INTRODUCTION: Legislative Recommendations

Section 7803(c)(2)(B)(ii)(VIII) of the Internal Revenue Code (IRC) requires the National Taxpayer Advocate to include in her Annual Report to Congress, among other things, legislative recommendations to resolve problems encountered by taxpayers.

The chart immediately following this introduction summarizes congressional action on recommendations the National Taxpayer Advocate proposed in her 2001 through 2016 Annual Reports. The National Taxpayer Advocate places a high priority on working with the tax-writing committees and other interested parties to try to resolve problems encountered by taxpayers. In addition to submitting legislative proposals in each Annual Report, the National Taxpayer Advocate meets regularly with members of Congress and their staffs and testifies at hearings on the problems faced by taxpayers to ensure that Congress has an opportunity to receive and consider a taxpayer perspective. Also, for the first time this year, the National Taxpayer Advocate has included with her Annual Report a separate volume, The National Taxpayer Advocate Purple Book, which proposes 50 legislative recommendations intended to strengthen taxpayer rights and improve tax administration. Each recommendation is presented in a format similar to the one used for congressional committee reports, with “Present Law,” “Reasons for Change,” and “Recommendation(s)” sections. Our hope is to make it a user-friendly resource for Members of Congress and their staffs.

The following discussion highlights legislative activity during the first session of the 115th Congress relating to the National Taxpayer Advocate’s proposals.

Tax Reform

Shortly before this report went to print, Congress enacted comprehensive tax reform legislation for the first time in over three decades. This legislation included two of the National Taxpayer Advocate’s prior proposals:

- **Extending the time limit for contesting an IRS levy.** This provision amended IRC § 6343(b) to extend the time to return levied funds or proceeds from nine months to two years. It also amended IRC § 6532(c) to extend the period within which a third party can bring a suit for return of levied funds or proceeds from nine months to two years.

- **Children’s Income (“Kiddie Tax”).** This provision simplifies the “Kiddie Tax” by applying the tax rates for trusts and estates to net unearned income, thereby separating the child’s tax calculation from the parent’s return.
In addition, provisions in the initial version of this legislation would have enacted two of the National Taxpayer Advocate’s past proposals:

- **Repeal of the Alternative Minimum Tax (AMT).** This provision would have repealed the AMT for both individuals and corporations. Although the enacted bill repealed the AMT for corporations, it did not repeal it for individuals. However, the new law modified the AMT to increase the exemption amounts for individuals.

- **Simplify and streamline education tax incentives.** A few provisions would have simplified and streamlined the education tax incentives by consolidating, creating uniformity among, or adding permanency to, the various education tax incentives. However, these provisions were not included in the final version of the bill.

Also, as described in a Joint Committee on Taxation publication, the Chairman of the Senate Committee on Finance made modifications to Chairman’s mark of the legislation that would have included two of the National Taxpayer Advocate’s prior recommendations:

- **Individuals held harmless on improper levies on retirement plans.** This provision would hold individuals harmless on improper levies on individual retirement plans.

- **Modifications to user fees requirements for installment agreements.** This provision would have modified the user fee requirement for low income taxpayers (below 250 percent of the Federal poverty guidelines) in two ways. First, it would have waived the user fee if the low income taxpayer entered into an installment agreement under which the taxpayer agreed to make automated installment payments through a debit account. Second, it would have left low income taxpayers who are unable to agree to make payments electronically subject to the required user fee, but it would have required the IRS to reimburse the fee upon completion of the installment agreement.

---


11 Joint Committee on Taxation, JCX-56-17, Description of the Chairman’s Modification to the Chairman’s Mark of the “Tax Cuts and Jobs Act” (Nov. 14, 2017).

12 id. at 21-24.


14 Joint Committee on Taxation, JCX-56-17, Description of the Chairman’s Modification to the Chairman’s Mark of the “Tax Cuts and Jobs Act” 25-26 (Nov. 14, 2017).

15 See National Taxpayer Advocate 2006 Annual Report to Congress 141-56 (Most Serious Problem: Collection Issues of Low Income Taxpayers) (recommending that the IRS implement an installment agreement (IA) user fee waiver for low income taxpayers and adopt a graduated scale for other IA user fees based on the amount of work required).
Taxpayer Bill of Rights Enhancement Act of 2017

On September 12, 2017, Senators Grassley and Thune introduced the Taxpayer Bill of Rights Enhancement Act of 2017, which would enact three of the National Taxpayer Advocate’s past proposals:16

- **Individuals held harmless on improper levies on retirement plans.**17 This provision would hold individuals harmless on improper levies on individual retirement plans.18

- **Clarification of application of federal tax deposit penalty.**19 This provision would amend IRC § 6656 to reduce the current ten percent penalty rate for failure to make a deposit in the manner required to a two percent penalty rate.20

- **Access to Appeals.**21 This provision would require the IRS to have at least one Appeals officer and one settlement officer located and permanently available in each State, the District of Columbia, and Puerto Rico.22

Taxpayer Protection Act of 2017

On April 26, 2017, Representatives Lewis, DelBene, Blumenauer, and Davis introduced legislation, entitled the Taxpayer Protection Act of 2017, which would enact several of the National Taxpayer Advocate’s recommendations from her 2015 Annual Report, including:23

- **Repeal of suspension of period of limitations during the pending of an application for a Taxpayer Assistance Order (TAO).**24 This provision would repeal IRC § 7811(d), which currently suspends the statute of limitations during the period beginning on the date of a taxpayer’s TAO application and ending on the date of the National Taxpayer Advocate’s decision with respect to the application as well as any period specified by the National Taxpayer Advocate in a TAO issued pursuant to the TAO application.25

- **Limitation on levies on retirement savings.**26 This provision would amend IRC § 6334(a) to exempt from levy any individual’s interest in a qualified retirement plan before the individual has attained normal retirement age (or 65 in the case of an individual retirement account or a plan that does not specify a normal retirement age) or after the attainment of retirement age (or 65) if the levy would create an economic hardship (within the meaning of IRC § 6343(a)(1)(D)) due to the financial condition of the taxpayer. The provision also contains an exception to the limitation

---

22 See National Taxpayer Advocate 2014 Annual Report to Congress 311 (Legislative Recommendation: Access to Appeals: Require that Appeals Have At Least One Appeals Officer and Settlement Officer Located and Permanently Available within Every State, the District of Columbia, and Puerto Rico); National Taxpayer Advocate 2009 Annual Report to Congress 346-50 (Legislative Recommendation: Strengthen the Independence of the IRS Office of Appeals and Require at Least One Appeals Officer and Settlement Officer in Each State).
25 See National Taxpayer Advocate 2015 Annual Report to Congress 316-28 (Legislative Recommendation: Statute of Limitations: Repeal or Fix Statute Suspension Under IRC § 7811(d)).
on retirement plan levies for flagrant acts, which are situations in which the IRS determines a taxpayer filed a fraudulent return or acted with the intent to evade or defeat any tax or its collection or payment.\(^\text{27}\)

This bill also contains several of the National Taxpayer Advocate’s proposals from Annual Reports prior to 2015, including:

- **Repeal of rules relating to tax collection contracts.**\(^\text{28}\) This provision would repeal the private debt collection provisions contained in IRC §§ 6306 and 6307. The National Taxpayer Advocate has identified both the current and a prior iteration of the IRS’s private debt collection program as most serious problems and previously recommended that these provisions be repealed.\(^\text{29}\)

- **Repeal of partial payment requirement for submissions of offers-in-compromise.**\(^\text{30}\) This provision would repeal the current partial payment requirement on submissions of offers-in-compromise under IRC § 7122(c)(1).\(^\text{31}\) In addition, this provision would add a new section to IRC § 7122 to apply any user fee for an offer-in-compromise to reduce the tax that is the subject of that offer.\(^\text{32}\)

- **Taxpayer notification of suspected identity theft.**\(^\text{33}\) This provision would require the IRS to notify taxpayers of suspected identity theft.\(^\text{34}\)

- **Single point of contact for identity theft victims.**\(^\text{35}\) This provision would require the IRS to establish new procedures to ensure that any taxpayer whose return has been delayed or otherwise adversely affected due to identity theft has a single point of contact at the IRS throughout the processing of his or her case. The single point of contact would be required to track the taxpayer’s case from start to finish and coordinate with other specialized units to resolve case issues as quickly as possible.\(^\text{36}\) In addition, under this provision, any identity theft case involving multiple

\(^{27}\) See National Taxpayer Advocate 2015 Annual Report to Congress 340-45 (Legislative Recommendation: Levies on Retirement Accounts: Amend IRC § 6334 to Include a Definition of Flagrancy and Require Consideration of Basic Living Expenses at Retirement Before Levying on Retirement Accounts).


\(^{31}\) See National Taxpayer Advocate 2006 Annual Report to Congress 507-19 (Legislative Recommendation: Improve Offer in Compromise Eligibility).


\(^{33}\) Id.

\(^{34}\) See National Taxpayer Advocate 2011 Annual Report to Congress 61 (Most Serious Problem: Tax-Related Identity Theft Continues to Impose Significant Burdens on Taxpayers and the IRS).

\(^{35}\) H.R. 2171, 115th Cong. § 302(a) (2017).

\(^{36}\) See, e.g., National Taxpayer Advocate 2013 Annual Report to Congress 83 (Most Serious Problem: Identity Theft: The IRS Should Adopt a New Approach to Identity Theft Victim Assistance that Minimizes Burden and Anxiety for Such Taxpayers). For the most current information on the IRS’s handling of identity theft cases, see Most Serious Problem: Identity Theft: As Tax-Related Identity Theft Schemes Evolve, the IRS Must Continually Assess and Modify Its Victim Assistance Procedures, supra (noting that the IRS has adopted a centralized approach to identity theft victim assistance, including assignment of a sole contact person for certain victims).
units of the IRS or multiple tax years would require the single point of contact to be one full-time IRS employee.37

- **Referrals to low income taxpayer clinics permitted.**38 This provision would amend IRC § 7526(c) to allow IRS employees to refer taxpayers for advice and assistance to low income taxpayer clinics receiving grant funding from the IRS.39

- **Tax return preparer oversight.**40 The National Taxpayer Advocate has recommended that Congress authorize the IRS to create an oversight and penalty regime for return preparers.41 This provision would amend 31 U.S.C. § 330 to authorize the Treasury Department to conduct oversight over tax return preparers. It would also provide a definition of the term “tax return preparer” and give the IRS the authority to impose Title 31 penalties on tax return preparers for violations of law.

**Identity Theft and Tax Fraud Prevention Act of 2017**

The National Taxpayer Advocate has discussed the problems of identity theft and the IRS’s procedures for addressing it in many of her past Annual Reports.42 On March 9, 2017, Senator Nelson and six other Senators introduced the Identity Theft and Tax Fraud Prevention Act, a bill that focuses on identity theft issues.43 This bill would require the IRS, in consultation with the National Taxpayer Advocate, to develop and implement publicly available guidelines for management of cases involving stolen identity refund fraud in a manner that reduces the administrative burden on taxpayers who are victims of such fraud.44 The bill would also require the IRS to notify taxpayers of suspected identity theft.45 Further, a provision in the bill would amend 31 U.S.C. § 330 to authorize the Treasury Department to conduct oversight over tax return preparers, provide a definition of the term “tax return preparer” for purposes of title 31, and give the IRS the authority to impose penalties under title 31 on tax return preparers for violations of law.46 Finally, the bill would require electronically prepared paper returns that are filed on paper to include a scannable code that would allow the return to be converted to electronic format.47

---

37 H.R. 2171, 115th Cong. § 302(b) (2017).
41 See, e.g., National Taxpayer Advocate 2009 Annual Report to Congress 41-69 (Most Serious Problem: The IRS Lacks a Servicewide Return Preparer Strategy); National Taxpayer Advocate 2008 Annual Report to Congress 423-26 (Legislative Recommendation: The Time Has Come to Regulate Federal Tax Return Preparers).
42 For a comprehensive history and discussion of the identity theft problem, see National Taxpayer Advocate 2015 Annual Report to Congress 180-87 (Most Serious Problem: Identity Theft (IDT): The IRS’s Procedures for Assisting Victims of IDT, While Improved, Still Impose Excessive Burden and Delay Refunds for Too Long); For the most current information on the IRS’s handling of identity theft cases, see Most Serious Problem: Identity Theft: As Tax-Related Identity Theft Schemes Evolve, the IRS Must Continually Assess and Modify Its Victim Assistance Procedures, supra.
Stolen Identity Refund Fraud Prevention Act of 2017

On January 11, 2017, Representative Renacci and 13 other Representatives introduced the Stolen Identity Refund Fraud Prevention Act of 2017, which would enact two of the National Taxpayer Advocate’s prior proposals.48 First, the bill would establish a centralized point of contact for identifying theft victims.49 Second, the bill would add a new Code section requiring the IRS to provide notifications, instructions, and forms to suspected victims of identity theft.50

Tax Refund Protection Act of 2017

On April 6, 2017, Representative Bonamici introduced the Tax Refund Protection Act of 2017.51 This proposed legislation would add a new Code section authorize the Treasury Department to conduct oversight over tax return preparers.52

Volunteer Income Tax Assistance (VITA) Act

On January 23, 2017, Senators Brown and Coons and Representative Davis introduced companion bills entitled the Volunteer Income Tax Assistance (VITA) Act.53 The legislation would establish a Community Volunteer Income Tax Assistance Matching Grant Program (VITA grant program).54 The VITA grant program would be administered in a manner that is substantially similar to the Community Volunteer Income Tax Assistance matching grants demonstration program established under Title I of Division D of the Consolidated Appropriations Act, 2008. In addition, the legislation would authorize the Secretary to promote the benefits of, and encourage the use of, tax return preparation through the VITA program by mass communications, referrals, and other means.55 It would also encourage VITA grant recipients to refer eligible taxpayers to local or regional Low Income Taxpayer Clinics.56 Finally, the legislation would allow the IRS to refer taxpayers to qualified VITA programs.57

Volunteer Income Tax Assistance Permanence Act of 2017

On March 30, 2017, and on June 15, 2017, Senators Brown and Heller and Representatives Curbelo and Davis, respectively, introduced the Volunteer Income Tax Assistance Permanence Act of 2017, two bills that are substantially similar to each other and to the companion bills discussed directly above.58

IRS Whistleblower Improvements Act of 2017

In her 2015 Annual Report, the National Taxpayer Advocate discussed problems relating to the IRS’s whistleblower program and made both administrative and legislative recommendations to improve it.59 On March 29, 2017, Senators Grassley and Wyden introduced the IRS Whistleblower Improvements Act of 2017, a bill dedicated to whistleblower reform issues.60 Included in this bill is a provision that would impose a penalty on whistleblowers for unauthorized disclosure of tax information.61 In addition, the bill would amend IRC § 7623 to include anti-retaliation protection for tax whistleblowers.62

Strengthening Taxpayer Rights Act of 2017

On July 20, 2017, Representative Doggett and six other Representatives introduced legislation that would enact two of the National Taxpayer Advocate’s prior proposals:63

- **Limit redisclosures and uses of consent-based disclosures of tax return information.**64 This provision would amend IRC § 6103(c) to indicate that individuals designated by the taxpayer to receive return information are not permitted to use the information for any purpose other than the express purpose for which consent was granted and shall not disclose return information to any other person without the express permission of, or request by, the taxpayer.65

---

61 S. 762, 115th Cong. § 2(a) (2017). See National Taxpayer Advocate 2015 Annual Report to Congress 413-18 (Legislative Recommendation: Whistleblower Program: Make Unauthorized Disclosures of Return Information by Whistleblowers Subject to the Penalties of IRC §§ 7431, 7213, and 7213A, Substantially Increase the Amount of Such Penalties, and Make Whistleblowers Subject to the Safeguarding Requirement of IRC § 6103(p)).
64 H.R. 3340, 115th Cong. § 102 (2017).
65 See National Taxpayer Advocate 2007 Annual Report to Congress 554-55 (Additional Legislative Recommendation: Consent-Based Disclosures of Tax Return Information Under Internal Revenue Code Section 6103(c)).
- **De novo Tax Court review of innocent spouse relief determinations.** This provision would amend IRC § 6015(e) to provide that the standard and scope of review for Tax Court review of IRS innocent spouse relief determinations is *de novo*.67

---


67 See National Taxpayer Advocate 2011 Annual Report to Congress 531-36 (Legislative Recommendation: Clarify that the Scope and Standard of Tax Court Determinations Under Internal Revenue Code Section 6015(f) is De Novo).