

Union Calendar No. 234107TH CONGRESS
2^D SESSION**H. R. 3991****[Report No. 107-394]**

To amend the Internal Revenue Code of 1986 to protect taxpayers and ensure accountability of the Internal Revenue Service.

IN THE HOUSE OF REPRESENTATIVES

MARCH 19, 2002

Mr. HOUGHTON introduced the following bill; which was referred to the Committee on Ways and Means

APRIL 9, 2002

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

[For text of introduced bill, see copy of bill as introduced on March 19, 2002]

A BILL

To amend the Internal Revenue Code of 1986 to protect taxpayers and ensure accountability of the Internal Revenue Service.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE; ETC.**

2 (a) *SHORT TITLE.*—*This Act may be cited as the*
 3 *“Taxpayer Protection and IRS Accountability Act of*
 4 *2002”.*

5 (b) *AMENDMENT OF 1986 CODE.*—*Except as otherwise*
 6 *expressly provided, whenever in this Act an amendment or*
 7 *repeal is expressed in terms of an amendment to, or repeal*
 8 *of, a section or other provision, the reference shall be consid-*
 9 *ered to be made to a section or other provision of the Inter-*
 10 *nal Revenue Code of 1986.*

11 (c) *TABLE OF CONTENTS.*—

Sec. 1. Short title; etc.

TITLE I—PENALTIES AND INTEREST

- Sec. 101. Failure to pay estimated tax penalty converted to interest charge on accumulated unpaid balance.*
Sec. 102. Exclusion from gross income for interest on overpayments of income tax by individuals.
Sec. 103. Abatement of interest.
Sec. 104. Deposits made to suspend running of interest on potential underpayments.
Sec. 105. Expansion of interest netting for individuals.
Sec. 106. Waiver of certain penalties for first-time unintentional minor errors.
Sec. 107. Frivolous tax submissions.
Sec. 108. Clarification of application of tax deposit penalty.

TITLE II—FAIRNESS OF COLLECTION PROCEDURES

- Sec. 201. Partial payment of tax liability in installment agreements.*
Sec. 202. Extension of time for return of property.
Sec. 203. Individuals held harmless on wrongful levy, etc. on individual retirement plan.
Sec. 204. Seven-day threshold on tolling of statute of limitations during tax review.
Sec. 205. Study of liens and levies.

TITLE III—EFFICIENCY OF TAX ADMINISTRATION

- Sec. 301. Revisions relating to termination of employment of Internal Revenue Service employees for misconduct.*
Sec. 302. Confirmation of authority of Tax Court to apply doctrine of equitable recoupment.
Sec. 303. Jurisdiction of Tax Court over collection due process cases.

- Sec. 304. Office of Chief Counsel review of offers in compromise.*
Sec. 305. 15-day delay in due date for electronically filed individual income tax returns.

TITLE IV—CONFIDENTIALITY AND DISCLOSURE

- Sec. 401. Collection activities with respect to joint return disclosable to either spouse based on oral request.*
Sec. 402. Taxpayer representatives not subject to examination on sole basis of representation of taxpayers.
Sec. 403. Disclosure in judicial or administrative tax proceedings of return and return information of persons who are not party to such proceedings.
Sec. 404. Prohibition of disclosure of taxpayer identification information with respect to disclosure of accepted offers-in-compromise.
Sec. 405. Compliance by contractors with confidentiality safeguards.
Sec. 406. Higher standards for requests for and consents to disclosure.
Sec. 407. Notice to taxpayer concerning administrative determination of browsing; annual report.
Sec. 408. Expanded disclosure in emergency circumstances.
Sec. 409. Disclosure of taxpayer identity for tax refund purposes.
Sec. 410. Disclosure to State officials of proposed actions related to section 501(c)(3) organizations.

TITLE V—MISCELLANEOUS

- Sec. 501. Clarification of definition of church tax inquiry.*
Sec. 502. Expansion of declaratory judgment remedy to tax-exempt organizations.
Sec. 503. Employee misconduct report to include summary of complaints by category.
Sec. 504. Annual report on awards of costs and certain fees in administrative and court proceedings.
Sec. 505. Annual report on abatement of penalties.
Sec. 506. Better means of communicating with taxpayers.
Sec. 507. Explanation of statute of limitations and consequences of failure to file.
Sec. 508. Amendment to Treasury auction reforms.
Sec. 509. Enrolled agents.
Sec. 510. Financial Management Service fees.
Sec. 511. Capital gain treatment under section 631(b) to apply to outright sales by land owner.

TITLE VI—LOW-INCOME TAXPAYER CLINICS

- Sec. 601. Low-income taxpayer clinics.*

**TITLE VII—REVISIONS TO SECTION 527 ORGANIZATION
DISCLOSURE PROVISIONS**

- Sec. 701. Modifications of reporting requirements for certain State and local political organizations.*
Sec. 702. Notification of interaction of reporting requirements.
Sec. 703. Technical corrections to section 527 organization disclosure provisions.

1 **TITLE I—PENALTIES AND**
 2 **INTEREST**

3 **SEC. 101. FAILURE TO PAY ESTIMATED TAX PENALTY CON-**
 4 **VERTED TO INTEREST CHARGE ON ACCUMU-**
 5 **LATED UNPAID BALANCE.**

6 (a) *PENALTY MOVED TO INTEREST CHAPTER OF*
 7 *CODE.—The Internal Revenue Code of 1986 is amended by*
 8 *redesignating section 6654 as section 6641 and by moving*
 9 *section 6641 (as so redesignated) from part I of subchapter*
 10 *A of chapter 68 to the end of subchapter E of chapter 67*
 11 *(as added by subsection (e)(1) of this section).*

12 (b) *PENALTY CONVERTED TO INTEREST CHARGE.—*
 13 *The heading and subsections (a) and (b) of section 6641*
 14 *(as so redesignated) are amended to read as follows:*

15 **“SEC. 6641. INTEREST ON FAILURE BY INDIVIDUAL TO PAY**
 16 **ESTIMATED INCOME TAX.**

17 “(a) *IN GENERAL.—Interest shall be paid on any un-*
 18 *derpayment of estimated tax by an individual for a taxable*
 19 *year for each day of such underpayment. The amount of*
 20 *such interest for any day shall be the product of the under-*
 21 *payment rate established under subsection (b)(2) multiplied*
 22 *by the amount of the underpayment.*

23 “(b) *AMOUNT OF UNDERPAYMENT; INTEREST RATE.—*
 24 *For purposes of subsection (a)—*

1 “(1) *AMOUNT.*—*The amount of the under-*
2 *payment on any day shall be the excess of—*

3 “(A) *the sum of the required installments*
4 *for the taxable year the due dates for which are*
5 *on or before such day, over*

6 “(B) *the sum of the amounts (if any) of es-*
7 *timated tax payments made on or before such*
8 *day on such required installments.*

9 “(2) *DETERMINATION OF INTEREST RATE.*—

10 “(A) *IN GENERAL.*—*The underpayment rate*
11 *with respect to any day in an installment under-*
12 *payment period shall be the underpayment rate*
13 *established under section 6621 for the first day*
14 *of the calendar quarter in which such install-*
15 *ment underpayment period begins.*

16 “(B) *INSTALLMENT UNDERPAYMENT PE-*
17 *RIOD.*—*For purposes of subparagraph (A), the*
18 *term ‘installment underpayment period’ means*
19 *the period beginning on the day after the due*
20 *date for a required installment and ending on*
21 *the due date for the subsequent required install-*
22 *ment (or in the case of the 4th required install-*
23 *ment, the 15th day of the 4th month following*
24 *the close of a taxable year).*

1 “(C) *DAILY RATE.*—*The rate determined*
2 *under subparagraph (A) shall be applied on a*
3 *daily basis and shall be based on the assumption*
4 *of 365 days in a calendar year.*

5 “(3) *TERMINATION OF ESTIMATED TAX INTER-*
6 *EST.*—*No day after the end of the installment under-*
7 *payment period for the 4th required installment spec-*
8 *ified in paragraph (2)(B) for a taxable year shall be*
9 *treated as a day of underpayment with respect to*
10 *such taxable year.”.*

11 (c) *INCREASE IN SAFE HARBOR WHERE TAX IS*
12 *SMALL.*—

13 (1) *IN GENERAL.*—*Clause (i) of section*
14 *6641(d)(1)(B) (as so redesignated) is amended to read*
15 *as follows:*

16 “(i) *the lesser of—*

17 “(I) *90 percent of the tax shown*
18 *on the return for the taxable year (or,*
19 *if no return is filed, 90 percent of the*
20 *tax for such year), or*

21 “(II) *the tax shown on the return*
22 *for the taxable year (or, if no return is*
23 *filed, the tax for such year) reduced*
24 *(but not below zero) by \$2,000, or”.*

1 (2) *CONFORMING AMENDMENT.*—*Subsection (e)*
2 *of section 6641 (as so redesignated) is amended by*
3 *striking paragraph (1) and redesignating paragraphs*
4 *(2) and (3) as paragraphs (1) and (2), respectively.*

5 *(d) CONFORMING AMENDMENTS.*—

6 (1) *Paragraphs (1) and (2) of subsection (e) (as*
7 *redesignated by subsection (c)(2)) and subsection (h)*
8 *of section 6641 (as so designated) are each amended*
9 *by striking “addition to tax” each place it occurs and*
10 *inserting “interest”.*

11 (2) *Section 167(g)(5)(D) is amended by striking*
12 *“6654” and inserting “6641”.*

13 (3) *Section 460(b)(1) is amended by striking*
14 *“6654” and inserting “6641”.*

15 (4) *Section 3510(b) is amended—*

16 (A) *by striking “section 6654” in para-*
17 *graph (1) and inserting “section 6641”;*

18 (B) *by amending paragraph (2)(B) to read*
19 *as follows:*

20 *“(B) no interest would be required to be*
21 *paid (but for this section) under 6641 for such*
22 *taxable year by reason of the \$2,000 amount*
23 *specified in section 6641(d)(1)(B)(i)(II).”;*

1 (C) by striking “section 6654(d)(2)” in
2 paragraph (3) and inserting “section
3 6641(d)(2)”; and

4 (D) by striking paragraph (4).

5 (5) Section 6201(b)(1) is amended by striking
6 “6654” and inserting “6641”.

7 (6) Section 6601(h) is amended by striking
8 “6654” and inserting “6641”.

9 (7) Section 6621(b)(2)(B) is amended by striking
10 “addition to tax under section 6654” and inserting
11 “interest required to be paid under section 6641”.

12 (8) Section 6622(b) is amended—

13 (A) by striking “PENALTY FOR” in the
14 heading; and

15 (B) by striking “addition to tax under sec-
16 tion 6654 or 6655” and inserting “interest re-
17 quired to be paid under section 6641 or addition
18 to tax under section 6655”.

19 (9) Section 6658(a) is amended—

20 (A) by striking “6654, or 6655” and insert-
21 ing “or 6655, and no interest shall be required
22 to be paid under section 6641,”; and

23 (B) by inserting “or paying interest” after
24 “the tax” in paragraph (2)(B)(i).

25 (10) Section 6665(b) is amended—

1 (A) in the matter preceding paragraph (1)
2 by striking “, 6654,”; and

3 (B) in paragraph (2) by striking “6654 or”.

4 (11) Section 7203 is amended by striking “sec-
5 tion 6654 or 6655” and inserting “section 6655 or in-
6 terest required to be paid under section 6641”.

7 (e) CLERICAL AMENDMENTS.—

8 (1) Chapter 67 is amended by inserting after
9 subchapter D the following:

10 **“Subchapter E—Interest on Failure by Individual to**
11 **Pay Estimated Income Tax**

“Sec. 6641. Interest on failure by individual to pay estimated in-
come tax.”.

12 (2) The table of subchapters for chapter 67 is
13 amended by adding at the end the following new item:

“Subchapter E. Interest on failure by individual to pay estimated
income tax.”.

14 (3) The table of sections for part I of subchapter
15 A of chapter 68 is amended by striking the item relat-
16 ing to section 6654.

17 (f) EFFECTIVE DATE.—The amendments made by this
18 section shall apply to installment payments for taxable
19 years beginning after December 31, 2002.

1 **SEC. 102. EXCLUSION FROM GROSS INCOME FOR INTEREST**
2 **ON OVERPAYMENTS OF INCOME TAX BY INDI-**
3 **VIDUALS.**

4 *(a) IN GENERAL.—Part III of subchapter B of chapter*
5 *1 (relating to items specifically excluded from gross income)*
6 *is amended by inserting after section 139 the following new*
7 *section:*

8 **“SEC. 139A. EXCLUSION FROM GROSS INCOME FOR INTER-**
9 **EST ON OVERPAYMENTS OF INCOME TAX BY**
10 **INDIVIDUALS.**

11 *“(a) IN GENERAL.—In the case of an individual, gross*
12 *income shall not include interest paid under section 6611*
13 *on any overpayment of tax imposed by this subtitle.*

14 *“(b) EXCEPTION.—Subsection (a) shall not apply in*
15 *the case of a failure to claim items resulting in the overpay-*
16 *ment on the original return if the Secretary determines that*
17 *the principal purpose of such failure is to take advantage*
18 *of subsection (a).*

19 *“(c) SPECIAL RULE FOR DETERMINING MODIFIED AD-*
20 *JUSTED GROSS INCOME.—For purposes of this title, interest*
21 *not included in gross income under subsection (a) shall not*
22 *be treated as interest which is exempt from tax for purposes*
23 *of sections 32(i)(2)(B) and 6012(d) or any computation in*
24 *which interest exempt from tax under this title is added*
25 *to adjusted gross income.”.*

1 (b) *CLERICAL AMENDMENT.*—*The table of sections for*
 2 *part III of subchapter B of chapter 1 is amended by insert-*
 3 *ing after the item relating to section 139 the following new*
 4 *item:*

“Sec. 139A. Exclusion from gross income for interest on overpay-
ments of income tax by individuals.”.

5 (c) *EFFECTIVE DATE.*—*The amendments made by this*
 6 *section shall apply to interest received in calendar years*
 7 *beginning after the date of the enactment of this Act.*

8 **SEC. 103. ABATEMENT OF INTEREST.**

9 (a) *ABATEMENT OF INTEREST WITH RESPECT TO ER-*
 10 *RONEOUS REFUND CHECK WITHOUT REGARD TO SIZE OF*
 11 *REFUND.*—*Paragraph (2) of section 6404(e) is amended by*
 12 *striking “unless—” and all that follows and inserting “un-*
 13 *less the taxpayer (or a related party) has in any way*
 14 *caused such erroneous refund.”.*

15 (b) *ABATEMENT OF INTEREST TO EXTENT INTEREST*
 16 *IS ATTRIBUTABLE TO TAXPAYER RELIANCE ON WRITTEN*
 17 *STATEMENTS OF THE IRS.*—*Subsection (f) of section 6404*
 18 *is amended—*

19 (1) *in the subsection heading, by striking “PEN-*
 20 *ALTY OR ADDITION” and inserting “INTEREST, PEN-*
 21 *ALTY, OR ADDITION”;* *and*

22 (2) *in paragraph (1) and in subparagraph (B)*
 23 *of paragraph (2), by striking “penalty or addition”*
 24 *and inserting “interest, penalty, or addition”.*

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply with respect to interest accruing on or*
3 *after the date of the enactment of this Act.*

4 **SEC. 104. DEPOSITS MADE TO SUSPEND RUNNING OF IN-**
5 **TEREST ON POTENTIAL UNDERPAYMENTS.**

6 (a) *IN GENERAL.*—*Subchapter A of chapter 67 (relat-*
7 *ing to interest on underpayments) is amended by adding*
8 *at the end the following new section:*

9 **“SEC. 6603. DEPOSITS MADE TO SUSPEND RUNNING OF IN-**
10 **TEREST ON POTENTIAL UNDERPAYMENTS,**
11 **ETC.**

12 “(a) *AUTHORITY TO MAKE DEPOSITS OTHER THAN*
13 *AS PAYMENT OF TAX.*—*A taxpayer may make a cash de-*
14 *posit with the Secretary which may be used by the Sec-*
15 *retary to pay any tax imposed under subtitle A or B or*
16 *chapter 41, 42, 43, or 44 which has not been assessed at*
17 *the time of the deposit. Such a deposit shall be made in*
18 *such manner as the Secretary shall prescribe.*

19 “(b) *NO INTEREST IMPOSED.*—*To the extent that such*
20 *deposit is used by the Secretary to pay tax, for purposes*
21 *of section 6601 (relating to interest on underpayments), the*
22 *tax shall be treated as paid when the deposit is made.*

23 “(c) *RETURN OF DEPOSIT.*—*Except in a case where*
24 *the Secretary determines that collection of tax is in jeop-*
25 *ardy, the Secretary shall return to the taxpayer any*

1 *amount of the deposit (to the extent not used for a payment*
2 *of tax) which the taxpayer requests in writing.*

3 “(d) *PAYMENT OF INTEREST.*—

4 “(1) *IN GENERAL.*—*For purposes of section 6611*
5 *(relating to interest on overpayments), a deposit*
6 *which is returned to a taxpayer shall be treated as a*
7 *payment of tax for any period to the extent (and only*
8 *to the extent) attributable to a disputable tax for such*
9 *period. Under regulations prescribed by the Secretary,*
10 *rules similar to the rules of section 6611(b)(2) shall*
11 *apply.*

12 “(2) *DISPUTABLE TAX.*—

13 “(A) *IN GENERAL.*—*For purposes of this*
14 *section, the term ‘disputable tax’ means the*
15 *amount of tax specified at the time of the deposit*
16 *as the taxpayer’s reasonable estimate of the max-*
17 *imum amount of any tax attributable to disput-*
18 *able items.*

19 “(B) *SAFE HARBOR BASED ON 30-DAY LET-*
20 *TER.*—*In the case of a taxpayer who has been*
21 *issued a 30-day letter, the maximum amount of*
22 *tax under subparagraph (A) shall not be less*
23 *than the amount of the proposed deficiency speci-*
24 *fied in such letter.*

1 “(3) *OTHER DEFINITIONS.*—For purposes of
2 *paragraph (2)*—

3 “(A) *DISPUTABLE ITEM.*—The term ‘disput-
4 *able item*’ means any item of income, gain, loss,
5 *deduction, or credit if the taxpayer—*

6 “(i) *has a reasonable basis for its*
7 *treatment of such item, and*

8 “(ii) *reasonably believes that the Sec-*
9 *retary also has a reasonable basis for dis-*
10 *allowing the taxpayer’s treatment of such*
11 *item.*

12 “(B) *30-DAY LETTER.*—The term ‘30-day
13 *letter*’ means the first letter of proposed defi-
14 *ciency which allows the taxpayer an opportunity*
15 *for administrative review in the Internal Rev-*
16 *enue Service Office of Appeals.*

17 “(4) *RATE OF INTEREST.*—The rate of interest
18 *allowable under this subsection shall be the Federal*
19 *short-term rate determined under section 6621(b),*
20 *compounded daily.*

21 “(e) *USE OF DEPOSITS.*—

22 “(1) *PAYMENT OF TAX.*—Except as otherwise
23 *provided by the taxpayer, deposits shall be treated as*
24 *used for the payment of tax in the order deposited.*

1 “(2) *RETURNS OF DEPOSITS.*—*Deposits shall be*
2 *treated as returned to the taxpayer on a last-in, first-*
3 *out basis.*”.

4 (b) *CLERICAL AMENDMENT.*—*The table of sections for*
5 *subchapter A of chapter 67 is amended by adding at the*
6 *end the following new item:*

“Sec. 6603. Deposits made to suspend running of interest on poten-
tial underpayments, etc.”.

7 (c) *EFFECTIVE DATE.*—

8 (1) *IN GENERAL.*—*The amendments made by*
9 *this section shall apply to deposits made after the*
10 *date of the enactment of this Act.*

11 (2) *COORDINATION WITH DEPOSITS MADE UNDER*
12 *REVENUE PROCEDURE 84-58.*—*In the case of an*
13 *amount held by the Secretary of the Treasury or his*
14 *delegate on the date of the enactment of this Act as*
15 *a deposit in the nature of a cash bond deposit pursu-*
16 *ant to Revenue Procedure 84-58, the date that the*
17 *taxpayer identifies such amount as a deposit made*
18 *pursuant to section 6603 of the Internal Revenue*
19 *Code (as added by this Act) shall be treated as the*
20 *date such amount is deposited for purposes of such*
21 *section 6603.*

1 **SEC. 105. EXPANSION OF INTEREST NETTING FOR INDIVID-**
2 **UALS.**

3 (a) *IN GENERAL.*—Subsection (d) of section 6621 (re-
4 lating to elimination of interest on overlapping periods of
5 tax overpayments and underpayments) is amended by add-
6 ing at the end the following: “Solely for purposes of the pre-
7 ceding sentence, section 6611(e) shall not apply in the case
8 of an individual.”.

9 (b) *EFFECTIVE DATE.*—The amendment made by sub-
10 section (a) shall apply to interest accrued after December
11 31, 2002.

12 **SEC. 106. WAIVER OF CERTAIN PENALTIES FOR FIRST-TIME**
13 **UNINTENTIONAL MINOR ERRORS.**

14 (a) *IN GENERAL.*—Section 6651 (relating to failure to
15 file tax return or to pay tax) is amended by adding at the
16 end the following new subsection:

17 “(i) *TREATMENT OF FIRST-TIME UNINTENTIONAL*
18 *MINOR ERRORS.*—In the case of a return of tax imposed
19 by subtitle A filed by an individual, the Secretary may
20 waive an addition to tax under subsection (a) if—

21 “(1) the individual has a history of compliance
22 with the requirements of this title,

23 “(2) it is shown that the failure is due to an un-
24 intentional minor error,

1 “(3) the penalty would be grossly dispropor-
2 tionate to the action or expense that would have been
3 needed to avoid the error, and

4 “(4) waiving the penalty would promote compli-
5 ance with the requirements of this title and effective
6 tax administration.

7 The preceding sentence shall not apply if the Secretary has
8 waived any addition to tax under this subsection with re-
9 spect to any prior failure by such individual.”.

10 (b) *EFFECTIVE DATE.*—The amendment made by this
11 section shall take effect on January 1, 2003.

12 **SEC. 107. FRIVOLOUS TAX SUBMISSIONS.**

13 (a) *CIVIL PENALTIES.*—Section 6702 is amended to
14 read as follows:

15 **“SEC. 6702. FRIVOLOUS TAX SUBMISSIONS.**

16 “(a) *CIVIL PENALTY FOR FRIVOLOUS TAX RE-*
17 *URNS.*—A person shall pay a penalty of \$5,000 if—

18 “(1) such person files what purports to be a re-
19 turn of a tax imposed by this title but which—

20 “(A) does not contain information on which
21 the substantial correctness of the self-assessment
22 may be judged, or

23 “(B) contains information that on its face
24 indicates that the self-assessment is substantially
25 incorrect; and

1 “(2) the conduct referred to in paragraph (1)—

2 “(A) is based on a position which the Sec-
3 retary has identified as frivolous under sub-
4 section (c), or

5 “(B) reflects a desire to delay or impede the
6 administration of Federal tax laws.

7 “(b) CIVIL PENALTY FOR SPECIFIED FRIVOLOUS SUB-
8 MISSIONS.—

9 “(1) IMPOSITION OF PENALTY.—Except as pro-
10 vided in paragraph (3), any person who submits a
11 specified frivolous submission shall pay a penalty of
12 \$5,000.

13 “(2) SPECIFIED FRIVOLOUS SUBMISSION.—For
14 purposes of this section—

15 “(A) SPECIFIED FRIVOLOUS SUBMISSION.—
16 The term ‘specified frivolous submission’ means
17 a specified submission if any portion of such
18 submission—

19 “(i) is based on a position which the
20 Secretary has identified as frivolous under
21 subsection (c), or

22 “(ii) reflects a desire to delay or im-
23 pede the administration of Federal tax
24 laws.

1 “(B) *SPECIFIED SUBMISSION.*—*The term*
2 *‘specified submission’ means—*

3 “(i) *a request for a hearing under—*

4 “(I) *section 6320 (relating to no-*
5 *tice and opportunity for hearing upon*
6 *filing of notice of lien), or*

7 “(II) *section 6330 (relating to no-*
8 *tice and opportunity for hearing before*
9 *levy), and*

10 “(ii) *an application under—*

11 “(I) *section 7811 (relating to tax-*
12 *payer assistance orders),*

13 “(II) *section 6159 (relating to*
14 *agreements for payment of tax liability*
15 *in installments), or*

16 “(III) *section 7122 (relating to*
17 *compromises).*

18 “(3) *OPPORTUNITY TO WITHDRAW SUBMIS-*
19 *SION.*—*If the Secretary provides a person with notice*
20 *that a submission is a specified frivolous submission*
21 *and such person withdraws such submission promptly*
22 *after such notice, the penalty imposed under para-*
23 *graph (1) shall not apply with respect to such submis-*
24 *sion.*

1 “(c) *LISTING OF FRIVOLOUS POSITIONS.*—The Sec-
2 retary shall prescribe (and periodically revise) a list of posi-
3 tions which the Secretary has identified as being frivolous
4 for purposes of this subsection. The Secretary shall not in-
5 clude in such list any position that the Secretary deter-
6 mines meets the requirement of section
7 6662(d)(2)(B)(ii)(II).

8 “(d) *REDUCTION OF PENALTY.*—The Secretary may
9 reduce the amount of any penalty imposed under this sec-
10 tion if the Secretary determines that such reduction would
11 promote compliance with and administration of the Federal
12 tax laws.

13 “(e) *PENALTIES IN ADDITION TO OTHER PEN-*
14 *ALTIES.*—The penalties imposed by this section shall be in
15 addition to any other penalty provided by law.”.

16 (b) *TREATMENT OF FRIVOLOUS REQUESTS FOR HEAR-*
17 *INGS BEFORE LEVY.*—

18 (1) *FRIVOLOUS REQUESTS DISREGARDED.*—Sec-
19 tion 6330 (relating to notice and opportunity for
20 hearing before levy) is amended by adding at the end
21 the following new subsection:

22 “(g) *FRIVOLOUS REQUESTS FOR HEARING, ETC.*—Not-
23 withstanding any other provision of this section, if the Sec-
24 retary determines that any portion of a request for a hear-
25 ing under this section or section 6320 meets the requirement

1 of clause (i) or (ii) of section 6702(b)(2)(A), then the Sec-
 2 retary may treat such portion as if it were never submitted
 3 and such portion shall not be subject to any further admin-
 4 istrative or judicial review.”.

5 (2) *PRECLUSION FROM RAISING FRIVOLOUS*
 6 *ISSUES AT HEARING.*—Section 6330(c)(4) is
 7 amended—

8 (A) by striking “(A)” and inserting
 9 “(A)(i)”;

10 (B) by striking “(B)” and inserting “(ii)”;

11 (C) by striking the period at the end of the
 12 first sentence and inserting “; or”; and

13 (D) by inserting after subparagraph (A)(ii)
 14 (as so redesignated) the following:

15 “(B) the issue meets the requirement of
 16 clause (i) or (ii) of section 6702(b)(2)(A).”.

17 (3) *STATEMENT OF GROUNDS.*—Section
 18 6330(b)(1) is amended by striking “under subsection
 19 (a)(3)(B)” and inserting “in writing under subsection
 20 (a)(3)(B) and states the grounds for the requested
 21 hearing”.

22 (c) *TREATMENT OF FRIVOLOUS REQUESTS FOR HEAR-*
 23 *INGS UPON FILING OF NOTICE OF LIEN.*—Section 6320 is
 24 amended—

1 (1) *in subsection (b)(1), by striking “under sub-*
2 *section (a)(3)(B)” and inserting “in writing under*
3 *subsection (a)(3)(B) and states the grounds for the re-*
4 *quested hearing”, and*

5 (2) *in subsection (c), by striking “and (e)” and*
6 *inserting “(e), and (g)”.*

7 (d) *TREATMENT OF FRIVOLOUS APPLICATIONS FOR*
8 *OFFERS-IN-COMPROMISE AND INSTALLMENT AGREE-*
9 *MENTS.—Section 7122 is amended by adding at the end*
10 *the following new subsection:*

11 “(e) *FRIVOLOUS SUBMISSIONS, ETC.—Notwith-*
12 *standing any other provision of this section, if the Secretary*
13 *determines that any portion of an application for an offer-*
14 *in-compromise or installment agreement submitted under*
15 *this section or section 6159 meets the requirement of clause*
16 *(i) or (ii) of section 6702(b)(2)(A), then the Secretary may*
17 *treat such portion as if it were never submitted and such*
18 *portion shall not be subject to any further administrative*
19 *or judicial review.”.*

20 (e) *CLERICAL AMENDMENT.—The table of sections for*
21 *part I of subchapter B of chapter 68 is amended by striking*
22 *the item relating to section 6702 and inserting the following*
23 *new item:*

 “Sec. 6702. *Frivolous tax submissions.*”.

24 (f) *EFFECTIVE DATE.—The amendments made by this*
25 *section shall apply to submissions made and issues raised*

1 *after the date on which the Secretary first prescribes a list*
 2 *under section 6702(c) of the Internal Revenue Code of 1986,*
 3 *as amended by subsection (a).*

4 **SEC. 108. CLARIFICATION OF APPLICATION OF FEDERAL**
 5 **TAX DEPOSIT PENALTY.**

6 *Nothing in section 6656 of the Internal Revenue Code*
 7 *of 1986 shall be construed to permit the percentage specified*
 8 *in subsection (b)(1)(A)(iii) thereof to apply other than in*
 9 *a case where the failure is for more than 15 days.*

10 **TITLE II—FAIRNESS OF**
 11 **COLLECTION PROCEDURES**

12 **SEC. 201. PARTIAL PAYMENT OF TAX LIABILITY IN INSTALL-**
 13 **MENT AGREEMENTS.**

14 *(a) IN GENERAL.—*

15 *(1) Section 6159(a) (relating to authorization of*
 16 *agreements) is amended—*

17 *(A) by striking “satisfy liability for pay-*
 18 *ment of” and inserting “make payment on”, and*

19 *(B) by inserting “full or partial” after “fa-*
 20 *cilitate”.*

21 *(2) Section 6159(c) (relating to Secretary re-*
 22 *quired to enter into installment agreements in certain*
 23 *cases) is amended in the matter preceding paragraph*
 24 *(1) by inserting “full” before “payment”.*

1 **(b) REQUIREMENT TO REVIEW PARTIAL PAYMENT**
2 **AGREEMENTS EVERY TWO YEARS.**—Section 6159 is
3 amended by redesignating subsections (d) and (e) as sub-
4 sections (e) and (f), respectively, and inserting after sub-
5 section (c) the following new subsection:

6 “(d) **SECRETARY REQUIRED TO REVIEW INSTALL-**
7 **MENT AGREEMENTS FOR PARTIAL COLLECTION EVERY TWO**
8 **YEARS.**—In the case of an agreement entered into by the
9 Secretary under subsection (a) for partial collection of a
10 tax liability, the Secretary shall review the agreement at
11 least once every 2 years.”.

12 **(c) EFFECTIVE DATE.**—The amendments made by this
13 section shall apply to agreements entered into on or after
14 the date of the enactment of this Act.

15 **SEC. 202. EXTENSION OF TIME FOR RETURN OF PROPERTY.**

16 **(a) EXTENSION OF TIME FOR RETURN OF PROPERTY**
17 **SUBJECT TO LEVY.**—Subsection (b) of section 6343 (relat-
18 ing to return of property) is amended by striking “9
19 months” and inserting “2 years”.

20 **(b) PERIOD OF LIMITATION ON SUITS.**—Subsection (c)
21 of section 6532 (relating to suits by persons other than tax-
22 payers) is amended—

23 (1) in paragraph (1) by striking “9 months”
24 and inserting “2 years”, and

1 (2) in paragraph (2) by striking “9-month” and
2 inserting “2-year”.

3 (c) *EFFECTIVE DATE.*—*The amendments made by this*
4 *section shall apply to—*

5 (1) *levies made after the date of the enactment*
6 *of this Act, and*

7 (2) *levies made on or before such date if the 9-*
8 *month period has not expired under section 6343(b)*
9 *of the Internal Revenue Code of 1986 (without regard*
10 *to this section) as of such date.*

11 **SEC. 203. INDIVIDUALS HELD HARMLESS ON WRONGFUL**
12 **LEVY, ETC. ON INDIVIDUAL RETIREMENT**
13 **PLAN.**

14 (a) *IN GENERAL.*—*Section 6343 (relating to authority*
15 *to release levy and return property) is amended by adding*
16 *at the end the following new subsection:*

17 “(f) *INDIVIDUALS HELD HARMLESS ON WRONGFUL*
18 *LEVY, ETC. ON INDIVIDUAL RETIREMENT PLAN.*—

19 “(1) *IN GENERAL.*—*If the Secretary determines*
20 *that an individual retirement plan has been levied*
21 *upon in a case to which subsection (b) or (d)(2)(A)*
22 *applies, an amount equal to the sum of—*

23 “(A) *the amount of money returned by the*
24 *Secretary on account of such levy, and*

1 “(B) interest paid under subsection (c) on
2 such amount of money,
3 may be deposited into an individual retirement plan
4 (other than an endowment contract) to which a roll-
5 over from the plan levied upon is permitted.

6 “(2) *TREATMENT AS ROLLOVER.*—The distribu-
7 tion on account of the levy and any deposit under
8 paragraph (1) with respect to such distribution shall
9 be treated for purposes of this title as if such distribu-
10 tion and deposit were part of a rollover described in
11 section 408(d)(3)(A)(i); except that—

12 “(A) interest paid under subsection (c) shall
13 be treated as part of such distribution and as not
14 includible in gross income,

15 “(B) the 60-day requirement in such section
16 shall be treated as met if the deposit is made not
17 later than the 60th day after the day on which
18 the individual receives an amount under para-
19 graph (1) from the Secretary, and

20 “(C) such deposit shall not be taken into ac-
21 count under section 408(d)(3)(B).

22 “(3) *REFUND, ETC., OF INCOME TAX ON LEVY.*—
23 If any amount is includible in gross income for a tax-
24 able year by reason of a levy referred to in paragraph
25 (1) and any portion of such amount is treated as a

1 **SEC. 205. STUDY OF LIENS AND LEVIES.**

2 *The Secretary of the Treasury, or the Secretary's dele-*
3 *gate, shall conduct a study of the practices of the Internal*
4 *Revenue Service concerning liens and levies. The study shall*
5 *examine—*

6 *(1) the declining use of liens and levies by the*
7 *Internal Revenue Service, and*

8 *(2) the practicality of recording liens and lev-*
9 *ying against property in cases in which the cost of*
10 *such actions exceeds the amount to be realized from*
11 *such property.*

12 *Not later than 1 year after the date of the enactment of*
13 *this Act, the Secretary shall submit such study to the Com-*
14 *mittee on Ways and Means of the House of Representatives*
15 *and the Committee on Finance of the Senate.*

16 **TITLE III—EFFICIENCY OF TAX**
17 **ADMINISTRATION**

18 **SEC. 301. REVISIONS RELATING TO TERMINATION OF EM-**
19 **PLOYMENT OF INTERNAL REVENUE SERVICE**
20 **EMPLOYEES FOR MISCONDUCT.**

21 *(a) IN GENERAL.—Subchapter A of chapter 80 (relat-*
22 *ing to application of internal revenue laws) is amended by*
23 *inserting after section 7804 the following new section:*

24 **“SEC. 7804A. DISCIPLINARY ACTIONS FOR MISCONDUCT.**

25 **“(a) DISCIPLINARY ACTIONS.—**

1 “(1) *IN GENERAL.*—Subject to subsection (c), the
2 Commissioner shall take an action in accordance with
3 the guidelines established under paragraph (2)
4 against any employee of the Internal Revenue Service
5 if there is a final administrative or judicial deter-
6 mination that such employee committed any act or
7 omission described under subsection (b) in the per-
8 formance of the employee’s official duties or where a
9 nexus to the employee’s position exists.

10 “(2) *GUIDELINES.*—The Commissioner shall
11 issue guidelines for determining the appropriate level
12 of discipline, up to and including termination of em-
13 ployment, for committing any act or omission de-
14 scribed under subsection (b).

15 “(b) *ACTS OR OMISSIONS.*—The acts or omissions de-
16 scribed under this subsection are—

17 “(1) willful failure to obtain the required ap-
18 proval signatures on documents authorizing the sei-
19 zure of a taxpayer’s home, personal belongings, or
20 business assets;

21 “(2) willfully providing a false statement under
22 oath with respect to a material matter involving a
23 taxpayer or taxpayer representative;

24 “(3) with respect to a taxpayer or taxpayer rep-
25 resentative, the willful violation of—

1 “(A) *any right under the Constitution of the*
2 *United States;*

3 “(B) *any civil right established under—*

4 “(i) *title VI or VII of the Civil Rights*
5 *Act of 1964;*

6 “(ii) *title IX of the Education Amend-*
7 *ments of 1972;*

8 “(iii) *the Age Discrimination in Em-*
9 *ployment Act of 1967;*

10 “(iv) *the Age Discrimination Act of*
11 *1975;*

12 “(v) *section 501 or 504 of the Rehabili-*
13 *tation Act of 1973; or*

14 “(vi) *title I of the Americans with Dis-*
15 *abilities Act of 1990; or*

16 “(C) *the Internal Revenue Service policy on*
17 *unauthorized inspection of returns or return in-*
18 *formation;*

19 “(4) *willfully falsifying or destroying documents*
20 *to conceal mistakes made by any employee with re-*
21 *spect to a matter involving a taxpayer or taxpayer*
22 *representative;*

23 “(5) *assault or battery on a taxpayer or tax-*
24 *payer representative, but only if there is a criminal*

1 *conviction, or a final adverse judgment by a court in*
2 *a civil case, with respect to the assault or battery;*

3 *“(6) willful violations of this title, Department of*
4 *the Treasury regulations, or policies of the Internal*
5 *Revenue Service (including the Internal Revenue*
6 *Manual) for the purpose of retaliating against, or*
7 *harassing, a taxpayer or taxpayer representative;*

8 *“(7) willful misuse of the provisions of section*
9 *6103 for the purpose of concealing information from*
10 *a congressional inquiry;*

11 *“(8) willful failure to file any return of tax re-*
12 *quired under this title on or before the date prescribed*
13 *therefor (including any extensions) when a tax is due*
14 *and owing, unless such failure is due to reasonable*
15 *cause and not due to willful neglect;*

16 *“(9) willful understatement of Federal tax liabil-*
17 *ity, unless such understatement is due to reasonable*
18 *cause and not due to willful neglect; and*

19 *“(10) threatening to audit a taxpayer, or to take*
20 *other action under this title, for the purpose of ex-*
21 *tracting personal gain or benefit.*

22 *“(c) DETERMINATIONS OF COMMISSIONER.—*

23 *“(1) IN GENERAL.—The Commissioner may take*
24 *a personnel action other than a disciplinary action*

1 *provided for in the guidelines under subsection (a)(2)*
2 *for an act or omission described under subsection (b).*

3 “(2) *DISCRETION.*—*The exercise of authority*
4 *under paragraph (1) shall be at the sole discretion of*
5 *the Commissioner and may not be delegated to any*
6 *other officer. The Commissioner, in his sole discretion,*
7 *may establish a procedure to determine if an indi-*
8 *vidual should be referred to the Commissioner for a*
9 *determination by the Commissioner under paragraph*
10 *(1).*

11 “(3) *NO APPEAL.*—*Notwithstanding any other*
12 *provision of law, any determination of the Commis-*
13 *sioner under this subsection may not be reviewed in*
14 *any administrative or judicial proceeding. A finding*
15 *that an act or omission described under subsection (b)*
16 *occurred may be reviewed.*

17 “(d) *DEFINITION.*—*For the purposes of the provisions*
18 *described in clauses (i), (ii), and (iv) of subsection*
19 *(b)(3)(B), references to a program or activity regarding*
20 *Federal financial assistance or an education program or*
21 *activity receiving Federal financial assistance shall include*
22 *any program or activity conducted by the Internal Revenue*
23 *Service for a taxpayer.*

1 “(e) *ANNUAL REPORT.*—*The Commissioner shall sub-*
 2 *mit to Congress annually a report on disciplinary actions*
 3 *under this section.*”.

4 (b) *CLERICAL AMENDMENT.*—*The table of sections for*
 5 *chapter 80 is amended by inserting after the item relating*
 6 *to section 7804 the following new item:*

“*Sec. 7804A. Disciplinary actions for misconduct.*”.

7 (c) *REPEAL OF SUPERSEDED SECTION.*—*Section 1203*
 8 *of the Internal Revenue Service Restructuring and Reform*
 9 *Act of 1998 (Public Law 105–206; 112 Stat. 720) is re-*
 10 *pealed.*

11 (d) *EFFECTIVE DATE.*—*The amendments made by this*
 12 *section shall take effect on the date of the enactment of this*
 13 *Act.*

14 **SEC. 302. CONFIRMATION OF AUTHORITY OF TAX COURT TO**
 15 **APPLY DOCTRINE OF EQUITABLE**
 16 **RECOUPMENT.**

17 (a) *CONFIRMATION OF AUTHORITY OF TAX COURT TO*
 18 *APPLY DOCTRINE OF EQUITABLE RECOUPMENT.*—*Sub-*
 19 *section (b) of section 6214 (relating to jurisdiction over*
 20 *other years and quarters) is amended by adding at the end*
 21 *the following new sentence: “Notwithstanding the preceding*
 22 *sentence, the Tax Court may apply the doctrine of equitable*
 23 *recoupment to the same extent that it is available in civil*
 24 *tax cases before the district courts of the United States and*
 25 *the United States Court of Federal Claims.*”.

1 (b) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to any action or proceeding in the Tax*
3 *Court with respect to which a decision has not become final*
4 *(as determined under section 7481 of the Internal Revenue*
5 *Code of 1986) as of the date of the enactment of this Act.*

6 **SEC. 303. JURISDICTION OF TAX COURT OVER COLLECTION**

7 **DUE PROCESS CASES.**

8 (a) *IN GENERAL.*—*Section 6330(d)(1) (relating to ju-*
9 *dicial review of determination) is amended to read as fol-*
10 *lows:*

11 “(1) *JUDICIAL REVIEW OF DETERMINATION.*—
12 *The person may, within 30 days of a determination*
13 *under this section, appeal such determination to the*
14 *Tax Court (and the Tax Court shall have jurisdiction*
15 *with respect to such matter).”.*

16 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
17 *section (a) shall apply to judicial appeals filed after the*
18 *date of the enactment of this Act.*

19 **SEC. 304. OFFICE OF CHIEF COUNSEL REVIEW OF OFFERS**

20 **IN COMPROMISE.**

21 (a) *IN GENERAL.*—*Section 7122(b) (relating to record)*
22 *is amended by striking “Whenever a compromise” and all*
23 *that follows through “his delegate” and inserting “If the*
24 *Secretary determines that an opinion of the General Coun-*
25 *sel for the Department of the Treasury, or the Counsel’s del-*

1 *egate, is required with respect to a compromise, there shall*
 2 *be placed on file in the office of the Secretary such opinion”.*

3 (b) *CONFORMING AMENDMENTS.*—Section 7122(b) is
 4 *amended by striking the second and third sentences.*

5 (c) *EFFECTIVE DATE.*—The amendments made by this
 6 *section shall apply to offers-in-compromise submitted or*
 7 *pending on or after the date of the enactment of this Act.*

8 **SEC. 305. 15-DAY DELAY IN DUE DATE FOR ELECTRONI-**
 9 **CALLY FILED INDIVIDUAL INCOME TAX RE-**
 10 **TURNS.**

11 (a) *IN GENERAL.*—Section 6072 (relating to time for
 12 *filing income tax returns*) is amended by adding at the end
 13 *the following new subsection:*

14 “(f) *ELECTRONICALLY FILED RETURNS OF INDIVID-*
 15 *UALS.*—

16 “(1) *IN GENERAL.*—Returns of an individual
 17 *under section 6012 or 6013 (other than an individual*
 18 *to whom subsection (c) applies) which are filed*
 19 *electronically—*

20 “(A) *in the case of returns filed on the basis*
 21 *of a calendar year, shall be filed on or before the*
 22 *30th day of April following the close of the cal-*
 23 *endar year, and*

24 “(B) *in the case of returns filed on the basis*
 25 *of a fiscal year, shall be filed on or before the last*

1 *day of the 4th month following the close of the*
2 *fiscal year.*

3 “(2) *ELECTRONIC FILING.*—*Paragraph (1) shall*
4 *not apply to any return unless—*

5 “(A) *such return is accepted by the Sec-*
6 *retary, and*

7 “(B) *the balance due (if any) shown on*
8 *such return is paid electronically in a manner*
9 *prescribed by the Secretary.*

10 “(3) *SPECIAL RULES.*—

11 “(A) *ESTIMATED TAX.*—*If—*

12 “(i) *paragraph (1) applies to an indi-*
13 *vidual for any taxable year, and*

14 “(ii) *there is an overpayment of tax*
15 *shown on the return for such year which the*
16 *individual allows against the individual’s*
17 *obligation under section 6641,*

18 *then, with respect to the amount so allowed, any*
19 *reference in section 6641 to the April 15 fol-*
20 *lowing such taxable year shall be treated as a*
21 *reference to April 30.*

22 “(B) *REFERENCES TO DUE DATE.*—*Para-*
23 *graph (1) shall apply solely for purposes of de-*
24 *termining the due date for the individual’s obli-*
25 *gation to file and pay tax and, except as other-*

1 *wise provided by the Secretary, shall be treated*
2 *as an extension of the due date for any other*
3 *purpose under this title.”.*

4 ***(b) EFFECTIVE DATE.***—*The amendment made by this*
5 *section shall apply to taxable years beginning after Decem-*
6 *ber 31, 2001.*

7 ***TITLE IV—CONFIDENTIALITY***
8 ***AND DISCLOSURE***

9 ***SEC. 401. COLLECTION ACTIVITIES WITH RESPECT TO***
10 ***JOINT RETURN DISCLOSABLE TO EITHER***
11 ***SPOUSE BASED ON ORAL REQUEST.***

12 ***(a) IN GENERAL.***—*Paragraph (8) of section 6103(e)*
13 *(relating to disclosure of collection activities with respect*
14 *to joint return) is amended by striking “in writing” the*
15 *first place it appears.*

16 ***(b) EFFECTIVE DATE.***—*The amendment made by this*
17 *section shall apply to requests made after the date of the*
18 *enactment of this Act.*

19 ***SEC. 402. TAXPAYER REPRESENTATIVES NOT SUBJECT TO***
20 ***EXAMINATION ON SOLE BASIS OF REPRESENTATION OF TAXPAYERS.***

22 ***(a) IN GENERAL.***—*Subsection (h) of section 6103 (re-*
23 *lating to disclosure to certain Federal officers and employ-*
24 *ees for purposes of tax administration, etc.) is amended by*
25 *adding at the end the following new paragraph:*

1 “(i) *NOTICE.*—*Return or return infor-*
2 *mation of any person who is not a party to*
3 *a judicial or administrative proceeding de-*
4 *scribed in this paragraph shall not be dis-*
5 *closed under clause (ii) or (iii) of subpara-*
6 *graph (A) until after the Secretary makes a*
7 *reasonable effort to give notice to such per-*
8 *son and an opportunity for such person to*
9 *request the deletion of matter from such re-*
10 *turn or return information, including any*
11 *of the items referred to in paragraphs (1)*
12 *through (7) of section 6110(c). Such notice*
13 *shall include a statement of the issue or*
14 *issues the resolution of which is the reason*
15 *such return or return information is sought.*
16 *In the case of S corporations, partnerships,*
17 *estates, and trusts, such notice shall be*
18 *made at the entity level.*

19 “(ii) *DISCLOSURE LIMITED TO PERTI-*
20 *NENT PORTION.*—*The only portion of a re-*
21 *turn or return information described in*
22 *clause (i) which may be disclosed under*
23 *subparagraph (A) is that portion of such re-*
24 *turn or return information that directly re-*

1 *lates to the resolution of an issue in such*
2 *proceeding.*

3 “(iii) *EXCEPTIONS.—Clause (i) shall*
4 *not apply—*

5 “(I) *to any civil action under sec-*
6 *tion 7407, 7408, or 7409,*

7 “(II) *to any ex parte proceeding*
8 *for obtaining a search warrant, order*
9 *for entry on premises or safe deposit*
10 *boxes, or similar ex parte proceeding,*

11 “(III) *to disclosure of third party*
12 *return information by indictment or*
13 *criminal information, or*

14 “(IV) *if the Attorney General or*
15 *the Attorney General’s delegate deter-*
16 *mines that the application of such*
17 *clause would seriously impair a crimi-*
18 *nal tax investigation or proceeding.”.*

19 (b) *CONFORMING AMENDMENTS.—Paragraph (4) of*
20 *section 6103(h) is amended by—*

21 (1) *by striking “PROCEEDINGS.—A return” and*
22 *inserting “PROCEEDINGS.—*

23 “(A) *IN GENERAL.—Except as provided in*
24 *subparagraph (B), a return”;*

1 (2) *by redesignating subparagraphs (A), (B),*
2 *(C), and (D) as clauses (i), (ii), (iii), and (iv), re-*
3 *spectively; and*

4 (3) *in the matter following clause (iv) (as so re-*
5 *designated), by striking “subparagraph (A), (B), or*
6 *(C)” and inserting “clause (i), (ii), or (iii)” and by*
7 *moving such matter 2 ems to the right.*

8 (c) *EFFECTIVE DATE.—The amendments made by this*
9 *section shall apply to proceedings commenced after the date*
10 *of the enactment of this Act.*

11 **SEC. 404. PROHIBITION OF DISCLOSURE OF TAXPAYER**
12 **IDENTIFICATION INFORMATION WITH RE-**
13 **SPECT TO DISCLOSURE OF ACCEPTED OF-**
14 **FERS-IN-COMPROMISE.**

15 (a) *IN GENERAL.—Paragraph (1) of section 6103(k)*
16 *(relating to disclosure of certain returns and return infor-*
17 *mation for tax administrative purposes) is amended by in-*
18 *serting “(other than the taxpayer’s address and TIN)” after*
19 *“Return information”.*

20 (b) *EFFECTIVE DATE.—The amendment made by this*
21 *section shall apply to disclosures made after the date of the*
22 *enactment of this Act.*

1 **SEC. 405. COMPLIANCE BY CONTRACTORS WITH CONFIDEN-**
2 **TIALITY SAFEGUARDS.**

3 (a) *IN GENERAL.*—Section 6103(p) (relating to State
4 law requirements) is amended by adding at the end the fol-
5 lowing new paragraph:

6 “(9) *DISCLOSURE TO CONTRACTORS.*—Notwith-
7 standing any other provision of this section, no re-
8 turn or return information shall be disclosed by any
9 officer or employee of any Federal agency or State to
10 any contractor of such agency or State unless such
11 agency or State—

12 “(A) has requirements in effect which re-
13 quire each contractor of such agency or State
14 which would have access to returns or return in-
15 formation to provide safeguards (within the
16 meaning of paragraph (4)) to protect the con-
17 fidentiality of such returns or return informa-
18 tion,

19 “(B) agrees to conduct an annual, on-site
20 review (mid-point review in the case of contracts
21 of less than 1 year in duration) of each con-
22 tractor to determine compliance with such re-
23 quirements,

24 “(C) submits the findings of the most recent
25 review conducted under subparagraph (B) to the

1 *designee of taxpayer) is amended by adding at the end the*
2 *following new paragraphs:*

3 “(2) *REQUIREMENTS FOR VALID REQUESTS AND*
4 *CONSENTS.—A request for or consent to disclosure*
5 *under paragraph (1) shall only be valid for purposes*
6 *of this section or sections 7213, 7213A, or 7431 if—*

7 “(A) *at the time of execution, such request*
8 *or consent designates a recipient of such disclo-*
9 *sure and is dated, and*

10 “(B) *at the time such request or consent is*
11 *submitted to the Secretary, the submitter of such*
12 *request or consent certifies, under penalty of per-*
13 *jury, that such request or consent complied with*
14 *subparagraph (A).*

15 “(3) *RESTRICTIONS ON PERSONS OBTAINING IN-*
16 *FORMATION.—Any person shall, as a condition for re-*
17 *ceiving return or return information under para-*
18 *graph (1)—*

19 “(A) *ensure that such return and return in-*
20 *formation is kept confidential,*

21 “(B) *use such return and return informa-*
22 *tion only for the purpose for which it was re-*
23 *quested, and*

24 “(C) *not disclose such return and return in-*
25 *formation except to accomplish the purpose for*

1 *which it was requested, unless a separate consent*
2 *from the taxpayer is obtained.*

3 “(4) *REQUIREMENTS FOR FORM PRESCRIBED BY*
4 *SECRETARY.—For purposes of this subsection, the Sec-*
5 *retary shall prescribe a form for requests and consents*
6 *which shall—*

7 “(A) *contain a warning, prominently dis-*
8 *played, informing the taxpayer that the form*
9 *should not be signed unless it is completed,*

10 “(B) *state that if the taxpayer believes there*
11 *is an attempt to coerce him to sign an incom-*
12 *plete or blank form, the taxpayer should report*
13 *the matter to the Treasury Inspector General for*
14 *Tax Administration, and*

15 “(C) *contain the address and telephone*
16 *number of the Treasury Inspector General for*
17 *Tax Administration.”.*

18 “(b) *REPORT.—Not later than 18 months after the date*
19 *of the enactment of this Act, the Treasury Inspector General*
20 *for Tax Administration shall submit a report to the Con-*
21 *gress on compliance with the designation and certification*
22 *requirements applicable to requests for or consent to disclo-*
23 *sure of returns and return information under section*
24 *6103(c) of the Internal Revenue Code of 1986, as amended*
25 *by subsection (a). Such report shall—*

1 (1) *evaluate (on the basis of random sampling)*
2 *whether—*

3 (A) *the amendment made by subsection (a)*
4 *is achieving the purposes of this section;*

5 (B) *requesters and submitters for such dis-*
6 *closure are continuing to evade the purposes of*
7 *this section and, if so, how; and*

8 (C) *the sanctions for violations of such re-*
9 *quirements are adequate; and*

10 (2) *include such recommendations that the*
11 *Treasury Inspector General for Tax Administration*
12 *considers necessary or appropriate to better achieve*
13 *the purposes of this section.*

14 (c) *CONFORMING AMENDMENT.—Section 6103(c) is*
15 *amended by striking “TAXPAYER.—The Secretary” and in-*
16 *serting “TAXPAYER.—*

17 *“(1) IN GENERAL.—The Secretary”.*

18 (d) *EFFECTIVE DATE.—The amendments made by this*
19 *section shall apply to requests and consents made after 3*
20 *months after the date of the enactment of this Act.*

21 **SEC. 407. NOTICE TO TAXPAYER CONCERNING ADMINISTRA-**
22 **TIVE DETERMINATION OF BROWSING; AN-**
23 **NUAL REPORT.**

24 (a) *NOTICE TO TAXPAYER.—Subsection (e) of section*
25 *7431 (relating to notification of unlawful inspection and*

1 disclosure) is amended by adding at the end the following:
2 “The Secretary shall also notify such taxpayer if the Treas-
3 ury Inspector General for Tax Administration determines
4 that such taxpayer’s return or return information was in-
5 spected or disclosed in violation of any of the provisions
6 specified in paragraph (1), (2), or (3).”.

7 (b) *REPORTS*.—Subsection (p) of section 6103 (relat-
8 ing to procedure and recordkeeping), as amended by section
9 405, is further amended by adding at the end the following
10 new paragraph:

11 “(10) *REPORT ON UNAUTHORIZED DISCLOSURE*
12 *AND INSPECTION*.—As part of the report required by
13 paragraph (3)(C) for each calendar year, the Sec-
14 retary shall furnish information regarding the unau-
15 thorized disclosure and inspection of returns and re-
16 turn information, including the number, status, and
17 results of—

18 “(A) administrative investigations,

19 “(B) civil lawsuits brought under section
20 7431 (including the amounts for which such law-
21 suits were settled and the amounts of damages
22 awarded), and

23 “(C) criminal prosecutions.”.

24 (c) *EFFECTIVE DATE*.—

1 **SEC. 410. DISCLOSURE TO STATE OFFICIALS OF PROPOSED**
2 **ACTIONS RELATED TO SECTION 501(c)(3) OR-**
3 **GANIZATIONS.**

4 (a) *IN GENERAL.*—Subsection (c) of section 6104 is
5 amended by striking paragraph (2) and inserting the fol-
6 lowing new paragraphs:

7 “(2) *DISCLOSURE OF PROPOSED ACTIONS.*—

8 “(A) *SPECIFIC NOTIFICATIONS.*—In the case
9 of an organization to which paragraph (1) ap-
10 plies, the Secretary may disclose to the appro-
11 priate State officer—

12 “(i) a notice of proposed refusal to rec-
13 ognize such organization as an organization
14 described in section 501(c)(3) or a notice of
15 proposed revocation of such organization’s
16 recognition as an organization exempt from
17 taxation,

18 “(ii) the issuance of a letter of pro-
19 posed deficiency of tax imposed under sec-
20 tion 507 or chapter 41 or 42, and

21 “(iii) the names and taxpayer identi-
22 fication numbers of organizations that have
23 applied for recognition as organizations de-
24 scribed in section 501(c)(3).

25 “(B) *ADDITIONAL DISCLOSURES.*—Returns
26 and return information of organizations with re-

1 *spect to which information is disclosed under*
2 *subparagraph (A) may be made available for in-*
3 *spection by or disclosed to an appropriate State*
4 *officer.*

5 “(C) *PROCEDURES FOR DISCLOSURE.—In-*
6 *formation may be inspected or disclosed under*
7 *subparagraph (A) or (B) only—*

8 “(i) *upon written request by an appro-*
9 *priate State officer, and*

10 “(ii) *for the purpose of, and only to the*
11 *extent necessary in, the administration of*
12 *State laws regulating such organizations.*

13 *Such information may only be inspected by or*
14 *disclosed to representatives of the appropriate*
15 *State officer designated as the individuals who*
16 *are to inspect or to receive the returns or return*
17 *information under this paragraph on behalf of*
18 *such officer.*

19 “(D) *DISCLOSURES OTHER THAN BY RE-*
20 *QUEST.—The Secretary may make available for*
21 *inspection or disclose returns and return infor-*
22 *mation of an organization to which paragraph*
23 *(1) applies to an appropriate State officer of*
24 *any State if the Secretary determines that such*
25 *inspection or disclosure may facilitate the resolu-*

1 *tion of State and Federal issues relating to such*
2 *organization.*

3 “(3) *USE IN JUDICIAL AND ADMINISTRATIVE*
4 *PROCEEDINGS.—Returns and return information dis-*
5 *closed pursuant to this subsection may be disclosed in*
6 *civil administrative and judicial proceedings per-*
7 *taining to the enforcement of State laws regulating*
8 *such organizations in a manner prescribed by the*
9 *Secretary similar to that for tax administration pro-*
10 *ceedings under section 6103(h)(4).*

11 “(4) *NO DISCLOSURE IF IMPAIRMENT.—Returns*
12 *and return information shall not be disclosed under*
13 *this subsection, or in any proceeding described in*
14 *paragraph (3), to the extent that the Secretary deter-*
15 *mines that such disclosure would seriously impair*
16 *Federal tax administration.*

17 “(5) *DEFINITIONS.—For purposes of this*
18 *subsection—*

19 “(A) *RETURN AND RETURN INFORMA-*
20 *TION.—The terms ‘return’ and ‘return informa-*
21 *tion’ have the respective meanings given to such*
22 *terms by section 6103(b).*

23 “(B) *APPROPRIATE STATE OFFICER.—The*
24 *term ‘appropriate State officer’ means—*

25 “(i) *the State attorney general, or*

1 “(ii) the head of any State agency,
2 body, or commission which is charged under
3 the laws of such State with responsibility
4 for overseeing organizations of the type de-
5 scribed in section 501(c)(3).”.

6 (b) CONFORMING AMENDMENTS.—

7 (1) Subsection (a) of section 6103 is amended—

8 (A) by inserting “or section 6104(c)” after
9 “this section” in paragraph (2), and

10 (B) by striking “or subsection (n)” in para-
11 graph (3) and inserting “subsection (n), or sec-
12 tion 6104(c)”.

13 (2) Subparagraph (A) of section 6103(p)(3) is
14 amended by inserting “and section 6104(c)” after
15 “section” in the first sentence.

16 (3) Paragraph (4) of section 6103(p) is
17 amended—

18 (A) in the matter preceding subparagraph
19 (A), by striking “(16) or any other person de-
20 scribed in subsection (l)(16)” and inserting
21 “(16), any other person described in subsection
22 (l)(16), or any appropriate State officer (as de-
23 fined in section 6104(c))”, and

24 (B) in subparagraph (F), by striking “or
25 any other person described in subsection (l)(16)”

1 and inserting “any other person described in
2 subsection (l)(16), or any appropriate State offi-
3 cer (as defined in section 6104(c))”.

4 (4) Paragraph (2) of section 7213(a) is amended
5 by inserting “or under section 6104(c)” after “6103”.

6 (5) Paragraph (2) of section 7213A(a) is amend-
7 ed by inserting “or 6104(c)” after “6103”.

8 (6) Paragraph (2) of section 7431(a) is amended
9 by inserting “(including any disclosure in violation
10 of section 6104(c))” after “6103”.

11 (c) *EFFECTIVE DATE.*—The amendments made by this
12 section shall take effect on the date of the enactment of this
13 Act but shall not apply to requests made before such date.

14 **TITLE V—MISCELLANEOUS**

15 **SEC. 501. CLARIFICATION OF DEFINITION OF CHURCH TAX**

16 **INQUIRY.**

17 Subsection (i) of section 7611 (relating to section not
18 to apply to criminal investigations, etc.) is amended by
19 striking “or” at the end of paragraph (4), by striking the
20 period at the end of paragraph (5) and inserting “, or”,
21 and by inserting after paragraph (5) the following:

22 “(6) information provided by the Secretary re-
23 lated to the standards for exemption from tax under
24 this title and the requirements under this title relat-
25 ing to unrelated business taxable income.”.

1 **SEC. 502. EXPANSION OF DECLARATORY JUDGMENT REM-**
2 **EDY TO TAX-EXEMPT ORGANIZATIONS.**

3 (a) *IN GENERAL.*—Paragraph (1) of section 7428(a)
4 (relating to creation of remedy) is amended—

5 (1) in subparagraph (B) by inserting after
6 “509(a)” the following: “or as a private operating
7 foundation (as defined in section 4942(j)(3))”; and

8 (2) by amending subparagraph (C) to read as
9 follows:

10 “(C) with respect to the initial qualification
11 or continuing qualification of an organization as
12 an organization described in section 501(c)
13 (other than paragraph (3)) which is exempt from
14 tax under section 501(a), or”.

15 (b) *COURT JURISDICTION.*—Subsection (a) of section
16 7428 is amended in the material following paragraph (2)
17 by striking “United States Tax Court, the United States
18 Claims Court, or the district court of the United States for
19 the District of Columbia” and inserting the following:
20 “United States Tax Court (in the case of any such deter-
21 mination or failure) or the United States Claims Court or
22 the district court of the United States for the District of
23 Columbia (in the case of a determination or failure with
24 respect to an issue referred to in subparagraph (A) or (B)
25 of paragraph (1)),”.

1 (c) *EFFECTIVE DATE.*—*The amendments made by this*
2 *section shall apply to pleadings filed with respect to deter-*
3 *minations (or requests for determinations) made after the*
4 *date of the enactment of this Act.*

5 **SEC. 503. EMPLOYEE MISCONDUCT REPORT TO INCLUDE**
6 **SUMMARY OF COMPLAINTS BY CATEGORY.**

7 (a) *IN GENERAL.*—*Clause (ii) of section 7803(d)(2)(A)*
8 *is amended by inserting before the semicolon at the end the*
9 *following: “, including a summary (by category) of the 10*
10 *most common complaints made and the number of such*
11 *common complaints”.*

12 (b) *EFFECTIVE DATE.*—*The amendment made by sub-*
13 *section (a) shall apply with respect to reporting periods*
14 *ending after the date of the enactment of this Act.*

15 **SEC. 504. ANNUAL REPORT ON AWARDS OF COSTS AND CER-**
16 **TAIN FEES IN ADMINISTRATIVE AND COURT**
17 **PROCEEDINGS.**

18 *Not later than 3 months after the close of each Federal*
19 *fiscal year after fiscal year 2001, the Treasury Inspector*
20 *General for Tax Administration shall submit a report to*
21 *Congress which specifies for such year—*

22 (1) *the number of payments made by the United*
23 *States pursuant to section 7430 of the Internal Rev-*
24 *enue Code of 1986 (relating to awarding of costs and*
25 *certain fees);*

1 (2) *the amount of each such payment;*

2 (3) *an analysis of any administrative issue giv-*
3 *ing rise to such payments; and*

4 (4) *changes (if any) which will be implemented*
5 *as a result of such analysis and other changes (if*
6 *any) recommended by the Treasury Inspector General*
7 *for Tax Administration as a result of such analysis.*

8 **SEC. 505. ANNUAL REPORT ON ABATEMENT OF PENALTIES.**

9 *Not later than 6 months after the close of each Federal*
10 *fiscal year after fiscal year 2001, the Treasury Inspector*
11 *General for Tax Administration shall submit a report to*
12 *Congress on abatements of penalties under the Internal Rev-*
13 *enue Code of 1986 during such year, including information*
14 *on the reasons and criteria for such abatements.*

15 **SEC. 506. BETTER MEANS OF COMMUNICATING WITH TAX-**
16 **PAYERS.**

17 *Not later than 18 months after the date of the enact-*
18 *ment of this Act, the Treasury Inspector General for Tax*
19 *Administration shall submit a report to Congress evalu-*
20 *ating whether technological advances, such as e-mail and*
21 *facsimile transmission, permit the use of alternative means*
22 *for the Internal Revenue Service to communicate with tax-*
23 *payers.*

1 **SEC. 507. EXPLANATION OF STATUTE OF LIMITATIONS AND**
2 **CONSEQUENCES OF FAILURE TO FILE.**

3 *The Secretary of the Treasury or the Secretary's dele-*
4 *gate shall, as soon as practicable but not later than 180*
5 *days after the date of the enactment of this Act, revise the*
6 *statement required by section 6227 of the Omnibus Tax-*
7 *payer Bill of Rights (Internal Revenue Service Publication*
8 *No. 1), and any instructions booklet accompanying a gen-*
9 *eral income tax return form for taxable years beginning*
10 *after 2001 (including forms 1040, 1040A, 1040EZ, and any*
11 *similar or successor forms relating thereto), to provide for*
12 *an explanation of—*

13 *(1) the limitations imposed by section 6511 of*
14 *the Internal Revenue Code of 1986 on credits and re-*
15 *funds; and*

16 *(2) the consequences under such section 6511 of*
17 *the failure to file a return of tax.*

18 **SEC. 508. AMENDMENT TO TREASURY AUCTION REFORMS.**

19 *(a) IN GENERAL.—Clause (i) of section 202(c)(4)(B)*
20 *of the Government Securities Act Amendments of 1993 (31*
21 *U.S.C. 3121 note) is amended by inserting before the semi-*
22 *colon “(or, if earlier, at the time the Secretary releases the*
23 *minutes of the meeting in accordance with paragraph (2))”.*

24 *(b) EFFECTIVE DATE.—The amendment made by sub-*
25 *section (a) shall apply to meetings held after the date of*
26 *the enactment of this Act.*

1 **SEC. 509. ENROLLED AGENTS.**

2 (a) *IN GENERAL.*—Chapter 77 (relating to miscella-
3 neous provisions) is amended by adding at the end the fol-
4 lowing new section:

5 **“SEC. 7527. ENROLLED AGENTS.**

6 “(a) *IN GENERAL.*—The Secretary may prescribe such
7 regulations as may be necessary to regulate the conduct of
8 enrolled agents in regards to their practice before the Inter-
9 nal Revenue Service.

10 “(b) *USE OF CREDENTIALS.*—Any enrolled agents
11 properly licensed to practice as required under rules pro-
12 mulgated under section (a) herein shall be allowed to use
13 the credentials or designation as ‘enrolled agent’, ‘EA’, or
14 ‘E.A.’.”

15 (b) *CLERICAL AMENDMENT.*—The table of sections for
16 chapter 77 is amended by adding at the end the following
17 new item:

“Sec. 7527. Enrolled agents.”

18 (c) *PRIOR REGULATIONS.*—Nothing in the amend-
19 ments made by this section shall be construed to have any
20 effect on part 10 of title 31, Code of Federal Regulations,
21 or any other Federal rule or regulation issued before the
22 date of the enactment of this Act.

23 **SEC. 510. FINANCIAL MANAGEMENT SERVICE FEES.**

24 Notwithstanding any other provision of law, the Fi-
25 nancial Management Service may charge the Internal Rev-

1 *enue Service, and the Internal Revenue Service may pay*
2 *the Financial Management Service, a fee sufficient to cover*
3 *the full cost of implementing a continuous levy program*
4 *under subsection (h) of section 6331 of the Internal Revenue*
5 *Code of 1986. Any such fee shall be based on actual levies*
6 *made and shall be collected by the Financial Management*
7 *Service by the retention of a portion of amounts collected*
8 *by levy pursuant to that subsection. Amounts received by*
9 *the Financial Management Service as fees under that sub-*
10 *section shall be deposited into the account of the Depart-*
11 *ment of the Treasury under section 3711(g)(7) of title 31,*
12 *United States Code, and shall be collected and accounted*
13 *for in accordance with the provisions of that section. The*
14 *amount credited against the taxpayer's liability on account*
15 *of the continuous levy shall be the amount levied, without*
16 *reduction for the amount paid to the Financial Manage-*
17 *ment Service as a fee.*

18 **SEC. 511. CAPITAL GAIN TREATMENT UNDER SECTION**
19 **631(b) TO APPLY TO OUTRIGHT SALES BY**
20 **LAND OWNER.**

21 *(a) IN GENERAL.—The first sentence of section 631(b)*
22 *of the Internal Revenue Code of 1986 (relating to disposal*
23 *of timber with a retained economic interest) is amended by*
24 *striking “retains an economic interest in such timber” and*

1 *inserting “either retains an economic interest in such tim-*
2 *ber or makes an outright sale of such timber”.*

3 (b) *CONFORMING AMENDMENT.*—*The third sentence of*
4 *section 631(b) of such Code is amended by striking “The*
5 *date of disposal” and inserting “In the case of disposal of*
6 *timber with a retained economic interest, the date of dis-*
7 *posal”.*

8 (c) *EFFECTIVE DATE.*—*The amendments made by this*
9 *section shall apply to sales after the date of the enactment*
10 *of this Act.*

11 **TITLE VI—LOW-INCOME**
12 **TAXPAYER CLINICS**

13 **SEC. 601. LOW-INCOME TAXPAYER CLINICS.**

14 (a) *LIMITATION ON AMOUNT OF GRANTS.*—*Paragraph*
15 *(1) of section 7526(c) (relating to special rules and limita-*
16 *tions) is amended by striking “\$6,000,000 per year” and*
17 *inserting “\$9,000,000 for 2002, \$12,000,000 for 2003, and*
18 *\$15,000,000 for each year thereafter”.*

19 (b) *LIMITATION ON USE OF CLINICS FOR TAX RETURN*
20 *PREPARATION.*—*Subparagraph (A) of section 7526(b)(1) is*
21 *amended by adding at the end the following flush language:*

22 *“The term does not include a clinic that provides*
23 *routine tax return preparation. The preceding*
24 *sentence shall not apply to return preparation in*

1 *connection with a controversy with the Internal*
2 *Revenue Service.”.*

3 (c) *PROMOTION OF CLINICS.*—Section 7526(c) is
4 *amended by adding at the end the following new paragraph:*

5 “(7) *PROMOTION OF CLINICS.*—*The Secretary is*
6 *authorized to promote the benefits of and encourage*
7 *the use of low-income taxpayer clinics through the use*
8 *of mass communications, referrals, and other means.”.*

9 **TITLE VII—REVISIONS TO SEC-**
10 **TION 527 ORGANIZATION DIS-**
11 **CLOSURE PROVISIONS**

12 **SEC. 701. MODIFICATIONS OF REPORTING REQUIREMENTS**
13 **FOR CERTAIN STATE AND LOCAL POLITICAL**
14 **ORGANIZATIONS.**

15 (a) *NOTIFICATION.*—

16 (1) *Paragraph (5) of section 527(i) (relating to*
17 *organizations must notify Secretary that they are sec-*
18 *tion 527 organizations) is amended by striking “or”*
19 *at the end of subparagraph (A), by striking the period*
20 *at the end of subparagraph (B) and inserting “, or”,*
21 *and by adding at the end the following:*

22 “(C) *which is—*

23 “(i) *a political committee of a State or*
24 *local candidate, or*

1 “(ii) a local committee of an entity
2 which is a political party under State
3 law.”.

4 (2) Subparagraph (B) of section 527(j)(5) (relat-
5 ing to coordination with other requirements) is
6 amended to read as follows:

7 “(B) to any organization which is—

8 “(i) a political committee of a State or
9 local candidate, or

10 “(ii) a State or local committee of an
11 entity which is a political party under
12 State law.”.

13 (b) EXEMPTION FOR CERTAIN STATE AND LOCAL PO-
14 LITICAL COMMITTEES FROM REPORTING REQUIRE-
15 MENTS.—

16 (1) IN GENERAL.—Paragraph (5) of section
17 527(j) (relating to required disclosures of expenditures
18 and contributions) is amended by redesignating sub-
19 paragraphs (C), (D), and (E) as subparagraphs (D),
20 (E), and (F), respectively, and by inserting after sub-
21 paragraph (B) the following new subparagraph:

22 “(C) to any organization which is an ex-
23 empt State or local political organization.”.

24 (2) EXEMPT STATE OR LOCAL POLITICAL ORGA-
25 NIZATION.—Subsection (e) of section 527 (relating to

1 *other definitions) is amended by adding at the end*
2 *the following new paragraph:*

3 *“(5) EXEMPT STATE OR LOCAL POLITICAL ORGA-*
4 *NIZATION.—*

5 *“(A) IN GENERAL.—The term ‘exempt State*
6 *or local political organization’ means a political*
7 *organization—*

8 *“(i) which does not engage in any ex-*
9 *empt function other than to influence or to*
10 *attempt to influence the selection, nomina-*
11 *tion, election, or appointment of any indi-*
12 *vidual to any State or local public office or*
13 *office in a State or local political organiza-*
14 *tion,*

15 *“(ii) which is subject to State or local*
16 *requirements to submit reports containing*
17 *information—*

18 *“(I) regarding individual expend-*
19 *itures from and contributions to such*
20 *organization, and*

21 *“(II) regarding the person who*
22 *makes such contributions or receives*
23 *such expenditures,*

1 *which is substantially similar to the infor-*
2 *mation which would otherwise be required*
3 *to be reported under this section, and*

4 “(iii) *with respect to which the reports*
5 *referred to in clause (ii) are made public by*
6 *the agency with which such reports are filed*
7 *and are publicly available for inspection in*
8 *a manner similar to that required by sec-*
9 *tion 6104(d)(1).*

10 “(B) *PARTICIPATION OF FEDERAL CAN-*
11 *DIDATE OR OFFICE HOLDER.—The term ‘exempt*
12 *State or local political organization’ shall not*
13 *include any organization otherwise described in*
14 *subparagraph (A) if a candidate for nomination*
15 *or election to Federal elective office or an indi-*
16 *vidual who holds such office—*

17 “(i) *controls or materially participates*
18 *in the direction of the organization, or*

19 “(ii) *directs, in whole or in part, ex-*
20 *penditures or fundraising activities of the*
21 *organization.”.*

22 “(c) *ANNUAL RETURN REQUIREMENTS.—*

23 “(1) *INCOME TAX RETURNS REQUIRED ONLY*
24 *WHERE POLITICAL ORGANIZATION TAXABLE IN-*
25 *COME.—Paragraph (6) of section 6012(a) (relating to*

1 *general rule of persons required to make returns of in-*
2 *come) is amended by striking “or which has gross re-*
3 *ceipts of \$25,000 or more for the taxable year (other*
4 *than an organization to which section 527 applies*
5 *solely by reason of subsection (f)(1) of such section)”.*

6 (2) *INFORMATION RETURNS.—Subsection (g) of*
7 *section 6033 (relating to returns required by political*
8 *organizations) is amended to read as follows:*

9 “*(g) RETURNS REQUIRED BY POLITICAL ORGANIZA-*
10 *TIONS.—*

11 “*(1) IN GENERAL.—Every political organization*
12 *(within the meaning of section 527(e)(1)), and every*
13 *fund treated under section 527(g) as if it constituted*
14 *a political organization, which has gross receipts of*
15 *\$25,000 or more for the taxable year shall file a*
16 *return—*

17 “*(A) containing the information required,*
18 *and complying with the other requirements,*
19 *under subsection (a)(1) for organizations exempt*
20 *from taxation under section 501(a), and*

21 “*(B) containing such other information as*
22 *the Secretary deems necessary to carry out the*
23 *provisions of this subsection.*

24 “*(2) EXCEPTIONS FROM FILING.—*

1 “(A) *MANDATORY EXCEPTIONS.*—*Paragraph*
2 (1) *shall not apply to an organization—*

3 “*(i) which is an exempt State or local*
4 *political organization (as defined in section*
5 *527(e)(5)),*

6 “*(ii) which is a State or local com-*
7 *mittee of a political party, or political com-*
8 *mittee of a State or local candidate, as de-*
9 *defined by State law,*

10 “*(iii) which is a caucus or association*
11 *of State or local elected officials,*

12 “*(iv) which is a national association of*
13 *State or local officials,*

14 “*(v) which is an authorized committee*
15 *(as defined in section 301(6) of the Federal*
16 *Election Campaign Act of 1971) of a can-*
17 *didate for Federal office,*

18 “*(vi) which is a national committee*
19 *(as defined in section 301(14) of the Federal*
20 *Election Campaign Act of 1971) of a polit-*
21 *ical party, or*

22 “*(vii) to which section 527 applies for*
23 *the taxable year solely by reason of sub-*
24 *section (f)(1) of such section.*

1 “(B) *DISCRETIONARY EXCEPTION.*—*The*
2 *Secretary may relieve any organization required*
3 *under paragraph (1) to file an information re-*
4 *turn from filing such a return where he deter-*
5 *mines that such filing is not necessary to the effi-*
6 *cient administration of the internal revenue*
7 *laws.”.*

8 (d) *WAIVER OF PENALTIES.*—*Section 527 is amended*
9 *by adding at the end the following:*

10 “(k) *AUTHORITY TO WAIVE.*—*The Secretary may*
11 *wave all or any portion of the—*

12 “(1) *tax assessed on an organization by reason*
13 *of the failure of the organization to give notice under*
14 *subsection (i), or*

15 “(2) *penalty imposed under subsection (j) for a*
16 *failure to file a report,*
17 *on a showing that such failure was due to reasonable cause*
18 *and not due to willful neglect.”.*

19 (e) *EFFECTIVE DATE.*—*The amendments made by this*
20 *section shall take effect as if included in the amendments*
21 *made by Public Law 106–230.*

1 **SEC. 702. NOTIFICATION OF INTERACTION OF REPORTING**
2 **REQUIREMENTS.**

3 (a) *IN GENERAL.*—*The Secretary of the Treasury, in*
4 *consultation with the Federal Election Commission, shall*
5 *publicize information on—*

6 (1) *the effect of the amendments made by this*
7 *Act, and*

8 (2) *the interaction of requirements to file a noti-*
9 *fication or report under section 527 of the Internal*
10 *Revenue Code of 1986 and reports under the Federal*
11 *Election Campaign Act of 1971.*

12 (b) *INFORMATION.*—*Information provided under sub-*
13 *section (a) shall be included in any appropriate form, in-*
14 *struction, notice, or other guidance issued to the public by*
15 *the Secretary of the Treasury or the Federal Election Com-*
16 *mission regarding reporting requirements of political orga-*
17 *nizations (as defined in section 527 of the Internal Revenue*
18 *Code of 1986) or reporting requirements under the Federal*
19 *Election Campaign Act of 1971.*

20 **SEC. 703. TECHNICAL CORRECTIONS TO SECTION 527 ORGA-**
21 **NIZATION DISCLOSURE PROVISIONS.**

22 (a) *UNSEGREGATED FUNDS NOT TO AVOID TAX.*—
23 *Paragraph (4) of section 527(i) (relating to failure to no-*
24 *tify) is amended by adding at the end the following new*
25 *sentence: “For purposes of the preceding sentence, the term*
26 *‘exempt function income’ means any amount described in*

1 *a subparagraph of subsection (c)(3), whether or not seg-*
2 *regated for use for an exempt function.”.*

3 *(b) PROCEDURES FOR ASSESSMENT AND COLLECTION*
4 *OF PENALTY.—Paragraph (1) of section 527(j) (relating to*
5 *required disclosure of expenditures and contributions) is*
6 *amended by adding at the end the following new sentence:*
7 *“For purposes of subtitle F, the penalty imposed by this*
8 *paragraph shall be assessed and collected in the same man-*
9 *ner as penalties imposed by section 6652(c).”.*

10 *(c) APPLICATION OF FRAUD PENALTY.—Section 7207*
11 *(relating to fraudulent returns, statements, and other docu-*
12 *ments) is amended by striking “pursuant to subsection (b)*
13 *of section 6047 or pursuant to subsection (d) of section*
14 *6104” and inserting “pursuant to section 6047(b), section*
15 *6104(d), or subsection (i) or (j) of section 527”.*

16 *(d) DUPLICATE ELECTRONIC AND WRITTEN FILINGS*
17 *NOT REQUIRED.—Subparagraph (A) of section 527(i)(1) is*
18 *amended by striking “, electronically and in writing,”.*

19 *(e) EFFECTIVE DATES.—*

20 *(1) SUBSECTIONS (a) AND (b).—The amend-*
21 *ments made by subsections (a) and (b) shall apply to*
22 *failures occurring on or after the date of the enact-*
23 *ment of this Act.*

24 *(2) SUBSECTIONS (c) AND (d).—The amendments*
25 *made by subsections (c) and (d) shall take effect as if*

- 1 *included in the amendments made by Public Law*
- 2 *106-230.*

Union Calendar No. 234

107TH CONGRESS
2^D SESSION

H. R. 3991

[Report No. 107-394]

A BILL

To amend the Internal Revenue Code of 1986 to protect taxpayers and ensure accountability of the Internal Revenue Service.

APRIL 9, 2002

Reported with an amendment, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed