



# OFFICE OF ADVOCACY **FACTSHEET**

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## **IRS Compliance with the Regulatory Flexibility Act**

**United States House of Representatives, Committee on Small Business  
Thursday, May 1, 2003**

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### **TESTIMONY SUMMARY**

As stated in the FY 2002 Annual Report of the Chief Counsel for Advocacy on Implementation of the RFA, Advocacy believes the Treasury Department's Internal Revenue Service (IRS) can improve its rulemaking process.

Advocacy believes Congress established the "collection of information" requirement to trigger IRS compliance with the RFA on certain rules, not to limit the scope of the analysis to only the small business impacts resulting from the collection of information. Advocacy believes Congress passed the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA) to require the IRS to perform an RFA analysis of entire rules and their impacts. Advocacy recommends that IRS certify a rule under Section 605(b) of the RFA only if the rule in its entirety will not have a significant economic impact on a substantial number of small entities.

The IRS generally bases its RFA analyses for rules on its burden analysis under the Paperwork Reduction Act, but Advocacy believes the RFA requires the IRS to look at alternatives and the impact of the tax the regulation imposes in certain cases. Advocacy believes the IRS should seek to identify costs and hardships imposed by the regulatory approaches under consideration and look for alternatives to achieve the objective with fewer burdens, prior to publishing a rule for comment.

*Created by Congress in 1976, the Office of Advocacy of the U.S. Small Business Administration (SBA) is a voice for small business within the federal government. Advocacy is an independent office, so the views in the testimony do not necessarily reflect the views of the SBA or the Administration.*

*Appointed by the President and confirmed by the U.S. Senate, the Chief Counsel for Advocacy directs the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Economic research, policy analyses, and small business outreach help identify issues of concern. Regional Advocates and an office in Washington, DC, support the Chief Counsel's efforts.*

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