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# H.R. 3056 – Tax Collection Responsibility Act of 2007

## EXECUTIVE SUMMARY

H.R. 3056 was introduced by Representative Charles Rangel (D-NY) and was ordered reported from the Ways and Means Committee by a vote of 23-18 on July 31, 2007, in which every Republican on the committee and one Democrat voted against reporting the bill. This legislation contains numerous programs, some that will increase federal revenues, and others that will decrease revenues, with the net effect of reducing revenues by $252 million over the 2008-2017 period.

This legislation will revoke the IRS' authority to enter into contracts with private tax collectors, a provision that the Joint Committee on Taxation (JCT) estimates will reduce federal revenues by $1.3 billion over the 2008-2017 period. Ways and Means Republicans strongly oppose this provision that will kill a program that has successfully collected approximately $30 million dollars in unpaid taxes since 2006, that according to the testimony of former IRS commissioner, Mark Everson, the IRS would not otherwise pursue, even if they received additional funding to increase their workforce.

The bill also contains a provision that assesses a tax on the property owned by individuals that renounce their United States citizenship that the JCT estimates will increase federal revenues by $764 million over the 2008-2017 period. Ways and Means Republicans have voiced concerns over this provision that it "imposes an exit tax on the expatriate's assets."

H.R. 3056 also contains two additional provisions that will reduce federal revenues: 1) by delaying by one year the implementation of a three percent withholding on government payments for goods and services; and 2) by clarifying tax filing procedures for residents of the United States Virgin Islands. The JCT estimates that these provisions will reduce federal revenues by $44 million and $38 million over the 2008-2017 period, respectively.

In addition, the bill contains two more provisions that will increase federal revenues: 1) by increasing the amount of time that interest accrues on unpaid taxes; and 2) by increasing the fees on businesses that fail to file correct information with the IRS. The JCT estimates that these provisions will increase federal revenues by $128 million and $280 million over the 2008-2017 period, respectively.

**FLOOR SITUATION**
H.R. 3056 is being considered on the floor pursuant to a closed rule. The rule:

- Provides one hour of general debate equally divided and controlled by the Chairman and Ranking Republican Member of the Ways and Means Committee.

- Waives all points of order against consideration of the bill except those arising under clause 9 (earmarks) and 10 (PAYGO) of Rule XXI.

- Provides that the amendment in the nature of a substitute recommended by the Committee on Ways and Means, modified by the amendment printed in the Rules Committee report, shall be considered as adopted and the bill, as amended, shall be considered as read. (See Amendments Section below)

  **Note: A self-executing amendment to the bill is included in the Rule. This amendment will become part of the text of H.R. 3056 if the Rule is passed by the House of Representatives. The amendment will not receive independent consideration on the House floor.*

- Waives all points of order against provisions of the bill, as amended. This waiver does not affect the point of order available under clause 9 (earmarks) of rule XXI.

- Provides one motion to recommit with or without instructions.

- Provides that, notwithstanding the operation of the previous question, the Chair may postpone further consideration of the bill to a time designated by the Speaker.

This legislation was introduced by Representative Charles Rangel (D-NY) on July 17, 2007. The bill was ordered reported, as amended, by a vote of 23 - 18, from the House Ways and Means Committee on July 31, 2007.

**Note: In the Ways and Means Committee vote on H.R. 3056, all 17 Republicans and one Democrat voted against reporting the bill from the committee.*

This legislation is expected to be considered on the floor of the House of Representatives on October 10, 2007.

**SUMMARY**

Revoking the IRS' Authority to Enter Into Contracts With Private Tax Collectors
H.R. 3056 repeals the Internal Revenue Service's (IRS) authority to enter into contracts with private debt collectors, effective July 18, 2007. Any contracts entered into before that date are not authorized to be renewed or extended, and any contracts entered into after that date will be void.

Cost: The Joint Committee on Taxation (JCT) estimates that this provision will **reduce** federal revenues by $1.3 billion over the 2008-2017 period.

**Note: Republicans on the Ways and Means Committee "strongly oppose [this] provision killing the private collection agency program." Republicans stated that hearings on the issue revealed that "tax liabilities assigned to PCAs [Private Collection Agencies] for collection would otherwise go uncollected even if the IRS had a greater enforcement budget." Also in the hearings it was found that private debt collection firms are currently, "successfully collecting millions of dollars in unpaid taxes that the IRS would not otherwise pursue."*

Delaying the Implementation of the 3% Withholding on Certain Government Payments
The bill delays the effective date from January 1, 2011 to January 1, 2012 of the implementation of a provision of the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222) which requires the government to withhold 3% of government payments for certain goods and services.

H.R. 3056 also requires the Secretary of the Treasury to report to Congress within six months of the enactment of this Act on any anticipated problems or burdens that may arise in administering or complying with the implementation of the 3% withholding provision.

Cost: JCT estimates that this provision will **reduce** federal revenues by $44 million over the 2008-2017 period.

Taxpayers in the United States Virgin Islands
The bill clarifies that effective for tax years 1986 through present, tax returns from residents of the United States Virgin Islands will be treated "in the same manner as if such return were an income tax return filed in the United States for such taxable year." This provision is intended to clarify a discrepancy created by conflicting guidance published by the IRS on certain income tax filing procedures for residents of the United States Virgin Islands.

Cost: JCT estimates that this provision would **reduce** federal revenues by $38 million over the 2008-2017 period.

Tax Increase on Individuals Who Renounce Their Citizenship
H.R. 3056 would require that property owned by individuals who renounce their United States citizenship is treated, for tax purposes, as though it were sold for its market value on the day before the citizen expatriates. The bill also adds a new tax on expatriates as soon as they move overseas.

Cost: The JCT estimates that this provision would **increase** federal revenues by $764 million over the 2008-2017 period.

**Note: Republicans on the Ways and Means Committee have voiced concerns about this provision stating that it "imposes an exit tax on the expatriate's assets."*

Increasing the Amount of Time Interest Accrues on Unpaid Taxes
H.R. 3056 would remove the current limit of three years for which interest accrues on unpaid taxes. This change in current law will allow interest on unpaid taxes to continue to accrue beyond three years.

Cost: The JCT estimates that this change would **increase** federal revenues by $128 million over the 2008-2017 period.

Increasing the Fees on Businesses That Fail to File Correct Information
The bill increases the penalties on businesses that fail to file correct and on time information returns to the IRS. The current fees range from $15 - $250,000, and H.R. 5608 will increase the range of fees to $25 - $600,000.

Cost: The JCT estimates that this provision would **increase** federal revenues by $280 million over the 2010-2017 period.

**Note: Republicans on the Ways and Means Committee have voiced concerns about this provision stating that "increasing penalties on those who fail to file timely information returns does not induce better compliance…Rather, the added revenue comes from assessing fees on businesses that may be fully compliant with respect to their own tax obligations but for some reason are late in filing [certain] returns about the income of others. This is not a way to close the tax gap; it is a way to collect more money from already compliant taxpayers."*

**BACKGROUND**

Private Debt Collection
In testimony before the Ways and Means Committee on May 23, 2007, the GAO reported that an estimated $132 billion in delinquent tax debt that had "some collection potential" went uncollected in 2005. Congress authorized the IRS to contract with private debt collection companies with passage of the American Jobs Creation Act of 2004 (P.L. 108-357). The IRS first contracted with private collection agencies (PCAs) in 2006 and established a process where the IRS first sends notification letters to affected taxpayers notifying them that their cases are being handled by a PCA. The PCAs then notify the taxpayers of their collection efforts in a letter, and finally the PCAs are then allowed to contact the taxpayers by telephone.

Under the program, the IRS may retain up to 25% of the amount collected for additional collection enforcement activities, including the hiring of additional workers. According to the IRS, as of September 20, 2007 PCAs have helped collect $32.13 million in tax debts, and the IRS has retained $5.73 million of the collected funds for additional enforcement activities as of August 31, 2007. The GAO reports that PCAs do not actually collect the tax debts, but instruct taxpayers to forward payments to the IRS. And the IRS reports that the PCAs are paid on a "fee-for-service" basis averaging approximately 17 percent of the tax debt collected.

A provision that would have limited the funding available for the IRS to enter into private tax collection contracts to $1 million was contained in H.R. 2829, the Financial Services and General Government Appropriations Act of 2008, which passed by the vote of 240 - 179 (Roll no. 606) in the House of Representatives on June 28, 2007. The provision was removed from the bill during floor consideration at the insistence of Ways and Means Ranking Member, Representative Jim McCrery (R-LA).

Tax Laws on Expatriates
According to the Republican staff at the Ways and Means Committee, the section of the tax code that applies to individuals who renounce their U.S. citizenship, Section 877, was designed to prevent Americans from renouncing their U.S. citizenship in order to avoid future U.S. tax obligations. Under current law, expatriates, except those with low income and certain dual citizens, will generally remain subject to U.S. taxes for ten years after they renounce their citizenship.

**AMENDMENTS**
*(The Summary printed below is as it appears in the Rules Committee Report on the bill)*

**Self Executing Amendment included in the Rule:** The amendment alters the percentage of corporate estimated tax because of a previously-enacted amendment to the law. (This amendment allows the bill to comply with the 5 year "paygo" window)

**ADDITIONAL VIEWS**
Every Republican on the Ways and Means Committee signed the Dissenting Views, which were included in the Report on H.R. 3058, and which state: "This bill raises revenue from the wrong places while reducing tax receipts in some ways that are questionable at best. We oppose passage of this bill." Republicans also expressed their frustration at the inaction on "extending relief from the Alternative Minimum Tax (AMT). Since the Republicans initiated such relief in 2001, an extension was always done in a timely fashion. The Democrats have not extended this relief yet and are permitting 19 million more taxpayers to fall prey to the AMT for tax year 2007. Since it is unlikely the majority of these taxpayers have adjusted their withholdings and estimated payments to account for this tax-increase surprise, the Majority will be raising additional revenue through interest and penalties on taxpayers with insufficient withholdings and estimated payments due to this AMT surprise."

The Administration strongly opposes House passage of H.R. 3056. The bill is not consistent with the Administration's commitment to a balanced approach toward improving taxpayer compliance and collecting outstanding tax liabilities. If H.R. 3056 were presented to the President, his senior advisors would recommend that he veto the bill.

The Administration strongly opposes the provisions of the bill that would repeal the current statutory authorization for the Internal Revenue Service (IRS) private debt collection program. Terminating this program would result in a loss of significant revenue over the next ten years. These are tax dollars that are legally owed to the government and that are otherwise not likely to be collected by the IRS. It is a disservice to all taxpayers who properly pay their taxes to terminate this program that is efficiently recovering a portion of the extra burden they shoulder from the "tax gap" caused by those who do not pay their taxes. Moreover, the Government Accountability Office (GAO) recently reported that the IRS has made "major progress" in addressing critical success factors for the private debt collection program, including ensuring that both taxpayer rights and the security of taxpayer information are protected.

The Administration also has concerns with the provision of the bill that would impose additional tax rules on individuals relinquishing U.S. citizenship or terminating long-term residency. The Administration strongly supports efforts to ensure that individuals renouncing their U.S. citizenship pay their fair share of U.S. taxes. The bill's "mark-to-market" approach to valuation of expatriates' property for taxation purposes, however, overrides existing tax treaties and raises concerns about tax complexity.

**COST**

A cost estimate from the Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) estimate that enacting H.R. 3056, "would increase revenues by $34 million in 2008 and by $26 million over the 2008-2012 period, and reduce revenues by $252 million over the 2008-2017 period. CBO estimates that H.R. 3056 would reduce direct spending by $25 million in 2008, by $306 over the 2008-2012 period, and by $676 million over the 2008-2012 period. CBO also estimates that the bill would not significantly affect spending subject to appropriation."

**Note: Please see Summary above for cost and revenue impacts of individual provisions.*

**ADDITIONAL INFORMATION**

GAO May 23, 2007 Testimony on Tax Debt Collection

CBO Cost Estimate on H.R. 3056

Statement of Administration Policy on H.R. 3056

**STAFF CONTACT**

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