are filed, are to supply their numbers to the person required to file the information returns.

The Internal Revenue Service has indicated that it intends to use social security numbers as the account numbers in order to minimize the number of persons having to be assigned new numbers. Also, to the maximum extent possible, applications for account numbers will be mailed to those who do not presently have such numbers in order to minimize the burden imposed on taxpayers.

The Treasury Department has recommended this bill and it has been reported unanimously by your committee.

II. REASONS FOR THE BILL

The taxpayer account number system provided by this bill is needed both to make possible a greatly expanded use of automatic data processing equipment and also to fully utilize the information documents presently coming into the Internal Revenue Service.

Taxpayer account numbers are basic to a satisfactory identification system for automatic data processing (or ADP) equipment. This has been established by the experience of business concerns such as utilities, insurance companies, and banks which have found account numbers essential in ADP operations.

Through the use of taxpayer account numbers and automatic data processing equipment the Internal Revenue Service hopes to develop a single file which would contain, in one place, information relative to all of the tax transactions involving a taxpayer. Such a file would contain first, the taxpayer's name, address, and account number. Second, it would contain references to other taxpayers with whom he was involved from a tax standpoint (for example, a cross-reference to an account number of the taxpayer's wife if she filed a separate return or a reference to a partnership account number for each member of the partnership). Third, the file would contain details as to income and deductions reported by the taxpayer for the current and prior years, as well as changes made in these items as the result of audits. Fourth, the file would contain information reported by others with respect to the taxpayer, such as withholding tax statements sent in by employers (form W2) and information returns on dividends, interest, etc. (forms 1099 and 1087). Fifth, the account would contain records of estimated and withheld taxes paid by the taxpayer, bills sent to him, payments received from him, balances due, etc.

The recording of this information in a single file for each taxpayer would make it possible for the Internal Revenue Service to reach objectives which can be only partially achieved today. First, this would make it possible to detect cases where the taxpayer failed to file the required returns by checking returns actually filed against his consolidated file. Second, in recording income and deductions in the file, the tax return itself could be mathematically verified and the amount due from the taxpayer, or refundable to him, could be determined as a byproduct. Third, the selection of returns for audit examination could be made not only on the basis of the returns themselves, but also on the basis of returns for prior years and for other taxes. Fourth, the Service would be able to verify at high speed the income and credits reported by the employers and payors of dividends and interest with the amounts of such items reported or claimed by the taxpayer. Fifth, it would be possible to consolidate financial transactions with taxpayers even though they may relate to different taxes.

Taxpayer account numbers also are essential for proper identification of taxpayers on information documents. Identification by name and address has led to an almost endless variety of errors and variations which make it difficult, if not impossible, to match the information documents with the tax returns. This can arise, for example, from varying ways of registering stock. For example, the taxpayer at one time may use his first name and middle initial, the next time his full name, and perhaps the next time give only his first and middle initials. Similarly, the address of the taxpayer may be his home

address, a business address, a bank account address, or a stockbroker address. The use of names and addresses as means of identification is complicated still further by the fact that many married persons own stock independently but file joint returns and vice versa. Difficulties such as those touched on only briefly here have really limited the usefulness of the more than 100 million information documents presently received by the Internal Revenue Service. A positive identification in the form of account numbers will do much to remove this difficulty.

In view of the considerations outlined above, your committee has reported this bill providing for the use of account numbers for tax purposes in the same form as it passed the House. In doing so, however, your committee like the Committee on Ways and Means of the House believes the Service should work out a system involving the least possible burden to taxpayers in obtaining such account numbers. For this reason, the present social security numbering system will be used. Between 85 and 90 percent of all individual income tax returns presently filed already show a social security account number. Thus, for these taxpayers, it will not be necessary to obtain new account numbers. For persons not now having account numbers, applications to obtain the information necessary to assign them account numbers can be obtained from the Internal Revenue Service or local post office. Applications will be sent out to those filing declarations in 1962 in the case of those returns which are sent in without account numbers. For others not having such numbers, publicity will be sent out late in 1962 encouraging them to obtain applications for account numbers either from district directors' offices or from local post offices or banks. A further check will be made with respect to those filing regular income tax returns in the spring of 1963.

### III. GENERAL EXPLANATION OF THE BILL

As indicated above, the account numbers to be used by the Internal Revenue Service are the presently existing social security numbers. The Service has estimated that about 24 million persons having some connection with the tax system either have never had social security numbers or have forgotten the numbers they once had. About half of this number will have to obtain numbers or request a search for their old numbers. It is estimated that the other half of this 24 million will not need numbers since they represent wives filing joint returns with husbands and either have no independent income amounting to \$600 or more. In such cases the account numbers of the husbands will be sufficient.

There are two categories of social security numbers, each number consisting of nine digits. The first category is known as an "account" number and presently is issued to individual employees or self-employed persons. It is planned that account numbers will also be assigned to other individual filers of tax returns and persons receiving income required to be reported on information returns.

The second category of social security numbers is the "identification" number. These numbers presently are issued to employers having employees covered by social security or by withholding, and to businesses filing excise tax returns. The only new category which will have to obtain such numbers are businesses without employees which, nevertheless, distribute income to others.

Duplications will be prevented, where a taxpayer who already has a number mistakenly files for a second number through an automatic screening process already in use under the social security system. Also, in a similar manner, those who know they had numbers, but have forgotten them, can have such numbers searched out for them.

Under present law the Secretary of the Treasury has the specific authority to require the use of account or identification numbers only in the case of social security taxes and withholding taxes on wages (sec. 6011(b)). Moreover, certain sections of the code (for example sec. 6041) limit the identifying information required to be presented to the name and address of the recipient of the income or other payment.

The first new section added by the bill (sec. 6109) has three basic requirements relative to account or identification numbers.

First, the new section provides that any person required to file a return statement or other document is to include in it such identifying number as may be prescribed. In this connection it is planned that all tax returns and declaration forms will provide that the filer show an account number in the case of individuals, or an identification number in the case of a business. In the case of a joint return, a second taxpayer account number would be required only if the second person has independent income of \$600 or more, or is covered by social security or wage withholding or receives income, such as dividends or interest, from a payor who is required to report this payment on an information return. The requirement that account or identification numbers be supplied with respect to these returns (and also related statements and documents) is to apply to periods commencing after December 31, 1961. This means that numbers generally will not be required with respect to tax returns filed in 1962 since these usually relate to liabilities incurred in 1961. However, account or identification numbers will be required with respect to the declarations of estimated tax due on April 15, 1962, since these relate to the 1962 tax year.

The second requirement is that any person with respect to whom a return, statement, or other document is required to be filed by another person is to furnish this other person with such identifying number as may be prescribed. This requires the furnishing of these numbers by the recipients of dividend, interest and certain other payments. The recipient of the payment must supply his account number to the person making the payment.

The third requirement provides that any person required to file a return, statement, or other document with respect to another person is required to request from this other person, and include on his return, statement, or other document the identifying number if obtained. Thus, the employer will be required to include the numbers of employees on all wage withholding tax reports, and those filing information returns with respect to others will be required to include the latter's numbers on the information returns. This includes information on payments of interest and most other forms of income of \$600 or more, returns with respect to dividend payments of \$10 or more, returns with respect to patronage dividends of \$100 or more, returns with respect to payments made by brokers, returns with respect to wage withholding, returns with respect to partnership income, returns with respect to common trust funds, returns with

respect to exempt organizations, and certain other types of information returns. In addition, the bill provides that returns with respect to estates and trusts, although in part themselves tax returns, are also for this purpose to be treated as if they were information returns with respect to the beneficiaries of the estate or trust. This is provided so that it will be possible to relate to the estate or trust returns the returns of their beneficiaries which for tax purposes must report income received from the estates or trusts.

A limitation in the new section provides that in filing his tax return a person (except in the case of estates and trusts referred to above) will not be required to report the account numbers of other persons from whom he received income or to report the numbers of persons with respect to whom the taxpayer claims deductions, credits, etc. Thus, for example, it will not be necessary to relate medical expenses to the tax account numbers of the physicians involved nor will there be a requirement that dependents claimed on a return be identified by their number.

This second and third category of requirements, primarily concerned with information returns, will apply only with respect to returns, statements, or other documents relating to periods commencing after December 31, 1962. Thus, recipients of dividends, interest, and other forms of income with respect to which information returns are required will be required to supply their numbers to the banks or dividend disbursers only with respect to payments made by the banks or dividend disbursers in 1963 and subsequent years. This is designed to allow adequate time for the installation of the account number system.

A second new section (sec. 6676) added by the bill provides a penalty of \$5 for each failure to supply an identifying number unless the person can show this failure is due to reasonable cause. This penalty will apply where the person required to make a return fails to supply his own number, where a person required to furnish his number to another person fails to do so, and where the person required to include the number of another on an information or other return which he is required to make with respect to this other person fails to do so. This penalty will not apply, however, where there is reasonable cause for the failure to furnish or include the identifying number. Thus, for example, where A is required to furnish his number to B and fails to do so, B will be unable to include the number on an information return which he may be required to make with respect to A. This would be reasonable cause for such failure and the penalty would not apply to B. However, the penalty may apply to A unless he, too, can show reasonable cause.

#### IV. TECHNICAL EXPLANATION OF THE BILL

Subsection (a) of the first section of the bill amends subchapter B of chapter 61 of the Internal Revenue Code of 1954 (relating to miscellaneous provisions with respect to information and returns) by renumbering section 6109 as section 6110 and inserting after section 6108 a new section 6109.

Under the new section 6109(a)(1), the Secretary of the Treasury or his delegate is authorized by regulations to require any person who is required by statute or by regulations to make any return, statement,

or other document to include therein the identifying number assigned to such person. This new authorization extends to all returns made for the purpose of disclosing the amount of tax for which a taxpayer is liable (regardless of the type of tax involved), and also to all information returns, statements, and other documents. Section 6109(a)(2) authorizes the Secretary of the Treasury or his delegate to prescribe regulations requiring a person with respect to whom a return, statement, or other document is required by statute or by regulations to be made by another person to furnish his identifying number to such other person. Section 6109(a)(3) authorizes the Secretary of the Treasury or his delegate to prescribe regulations requiring any person, who is required by statute or by regulations to make a return, statement, or other document with respect to another person, to request from such other person, and to include in the return, statement, or other document, the identifying number assigned to such other person.

Paragraph (1) of section 6109(b) constitutes a limitation on the authority granted by paragraphs (2) and (3) of section 6109(a). Pursuant to this limitation, and apart from the exception in paragraph (2) of section 6109(b), a return of any person with respect to his liability for tax, or any statement or other document in support of such a return, is not considered for purposes of paragraphs (2) and (3) of section 6109(a) as a return, statement, or other document with respect to another person. The phrase "a return of any person with respect to his liability for tax" is limited to a return made for the purpose of disclosing the amount of tax for which a taxpayer is liable as distinguished from returns made for other purposes. A statement or other document is considered to be in support of a return with respect to a person's liability for tax, for example, when the purpose of such statement or document is to substantiate an item of income or deduction appearing on the return. Thus, a taxpayer who claims personal exemptions for dependents on his income tax return will not have to include numbers identifying such dependents. Section 6109(b)(1) does not apply in respect of a return which is not a return made for the purpose of disclosing the amount of tax for which a taxpayer is liable, or any statement or other document substantiating an item appearing on such a return. Any such return, statement, or other document in which information is required about another person or persons, is considered to be a return, statement, or other document with respect to such other person or persons.

Paragraph (2) of section 6109(b) provides an exception to the limitation contained in section 6109(b)(1). Under this exception a return of an estate or trust with respect to its liability for tax, and any statement or other document in support thereof is, for purposes of paragraphs (2) and (3) of section 6109(a), considered as a return, statement, or other document with respect to each beneficiary of such estate or trust. Thus, each beneficiary's identifying number may be required to be included in any return, statement, or other document filed by the fiduciary of an estate or trust. For purposes of section 6109 the term "beneficiary" includes heirs, devisees, and legatees.

Subsection (b) of the first section of the bill amends subchapter B of chapter 68 of the 1954 code (relating to assessable penalties) by adding at the end thereof a new section 6676. Section 6676(a) imposes a civil penalty of \$5 for each failure of a person to comply with any requirement for furnishing or including an identifying

number under the circumstances set forth in the subsection unless it can be shown that the failure was due to reasonable cause. Section 6676(b) specifically provides that the assessment or collection of any penalty imposed under subsection (a) shall not be subject to the deficiency procedures provided by subchapter B of chapter 63 of the code.

Subsection (c) of the first section of the bill contains technical amendments to conform the table of sections for subchapter B of chapter 61 of the code and for subchapter B of chapter 68 of the code to the amendments made by subsections (a) and (b) of the bill.

Subsection (d) of the first section of the bill contains effective date provisions. Paragraph (1) of the new section 6109(a), under which a person may be required to furnish his own number on a return, statement, or other document, is to apply in connection with returns, statements, and other documents relating to periods commencing after December 31, 1961. Paragraphs (2) and (3) of such section 6109(a), which relate to the furnishing of other persons' numbers, are to apply in connection with returns, statements, or other documents relating to periods commencing after December 31, 1962.

#### V. CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

#### SUBCHAPTER B OF CHAPTER 61 OF THE INTERNAL REVENUE CODE OF 1954

##### Subchapter B—Miscellaneous Provisions

- Sec. 6101. Period covered by returns or other documents.
- Sec. 6102. Computations on returns or other documents.
- Sec. 6103. Publicity of returns and lists of taxpayers.
- Sec. 6104. Publicity of information required from certain exempt organizations and certain trusts.
- Sec. 6105. Compilation of relief from excess profits tax cases.
- Sec. 6106. Publicity of unemployment tax returns.
- Sec. 6107. List of special taxpayers for public inspection.
- Sec. 6108. Publication of statistics of income.
- [Sec. 6109. Cross references.]
- Sec. 6109. *Identifying numbers.*
- Sec. 6110. *Cross reference.*

#### SEC. 6108. PUBLICATION OF STATISTICS OF INCOME.

The Secretary or his delegate shall prepare and publish annually statistics reasonably available with respect to the operation of the income tax laws, including classifications of taxpayers and of income, the amounts allowed as deductions, exemptions, and credits, and any other facts deemed pertinent and valuable.

**SEC. 6109. IDENTIFYING NUMBERS.**

(a) **SUPPLYING OF IDENTIFYING NUMBERS.**—When required by regulations prescribed by the Secretary or his delegate:

(1) **INCLUSION IN RETURNS.**—Any person required under the authority of this title to make a return, statement, or other document shall include in such return, statement, or other document such identifying number as may be prescribed for securing proper identification of such person.

(2) **FURNISHING NUMBER TO OTHER PERSONS.**—Any person with respect to whom a return, statement, or other document is required under the authority of this title to be made by another person shall furnish to such other person such identifying number as may be prescribed for securing his proper identification.

(3) **FURNISHING NUMBER OF ANOTHER PERSON.**—Any person required under the authority of this title to make a return, statement, or other document with respect to another person shall request from such other person, and shall include in any such return, statement, or other document, such identifying number as may be prescribed for securing proper identification of such other person.

(b) **LIMITATION.**—

(1) Except as provided in paragraph (2), a return of any person with respect to his liability for tax, or any statement or other document in support thereof, shall not be considered for purposes of paragraphs (2) and (3) of subsection (a) as a return, statement, or other document with respect to another person.

(2) For purposes of paragraphs (2) and (3) of subsection (a), a return of an estate or trust with respect to its liability for tax, and any statement or other document in support thereof, shall be considered as a return, statement, or other document with respect to each beneficiary of such estate or trust.

(c) **REQUIREMENT OF INFORMATION.**—For purposes of this section, the Secretary or his delegate is authorized to require such information as may be necessary to assign an identifying number to any person.

**SEC. [6109] 6110. CROSS REFERENCES.**

(1) For reports of Secretary of Agriculture concerning cotton futures, see section 4876:

(2) For inspection of returns, order forms, and prescriptions concerning narcotics, see section 4773.

(3) For inspection of returns, order forms, and prescriptions concerning marihuana, see section 4773.

(4) For authority of Secretary or his delegate to furnish list of special taxpayers, see section 4775.

(5) For inspection of records, returns, etc., concerning gasoline or lubricating oils, see section 4102.

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**SUBCHAPTER B OF CHAPTER 68 OF THE INTERNAL REVENUE  
CODE OF 1954**

**Subchapter B—Assessable Penalties**

- Sec. 6671. Rules for application of assessable penalties.  
 Sec. 6672. Failure to collect and pay over tax, or attempt to evade or defeat tax.  
 Sec. 6673. Damages assessable for instituting proceedings before the Tax Court merely for delay.  
 Sec. 6674. Fraudulent statement or failure to furnish statement to employee.  
 Sec. 6675. Excessive claims with respect to the use of certain gasoline.  
 Sec. 6676. Failure to supply identifying numbers.

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**SEC. 6675. EXCESSIVE CLAIMS WITH RESPECT TO THE USE OF CERTAIN GASOLINE.**

(a) **CIVIL PENALTY.**—In addition to any criminal penalty provided by law, if a claim is made under section 6420 (relating to gasoline used on farms) or 6421 (relating to gasoline used for certain non-highway purposes or by local transit systems) for an excessive amount, unless it is shown that the claim for such excessive amount is due to reasonable cause, the person making such claim shall be liable to a penalty in an amount equal to whichever of the following is the greater:

- (1) Two times the excessive amount; or
- (2) \$10.

(b) **EXCESSIVE AMOUNT DEFINED.**—For purposes of this section, the term “excessive amount” means in the case of any person the amount by which—

- (1) the amount claimed under section 6420 or 6421, as the case may be, for any period, exceeds
- (2) the amount allowable under such section for such period.

(c) **ASSESSMENT AND COLLECTION OF PENALTY.**—For assessment and collection of penalty provided by subsection (a), see section 6206.

**SEC. 6676. FAILURE TO SUPPLY IDENTIFYING NUMBERS.**

(a) **CIVIL PENALTY.**—If any person who is required by regulations prescribed under section 6109—

- (1) to include his identifying number in any return, statement, or other document,
- (2) to furnish his identifying number to another person, or
- (3) to include in any return, statement, or other document made with respect to another person the identifying number of such other person,

fails to comply with such requirement at the time prescribed by such regulations, such person shall pay a penalty of \$5 for each such failure, unless it is shown that such failure is due to reasonable cause.

(b) **DEFICIENCY PROCEDURES NOT TO APPLY.**—Subchapter B of chapter 68 (relating to deficiency procedures for income, estate, and gift taxes) shall not apply in respect of the assessment or collection of any penalty imposed by subsection (a).