

March 20, 2006

MEMORANDUM

TO: IRS Chapter Presidents

RE: National Finance Center Payroll Errors

SUMMARY: The IRS has informed NTEU that the National Finance Center is reporting high numbers of payroll errors that will result in corrected W-2s (W-2C) being required for certain employees.

I have been informed that the National Finance Center (NFC) is experiencing a high number of payroll errors, due to delays in NFC's receiving and/or processing repayments from employees. As a result of these errors, certain employees will need to submit a corrected W-2 (W-2C). The NFC's problems are caused by the continued impact of Hurricane Katrina and the loss of personnel at their New Orleans facility.

The NFC is developing a list of impacted employees and will send them a letter acknowledging that any tax consequences are not due to employees' errors, but rather result from NFC errors. The IRS is also preparing a list of approximately 982 potentially impacted employees and will provide each employee with a letter explaining the circumstances and advising them of their options as taxpayers. They may file a return using the original W-2 and then file an amended return upon receipt of the corrected W-2. Or, they may file for automatic extension and then file an amended return when they receive the corrected W-2. They will still be obligated to pay any taxes owed by the April 17, 2006 filing deadline.

The IRS has assured us that the Employee Tax Compliance (ETC) Branch will have a list of employees impacted by the NFC errors. They will check employees with amended returns against the list and, if employees only filed amended returns due to the NFC systemic problems, the ETC Branch can close the case.

I will provide further information concerning this matter as it becomes available. Should you have any questions or concerns about this issue, please contact Patti Eanet, Deputy Director of Negotiations, via e-mail at patti.eanet@nteu.org.

Colleen M. Kelley
National President

Attachment



**DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224**

March 14, 2006

Ms. Colleen M. Kelley
National President
National Treasury Employees Union
1750 H Street, N.W.
Washington, DC 20006

Dear Ms. Kelley:

For your information, the National Finance Center (NFC) has informed us they are experiencing high numbers of payroll errors that will result in corrected W-2s (W-2C) being required for some of our employees. These problems originate for the most part because of delays in NFC receiving and/or processing repayments from employees.

As an example, an employee may have had a debt for health benefits that they repaid by check in October. Ordinarily, this would have been processed by NFC, the gross and taxable amount of pay revised as appropriate and a correct W-2 issued to the employee. NFC however reported that due to the continuing impact of Hurricane Katrina and loss of personnel at their New Orleans' facility, many mail items were not received, not processed, or processed erroneously. As a result, some employees may have W-2s with overstatements or understatements of taxable income.

NFC will not commit to issuing corrected W-2s in time for the April 17, 2006 filing deadline. We have stressed with NFC the impact this will have on IRS in particular. NFC reported that they are hiring extra accountants and overtime is authorized.

NFC is developing a list of impacted employees and will be preparing a letter to them, acknowledging that any tax consequences are due to NFC's errors rather than the employee's. Additionally, the Service is preparing its own list of potentially impacted employees. It will provide each employee with a letter stating the circumstances of this situation and advising them of two options they have as taxpayers. First, they may file a return using the original W-2, and then file an amended return when they receive the corrected W-2. Alternatively, they may file for the automatic extension, which extends the filing due date to October 15, 2006, and then file the return when the corrected W-2 is received. The letter

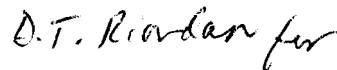
reminds employees that the automatic extension to file does not extend the time to pay. They must pay any taxes owed by the April 17, 2006 filing deadline.

That letter may also be used if an administrative tax delinquency case develops. The letter instructs employees to keep it with both the original W-2 and the corrected W-2 as documentation of this issue.

As of this writing, we estimate that the total outstanding corrected W-2Cs for health insurance accounts receivable problems are 930 and 52 outstanding for those employees who self-identified a different problem, for example the state tax paid to the wrong state.

As we learn more information, we will keep you informed. In the meantime, if you have any questions, please call Jeanne Morrison of my staff at 202-622-8774.

Sincerely,



Barbara Pabotoy
Director
Workforce Relations Division