

CRS Report for Congress

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Taxpayer Protection and IRS Accountability Act of 2003, H.R. 1528

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Summary

On April 8, 2003, the House Committee on Ways and Means favorably reported H.R. 1528, the Taxpayer Protection and IRS Accountability Act of 2003, as amended. The bill contains two major parts: the first six titles consist of a follow-up to the IRS restructuring reforms and taxpayer rights legislation enacted in 1998, P.L. 105-206, and the seventh title contains an amendment to the Temporary Extended Unemployment Compensation Act of 2002¹, as amended. This report briefly summarizes the contents of the bill of H.R. 1528.

H.R. 1528, the Taxpayer Protection and IRS Accountability Act of 2003, contains two major parts: the first six titles consist of a follow-up to the IRS restructuring reforms and taxpayer rights legislation enacted in 1998, P.L. 105-206, and the other pertains to the applicability of certain federal-state agreements as they relate to unemployment assistance. Some of the provisions in each of the seven titles are selectively mentioned below. The bill has been reported by the House Ways and Means Committee, though the substance of Title VII of the bill has since been enacted in slightly different form in P.L. 108-26.

Title I deals with penalties and interest. Among the provisions is a proposal to convert the penalty for failure to pay estimated tax to an interest charge on the unpaid balance and simplify the calculation of the amount owed. The safe harbor for failure to pay small amounts of tax would be increased. Another provision would allow taxpayers who receive interest from the IRS because the taxpayers overpaid their taxes and the IRS was slow to refund the overpayment to exclude the interest from their incomes in certain cases. A third proposal is to abate interest on taxes owed due to the receipt of an erroneous refund check unless the taxpayer caused the erroneous refund. There are provisions to clarify the use of deposits made to suspend the running of interest on potential underpayments and to liberalize the use of interest netting by individuals. The IRS would be permitted to waive certain first-time failure to pay or failure to file penalties

¹ Title II of the Job Creation and Worker Assistance Act of 2002, P.L. 107-147.

when failure was due to an unintentional minor error and the penalty would otherwise be disproportionate to the amount owed. The penalty for frivolous tax returns would be increased to \$5,000 (from the current \$500).

Title II deals with the fairness of collection procedures. It contains proposals to permit installment agreements for less than the full amount of the tax owed; to extend the time for return of levied property; to permit redeposits to IRA accounts if the IRS wrongfully levied on the account; and to require a study of liens and levies by the IRS.

Title III, which deals with efficiency of tax administration, would permit taxpayers who file electronic returns to have until April 30th to file their returns. The bill would make browsing of taxpayer returns one of the causes for termination of IRS employees, but the Commissioner would be given authority to impose a lesser penalty than automatic termination for the listed offenses. The Tax Court would be permitted to apply the doctrine of equitable recoupment in civil cases to the same extent that U.S. district courts and the Court of Federal Claims are permitted to do so.

The confidentiality and disclosure provisions in title IV would permit either spouse who filed a joint return to find out about collection activities in connection with the return by making an oral request. Taxpayer representatives could not be subjected to examination merely because of whom they represent without special approval. Contractors of states and federal agencies would be required to abide by the same confidentiality standards as the state and federal governments are. The IRS would be required to notify taxpayers whose returns had been illegally browsed by IRS employees.

Title V would clarify that the IRS does not have to comply with the church-audit procedures when sending out educational materials about the standards for exemption and requirements for the complying with the unrelated business income tax. The declaratory judgment procedures currently available to 501(c)(3) organizations would be extended to all tax-exempt organizations. The bill would permit landowners who sell timber owned for more than one-year to treat the timber as property used in a trade or business, even if the timber would otherwise be treated as inventory. Under this provision, gain from timber sales would be treated as capital gains, and losses would be treated as ordinary losses.

Title VI would limit grants to low-income taxpayer clinics to those clinics that represent taxpayers in controversies with the IRS. The grants could not be used for income tax return preparation (except in controversy work).

Finally, the sole provision in Title VII (§ 701) addresses the applicability of certain federal-state agreements relating to unemployment assistance. As proposed, § 701 would again amend § 208 of the Temporary Extended Unemployment Compensation Act of 2002 to prolong the period in which the federal government would compensate states for providing extended unemployment compensation. On January 8, 2003, Congress enacted P.L. 108-001, which first amended § 208 to extend the expiration from January 1, 2003 to June 1, 2003. In addition, the January measure also created a transition period for individuals receiving compensation when the program under the Act ends. Title VII of H.R. 1528 builds off of this version, but substitutes "June 1" for "May 31" in the multiple instances it appears. As such, the alteration is more clerical than substantive. After introduction of H.R. 1528, however, Congress enacted an Act entitled the Unemployment

Compensation Amendments of 2003.² This law further extends the provisions of the original Act through December 31, 2003 and the transition timetable to March 31, 2004. Given the current law, Title VII of H.R. 1528 is outdated.

² P.L. 108-26.