H.R. 3056
TAX COLLECTION RESPONSIBILITY ACT OF 2007

October 10, 2007

Repeal of IRS authority to enter into private debt collection contracts. The provision would repeal the IRS's authority to enter into, renew, or extend contracts with private companies to collect Federal income taxes. The collection of Federal income taxes is an inherently governmental function that should be restricted to IRS employees. The use of private contractors violates the special and confidential relationship between taxpayers and the Federal government, and could jeopardize the privacy of taxpayers, possibly undermining long-term taxpayer compliance. The Committee on Ways and Means heard extensive testimony detailing the predatory and aggressive tactics utilized by private debt collectors. In addition, private debt collection is an extremely inefficient way to collect Federal income taxes. Since the authority to enter into private debt collection contracts was first granted in 2004, the Federal government has spent $71 million to collect a net of $20 million in tax receipts. If this money was spent hiring IRS employees, the National Taxpayer Advocate estimates the Federal government could have collected $1.4 billion. *This provision is estimated to cost $1.054 billion over 10 years.*

Delay application of withholding requirement on certain governmental payments for goods and services. For payments made after December 31, 2010, the Code requires withholding at a three percent rate on certain payments to persons providing property or services made by Federal, State, and local governments. The withholding is required regardless of whether the government entity making the payment is the recipient of the property or services (those with less than $100 million in annual expenditures for property or services are exempt). Numerous government entities and taxpayers have raised concerns about the application of this provision. The provision would delay for one year (through December 31, 2011) the application of the three percent withholding requirement on government payments for goods and services in order to provide time for the Treasury Department to study the impact of this provision on government entities and other taxpayers. *This provision is estimated to cost $44 million over 10 years.*

Clarification of entitlement of U.S. Virgin Islands residents to taxpayer statute of limitations protections. The provision would extend to residents of the U.S. Virgin Islands (USVI) the same administrative and procedural protections that are available to U.S. taxpayers, including a three-year statute of limitations on collections. As a result of a misapplication of present law by the IRS, U.S. citizens who claim to be bona fide USVI residents and who file USVI income tax returns are not allowed to claim the statute of limitations protection that is available to other U.S. citizens who file income tax returns. The provision would correct this misapplication of present law. *This provision is estimated to cost $38 million over 10 years.*

Revision of tax rules on expatriation. U.S. citizens and long-term U.S. residents are subject to tax on their worldwide income. Taxpayers can avoid taxes by renouncing their U.S. citizenship or terminating their residence. This provision would tighten current law rules to ensure that certain high net-worth taxpayers cannot renounce their U.S. citizenship or terminate their U.S. residence in order to avoid U.S. taxes. Under this provision, high net-worth individuals will be treated as if they sold all of their property for its fair market value on the day before such individual expatriates or terminates their residency. Gain will be recognized to the extent that the aggregate gain recognized exceeds $600,000 (which will be adjusted for cost of living in the future). *This provision is estimated to raise $730 million over 10 years.*

Repeal of suspension on certain penalties and interest. Generally, the accrual of interest and penalties is suspended starting 36 months after the filing of a tax return if the IRS has not sent the taxpayer a notice specifically stating the taxpayer's liability and the basis for the liability within the specified period. The provision would repeal the suspension of interest and penalties on certain tax deficiencies where the IRS has notified a taxpayer after 36 months, allowing IRS to fully investigate cases of taxpayer underpayment and to increase compliance with our nation's tax laws. *This provision is estimated to raise $128 million over 10 years.*

Increase information return penalties. The provision would increase the penalties for failing to file correct returns, failing to furnish correct payee statements, and failing to comply with other information reporting requirements. If a taxpayer fails to file a correct information return before August 1st, current law imposes a $50 penalty. The bill would increase this penalty to $100 per information return, with a maximum penalty of $600,000 per calendar year ($250,000 in the case of small businesses). Where a taxpayer files a correct information return after the filing date but before 30 days after the filing date, the current law $15 penalty will be increased to $25, with a maximum penalty of $200,000 per calendar year ($75,000 in the case of small businesses). Where a taxpayer files a correct information return more than 30 days after the filing date but before August 1st, the penalty for information returns will be increased from $30 to $60, with a maximum penalty of $500,000 ($150,000 in the case of small businesses). The provision is a scaled-back version of the Treasury Department's proposal to increase penalties on failures to provide information returns. *This provision is estimated to raise $280 million over 10 years.*