

# CRS Report for Congress

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## Taxpayer Protection and IRS Accountability Act of 2002, H.R. 3991

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### Summary

On March 20, 2002, the Committee on Ways and Means favorably reported H.R. 3991, the Taxpayer Protection and IRS Accountability Act of 2002, as amended. The House voted it down 205-219 on April 10. The bill contains two major parts: six titles follow up the IRS restructuring reforms and taxpayer rights legislation enacted in 1998, P.L. 105-206, and the seventh title contains amendments to the reporting requirements for political committees described in section 527 of the Internal Revenue Code enacted in 2000 by P.L. 106-230. On April 18, the House passed H.R. 586. The first six titles of H.R. 3991 were included as part of H.R. 586, the Tax Relief Guarantee Act of 2002. This report briefly summarizes the contents of the bill of H.R. 3991.

H.R. 3991, the Taxpayer Protection and IRS Accountability Act of 2002, 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 contains amendments to the reporting requirements for political committees described in section 527 of the Internal Revenue Code enacted in 2000 by P.L. 106-230. Some of the provisions in each of the seven titles are selectively mentioned below. The first six titles of the bill were passed by the House on April 18, 2002, as part of H.R. 586, the Tax Relief Guarantee Act of 2002.

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

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 30<sup>th</sup> 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).

Title VII would amend P.L. 106-230, which required disclosure by political organizations that attempt to influence elections. The provisions would exempt certain state or local candidate committees, and local committees of a political party, from the registration requirements; exempt certain state or local political organizations from the reports of contributions and expenditures; require the Form 1120-POL only from organizations with political organization taxable income (as was the case prior to P.L. 106-230); and exempt most 527 organizations from having to file Form 990 (as was the case prior to P.L. 106-230). Title VII was not included in H.R. 586. See the CRS Electronic Briefing Book on Campaign Finance Reform [<http://www.congress.gov/brbk/html/ebcam1.shtml>] for further information.