

TITLE III—TAXPAYER PROTECTION AND RIGHTS

SEC. 3000. SHORT TITLE.

This title may be cited as the “Taxpayer Bill of Rights 3”.

Subtitle A—Burden of Proof

SEC. 3001. BURDEN OF PROOF.

(a) IN GENERAL.—Chapter 76 (relating to judicial proceedings) is amended by adding at the end the following new subchapter:

“Subchapter E—Burden of Proof

“Sec. 7491. Burden of proof.

“SEC. 7491. BURDEN OF PROOF.

“(a) BURDEN SHIFTS WHERE TAXPAYER PRODUCES CREDIBLE EVIDENCE.—

“(1) GENERAL RULE.—If, in any court proceeding, a taxpayer introduces credible evidence with respect to any factual issue relevant to ascertaining the liability of the taxpayer for any tax imposed by subtitle A or B, the Secretary shall have the burden of proof with respect to such issue.

“(2) LIMITATIONS.—Paragraph (1) shall apply with respect to an issue only if—

“(A) the taxpayer has complied with the requirements under this title to substantiate any item,

“(B) the taxpayer has maintained all records required under this title and has cooperated with reasonable requests by the Secretary for witnesses, information, documents, meetings, and interviews, and

“(C) in the case of a partnership, corporation, or trust, the taxpayer is described in section 7430(c)(4)(A)(ii).

“(3) COORDINATION.—Paragraph (1) shall not apply to any issue if any other provision of this title provides for a specific burden of proof with respect to such issue.

“(b) USE OF STATISTICAL INFORMATION ON UNRELATED TAXPAYERS.—In the case of an individual taxpayer, the Secretary shall have the burden of proof in any court proceeding with respect to any item of income which was reconstructed by the Secretary solely through the use of statistical information on unrelated taxpayers.

“(c) PENALTIES.—Notwithstanding any other provision of this title, the Secretary shall have the burden of production in any court proceeding with respect to the li-

ability of any individual for any penalty, addition to tax, or additional amount imposed by this title.”

(b) CONFORMING AMENDMENT.—The table of subchapters for chapter 76 is amended by adding at the end the following new item:

“SUBCHAPTER E. Burden of proof.”

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to court proceedings arising in connection with examinations commencing after the date of the enactment of this Act.

(2) TAXABLE PERIODS OR EVENTS AFTER DATE OF ENACTMENT.—In any case in which there is no examination, such amendments shall apply to court proceedings arising in connection with taxable periods or events beginning or occurring after such date of enactment.

Subtitle B—Proceedings by Taxpayers

SEC. 3101. EXPANSION OF AUTHORITY TO AWARD COSTS AND CERTAIN FEES.

(a) INCREASE IN ATTORNEY’S FEES.—

(1) INCREASE IN HOURLY AMOUNT.—Clause (iii) of section 7430(c)(1)(B) (relating to reasonable litigation costs) is amended by striking “\$110” and inserting “\$125”.

(2) *AWARD OF HIGHER ATTORNEY'S FEES BASED ON COMPLEXITY OF ISSUES.*—Clause (iii) of section 7430(c)(1)(B) (relating to the award of costs and certain fees) is amended by inserting “the difficulty of the issues presented in the case, or the local availability of tax expertise,” before “justifies a higher rate”.

(b) *AWARD OF ADMINISTRATIVE COSTS INCURRED AFTER 30-DAY LETTER.*—Paragraph (2) of section 7430(c) is amended by striking the last sentence and inserting the following new flush sentence:

“Such term shall only include costs incurred on or after whichever of the following is the earliest: (i) the date of the receipt by the taxpayer of the notice of the decision of the Internal Revenue Service Office of Appeals, (ii) the date of the notice of deficiency, or (iii) the date on which the 1st letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals is sent.”

(c) *AWARD OF FEES FOR CERTAIN ADDITIONAL SERVICES.*—Paragraph (3) of section 7430(c) is amended to read as follows:

“(3) *ATTORNEYS FEES.*—

“(A) *IN GENERAL.*—For purposes of paragraphs (1) and (2), fees for the services of an in-

dividual (whether or not an attorney) who is authorized to practice before the Tax Court or before the Internal Revenue Service shall be treated as fees for the services of an attorney.

“(B) PRO BONO SERVICES.—The court may award reasonable attorneys fees under subsection (a) in excess of the attorneys fees paid or incurred if such fees are less than the reasonable attorneys fees because an individual is representing the prevailing party for no fee or for a fee which (taking into account all the facts and circumstances) is no more than a nominal fee. This subparagraph shall apply only if such award is paid to such individual or such individual’s employer.”

(d) DETERMINATION OF WHETHER POSITION OF UNITED STATES IS SUBSTANTIALLY JUSTIFIED.—Subparagraph (B) of section 7430(c)(4) is amended by redesignating clause (iii) as clause (iv) and by inserting after clause (ii) the following new clause:

“(iii) EFFECT OF LOSING ON SUBSTANTIALLY SIMILAR ISSUES.—In determining for purposes of clause (i) whether the position of the United States was substantially justified, the court shall take into account

whether the United States has lost in courts of appeal for other circuits on substantially similar issues.”

(e) TAXPAYER TREATED AS PREVAILING IF JUDGMENT IS LESS THAN TAXPAYER’S OFFER.—

(1) IN GENERAL.—Section 7430(c)(4) (defining prevailing party) is amended by adding at the end the following new subparagraph:

“(E) SPECIAL RULES WHERE JUDGMENT LESS THAN TAXPAYER’S OFFER.—

“(i) IN GENERAL.—A party to a court proceeding meeting the requirements of subparagraph (A)(ii) shall be treated as the prevailing party if the liability of the taxpayer pursuant to the judgment in the proceeding (determined without regard to interest) is equal to or less than the liability of the taxpayer which would have been so determined if the United States had accepted a qualified offer of the party under subsection (g).

“(ii) EXCEPTIONS.—This subparagraph shall not apply to—

“(I) any judgment issued pursuant to a settlement, or

“(II) any proceeding in which the amount of tax liability is not in issue, including any declaratory judgment proceeding, any proceeding to enforce or quash any summons issued pursuant to this title, and any action to restrain disclosure under section 6110(f).

“(iii) *SPECIAL RULES.*—If this subparagraph applies to any court proceeding—

“(I) the determination under clause (i) shall be made by reference to the last qualified offer made with respect to the tax liability at issue in the proceeding, and

“(II) reasonable administrative and litigation costs shall only include costs incurred on and after the date of such offer.

“(iv) *COORDINATION.*—This subparagraph shall not apply to a party which is a prevailing party under any other provision of this paragraph.”

(2) *QUALIFIED OFFER.*—Section 7430 is amended by adding at the end the following new subsection:

“(g) *QUALIFIED OFFER.*—For purposes of subsection (c)(4)—

“(1) *IN GENERAL.*—The term ‘qualified offer’ means a written offer which—

“(A) is made by the taxpayer to the United States during the qualified offer period,

“(B) specifies the offered amount of the taxpayer’s liability (determined without regard to interest),

“(C) is designated at the time it is made as a qualified offer for purposes of this section, and

“(D) remains open during the period beginning on the date it is made and ending on the earliest of the date the offer is rejected, the date the trial begins, or the 90th day after the date the offer is made.

“(2) *QUALIFIED OFFER PERIOD.*—For purposes of this subsection, the term ‘qualified offer period’ means the period—

“(A) beginning on the date on which the 1st letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals is sent, and

“(B) ending on the date which is 30 days before the date the case is first set for trial.”

(f) *AWARD OF ATTORNEYS FEES IN UNAUTHORIZED INSPECTION AND DISCLOSURE CASES.*—Section 7431(c) (relating to damages) is amended by striking the period at the end of paragraph (2) and inserting “, plus”, and by adding at the end the following new paragraph:

“(3) in the case of a plaintiff which is described in section 7430(c)(4)(A)(ii), reasonable attorneys fees, except that if the defendant is the United States, reasonable attorneys fees may be awarded only if the plaintiff is the prevailing party (as determined under section 7430(c)(4)).”

(g) *EFFECTIVE DATE.*—The amendments made by this section shall apply to costs incurred (and, in the case of the amendment made by subsection (c), services performed) more than 180 days after the date of the enactment of this Act.

SEC. 3102. CIVIL DAMAGES FOR COLLECTION ACTIONS.

(a) *EXTENSION TO NEGLIGENCE ACTIONS.*—

(1) *IN GENERAL.*—Section 7433 (relating to civil damages for certain unauthorized collection actions) is amended—

(A) in subsection (a), by inserting “, or by reason of negligence,” after “recklessly or intentionally”, and

(B) in subsection (b)—

(i) in the matter preceding paragraph (1), by inserting “(\$100,000, in the case of negligence)” after “\$1,000,000”, and

(ii) in paragraph (1), by inserting “or negligent” after “reckless or intentional”.

(2) *REQUIREMENT THAT ADMINISTRATIVE REMEDIES BE EXHAUSTED.*—Paragraph (1) of section 7433(d) is amended to read as follows:

“(1) *REQUIREMENT THAT ADMINISTRATIVE REMEDIES BE EXHAUSTED.*—A judgment for damages shall not be awarded under subsection (b) unless the court determines that the plaintiff has exhausted the administrative remedies available to such plaintiff within the Internal Revenue Service.”

(b) *DAMAGES ALLOWED IN CIVIL ACTIONS BY PERSONS OTHER THAN TAXPAYERS.*—Section 7426 is amended by redesignating subsection (h) as subsection (i) and by adding after subsection (g) the following new subsection:

“(h) *RECOVERY OF DAMAGES PERMITTED IN CERTAIN CASES.*—

“(1) *IN GENERAL.*—Notwithstanding subsection (b), if, in any action brought under this section, there is a finding that any officer or employee of the Internal Revenue Service recklessly or intentionally, or by reason of negligence, disregarded any provision of this title the defendant shall be liable to the plaintiff in an amount equal to the lesser of \$1,000,000 (\$100,000 in the case of negligence) or the sum of—

“(A) actual, direct economic damages sustained by the plaintiff as a proximate result of the reckless or intentional or negligent disregard of any provision of this title by the officer or employee (reduced by any amount of such damages awarded under subsection (b)), and

“(B) the costs of the action.

“(2) *REQUIREMENT THAT ADMINISTRATIVE REMEDIES BE EXHAUSTED; MITIGATION; PERIOD.*—The rules of section 7433(d) shall apply for purposes of this subsection.

“(3) *PAYMENT AUTHORITY.*—Claims pursuant to this section shall be payable out of funds appropriated under section 1304 of title 31, United States Code.”

(c) *CIVIL DAMAGES FOR IRS VIOLATIONS OF BANKRUPTCY PROCEDURES.*—

(1) *IN GENERAL.*—Section 7433 (relating to civil damages for certain unauthorized collection actions) is amended by adding at the end the following new subsection:

“(e) *ACTIONS FOR VIOLATIONS OF CERTAIN BANKRUPTCY PROCEDURES.*—

“(1) *IN GENERAL.*—If, in connection with any collection of Federal tax with respect to a taxpayer, any officer or employee of the Internal Revenue Service willfully violates any provision of section 362 (relating to automatic stay) or 524 (relating to effect of discharge) of title 11, United States Code (or any successor provision), or any regulation promulgated under such provision, such taxpayer may petition the bankruptcy court to recover damages against the United States.

“(2) *REMEDY TO BE EXCLUSIVE.*—

“(A) *IN GENERAL.*—Except as provided in subparagraph (B), notwithstanding section 105 of such title 11, such petition shall be the exclusive remedy for recovering damages resulting from such actions.

“(B) *CERTAIN OTHER ACTIONS PERMITTED.*—Subparagraph (A) shall not apply to an action under section 362(h) of such title 11

for a violation of a stay provided by section 362 of such title; except that—

“(i) administrative and litigation costs in connection with such an action may only be awarded under section 7430, and

“(ii) administrative costs may be awarded only if incurred on or after the date that the bankruptcy petition is filed.”

(2) CONFORMING AMENDMENT.—Subsection (b) of section 7433 is amended by inserting “or petition filed under subsection (e)” after “subsection (a)”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to actions of officers or employees of the Internal Revenue Service after the date of the enactment of this Act.

SEC. 3103. INCREASE IN SIZE OF CASES PERMITTED ON SMALL CASE CALENDAR.

(a) IN GENERAL.—Section 7463 (relating to disputes involving \$10,000 or less) is amended by striking “\$10,000” each place it appears (including the section heading) and inserting “\$50,000”.

(b) CONFORMING AMENDMENTS.—

(1) Sections 7436(c)(1) and 7443A(b)(3) are each amended by striking “\$10,000” and inserting “\$50,000”.

(2) *The table of sections for part II of subchapter C of chapter 76 is amended by striking “\$10,000” in the item relating to section 7463 and inserting “\$50,000”.*

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

SEC. 3104. ACTIONS FOR REFUND WITH RESPECT TO CERTAIN ESTATES WHICH HAVE ELECTED THE INSTALLMENT METHOD OF PAYMENT.

(a) *IN GENERAL.*—*Section 7422 is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:*

“(j) SPECIAL RULE FOR ACTIONS WITH RESPECT TO ESTATES FOR WHICH AN ELECTION UNDER SECTION 6166 IS MADE.—

“(1) IN GENERAL.—The district courts of the United States and the United States Court of Federal Claims shall not fail to have jurisdiction over any action brought by the representative of an estate to which this subsection applies to determine the correct amount of the estate tax liability of such estate (or for any refund with respect thereto) solely because the full amount of such liability has not been paid by reason

of an election under section 6166 with respect to such estate.

“(2) ESTATES TO WHICH SUBSECTION APPLIES.—This subsection shall apply to any estate if, as of the date the action is filed—

“(A) no portion of the installments payable under section 6166 have been accelerated,

“(B) all such installments the due date for which is on or before the date the action is filed have been paid,

“(C) there is no case pending in the Tax Court with respect to the tax imposed by section 2001 on the estate and, if a notice of deficiency under section 6212 with respect to such tax has been issued, the time for filing a petition with the Tax Court with respect to such notice has expired, and

“(D) no proceeding for declaratory judgment under section 7479 is pending.

“(3) PROHIBITION ON COLLECTION OF DISALLOWED LIABILITY.—If the court redetermines under paragraph (1) the estate tax liability of an estate, no part of such liability which is disallowed by a decision of such court which has become final may be collected by the Secretary, and amounts paid in excess

of the installments determined by the court as currently due and payable shall be refunded.”

(b) EXTENSION OF TIME TO FILE REFUND SUIT.—Section 7479 (relating to declaratory judgments relating to eligibility of estate with respect to installment payments under section 6166) is amended by adding at the end the following new subsection:

“(c) EXTENSION OF TIME TO FILE REFUND SUIT.—The 2-year period in section 6532(a)(1) for filing suit for refund after disallowance of a claim shall be suspended during the 90-day period after the mailing of the notice referred to in subsection (b)(3) and, if a pleading has been filed with the Tax Court under this section, until the decision of the Tax Court has become final.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to any claim for refund filed after the date of the enactment of this Act.

SEC. 3105. ADMINISTRATIVE APPEAL OF ADVERSE IRS DETERMINATION OF TAX-EXEMPT STATUS OF BOND ISSUE.

The Internal Revenue Service shall amend its administrative procedures to provide that if, upon examination, the Internal Revenue Service proposes to an issuer that interest on previously issued obligations of such issuer is not excludable from gross income under section 103(a) of the

Internal Revenue Code of 1986, the issuer of such obligations shall have an administrative appeal of right to a senior officer of the Internal Revenue Service Office of Appeals.

SEC. 3106. CIVIL ACTION FOR RELEASE OF ERRONEOUS LIEN.

(a) RIGHT OF SUBSTITUTION OF VALUE.—Subsection (b) of section 6325 (relating to release of lien or discharge of property) is amended by adding at the end the following new paragraph:

“(4) RIGHT OF SUBSTITUTION OF VALUE.—

“(A) IN GENERAL.—At the request of the owner of any property subject to any lien imposed by this chapter, the Secretary shall issue a certificate of discharge of such property if such owner—

“(i) deposits with the Secretary an amount of money equal to the value of the interest of the United States (as determined by the Secretary) in the property, or

“(ii) furnishes a bond acceptable to the Secretary in a like amount.

“(B) REFUND OF DEPOSIT WITH INTEREST AND RELEASE OF BOND.—The Secretary shall refund the amount so deposited (and shall pay in-

terest at the overpayment rate under section 6621), and shall release such bond, to the extent that the Secretary determines that—

“(i) the unsatisfied liability giving rise to the lien can be satisfied from a source other than such property, or

“(ii) the value of the interest of the United States in the property is less than the Secretary’s prior determination of such value.

“(C) USE OF DEPOSIT, ETC., IF ACTION TO CONTEST LIEN NOT FILED.—If no action is filed under section 7426(a)(4) within the period prescribed therefor, the Secretary shall, within 60 days after the expiration of such period—

“(i) apply the amount deposited, or collect on such bond, to the extent necessary to satisfy the unsatisfied liability secured by the lien, and

“(ii) refund (with interest as described in subparagraph (B)) any portion of the amount deposited which is not used to satisfy such liability.

“(D) EXCEPTION.—Subparagraph (A) shall not apply if the owner of the property is the per-

son whose unsatisfied liability gave rise to the lien.”

(b) CIVIL ACTION TO RELEASE ERRONEOUS LIEN.—

(1) IN GENERAL.—Subsection (a) of section 7426 (relating to civil actions by persons other than taxpayers) is amended by adding at the end the following new paragraph:

“(4) SUBSTITUTION OF VALUE.—If a certificate of discharge is issued to any person under section 6325(b)(4) with respect to any property, such person may, within 120 days after the day on which such certificate is issued, bring a civil action against the United States in a district court of the United States for a determination of whether the value of the interest of the United States (if any) in such property is less than the value determined by the Secretary. No other action may be brought by such person for such a determination.”

(2) FORM OF RELIEF.—

(A) IN GENERAL.—Subsection (b) of section 7426 is amended by adding at the end the following new paragraph:

“(5) SUBSTITUTION OF VALUE.—If the court determines that the Secretary’s determination of the value of the interest of the United States in the prop-

erty for purposes of section 6325(b)(4) exceeds the actual value of such interest, the court shall grant a judgment ordering a refund of the amount deposited, and a release of the bond, to the extent that the aggregate of the amounts thereof exceeds such value determined by the court.”

(B) INTEREST ALLOWED ON REFUND OF DEPOSIT.—Subsection (g) of section 7426 is amended by striking “and” at the end of paragraph (1), by striking the period at the end of paragraph (2) and inserting “; and”, and by adding at the end the following new paragraph:

“(3) in the case of a judgment pursuant to subsection (b)(5) which orders a refund of any amount, from the date the Secretary received such amount to the date of payment of such judgment.”

(3) SUSPENSION OF RUNNING OF STATUTE OF LIMITATION.—Subsection (f) of section 6503 is amended to read as follows:

“(f) WRONGFUL SEIZURE OF OR LIEN ON PROPERTY OF THIRD PARTY.—

“(1) WRONGFUL SEIZURE.—The running of the period under section 6502 shall be suspended for a period equal to the period from the date property (including money) of a third party is wrongfully seized

or received by the Secretary to the date the Secretary returns property pursuant to section 6343(b) or the date on which a judgment secured pursuant to section 7426 with respect to such property becomes final, and for 30 days thereafter. The running of such period shall be suspended under this paragraph only with respect to the amount of such assessment equal to the amount of money or the value of specific property returned.

“(2) WRONGFUL LIEN.—In the case of any assessment for which a lien was made on any property, the running of the period under section 6502 shall be suspended for a period equal to the period beginning on the date any person becomes entitled to a certificate under section 6325(b)(4) with respect to such property and ending on the date which is 30 days after the earlier of—

“(A) the earliest date on which the Secretary no longer holds any amount as a deposit or bond provided under section 6325(b)(4) by reason of such deposit or bond being used to satisfy the unpaid tax or being refunded or released, or

“(B) the date that the judgment secured under section 7426(b)(5) becomes final.

The running of such period shall be suspended under this paragraph only with respect to the amount of such assessment equal to the value of the interest of the United States in the property plus interest, penalties, additions to the tax, and additional amounts attributable thereto.”

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

Subtitle C—Relief for Innocent Spouses and for Taxpayers Unable To Manage Their Financial Affairs Due to Disabilities

SEC. 3201. RELIEF FROM JOINT AND SEVERAL LIABILITY ON JOINT RETURN.

(a) IN GENERAL.—Subpart B of part II of subchapter A of chapter 61 is amended by inserting after section 6014 the following new section:

“SEC. 6015. RELIEF FROM JOINT AND SEVERAL LIABILITY ON JOINT RETURN.

“(a) IN GENERAL.—Notwithstanding section 6013(d)(3)—

“(1) an individual who has made a joint return may elect to seek relief under the procedures prescribed under subsection (b), and

“(2) if such individual is eligible to elect the application of subsection (c), such individual may, in addition to any election under paragraph (1), elect to limit such individual’s liability for any deficiency with respect to such joint return in the manner prescribed under subsection (c).

Any determination under this section shall be made without regard to community property laws.

“(b) *PROCEDURES FOR RELIEF FROM LIABILITY APPLICABLE TO ALL JOINT FILERS.*—

“(1) *IN GENERAL.*—Under procedures prescribed by the Secretary, if—

“(A) a joint return has been made for a taxable year,

“(B) on such return there is an understatement of tax attributable to erroneous items of 1 individual filing the joint return,

“(C) the other individual filing the joint return establishes that in signing the return he or she did not know, and had no reason to know, that there was such understatement,

“(D) taking into account all the facts and circumstances, it is inequitable to hold the other individual liable for the deficiency in tax for

such taxable year attributable to such understatement, and

“(E) the other individual elects (in such form as the Secretary may prescribe) the benefits of this subsection not later than the date which is 2 years after the date the Secretary has begun collection activities with respect to the individual making the election,

then the other individual shall be relieved of liability for tax (including interest, penalties, and other amounts) for such taxable year to the extent such liability is attributable to such understatement.

“(2) APPORTIONMENT OF RELIEF.—If an individual who, but for paragraph (1)(C), would be relieved of liability under paragraph (1), establishes that in signing the return such individual did not know, and had no reason to know, the extent of such understatement, then such individual shall be relieved of liability for tax (including interest, penalties, and other amounts) for such taxable year to the extent that such liability is attributable to the portion of such understatement of which such individual did not know and had no reason to know.

“(3) *UNDERSTATEMENT.*—For purposes of this subsection, the term ‘understatement’ has the meaning given to such term by section 6662(d)(2)(A).

“(c) *PROCEDURES TO LIMIT LIABILITY FOR TAXPAYERS NO LONGER MARRIED OR TAXPAYERS LEGALLY SEPARATED OR NOT LIVING TOGETHER.*—

“(1) *IN GENERAL.*—Except as provided in this subsection, if an individual who has made a joint return for any taxable year elects the application of this subsection, the individual’s liability for any deficiency which is assessed with respect to the return shall not exceed the portion of such deficiency properly allocable to the individual under subsection (d).

“(2) *BURDEN OF PROOF.*—Except as provided in subparagraph (A)(ii) or (C) of paragraph (3), each individual who elects the application of this subsection shall have the burden of proof with respect to establishing the portion of any deficiency allocable to such individual.

“(3) *ELECTION.*—

“(A) *INDIVIDUALS ELIGIBLE TO MAKE ELECTION.*—

“(i) *IN GENERAL.*—An individual shall only be eligible to elect the application of this subsection if—

“(I) at the time such election is filed, such individual is no longer married to, or is legally separated from, the individual with whom such individual filed the joint return to which the election relates, or

“(II) such individual was not a member of the same household as the individual with whom such joint return was filed at any time during the 12-month period ending on the date such election is filed.

“(ii) CERTAIN TAXPAYERS INELIGIBLE TO ELECT.—If the Secretary demonstrates that assets were transferred between individuals filing a joint return as part of a fraudulent scheme by such individuals, an election under this subsection by either individual shall be invalid (and section 6013(d)(3) shall apply to the joint return).

“(B) TIME FOR ELECTION.—An election under this subsection for any taxable year shall be made not later than 2 years after the date on which the Secretary has begun collection activi-

ties with respect to the individual making the election.

“(C) ELECTION NOT VALID WITH RESPECT TO CERTAIN DEFICIENCIES.—If the Secretary demonstrates that an individual making an election under this subsection had actual knowledge, at the time such individual signed the return, of any item giving rise to a deficiency (or portion thereof) which is not allocable to such individual under subsection (d), such election shall not apply to such deficiency (or portion). This subparagraph shall not apply where the individual with actual knowledge establishes that such individual signed the return under duress.

“(4) LIABILITY INCREASED BY REASON OF TRANSFERS OF PROPERTY TO AVOID TAX.—

“(A) IN GENERAL.—Notwithstanding any other provision of this subsection, the portion of the deficiency for which the individual electing the application of this subsection is liable (without regard to this paragraph) shall be increased by the value of any disqualified asset transferred to the individual.

“(B) DISQUALIFIED ASSET.—For purposes of this paragraph—

“(i) *IN GENERAL.*—The term ‘disqualified asset’ means any property or right to property transferred to an individual making the election under this subsection with respect to a joint return by the other individual filing such joint return if the principal purpose of the transfer was the avoidance of tax or payment of tax.

“(ii) *PRESUMPTION.*—

“(I) *IN GENERAL.*—For purposes of clause (i), except as provided in subclause (II), any transfer which is made after the date which is 1 year before the date on which the 1st letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals is sent shall be presumed to have as its principal purpose the avoidance of tax or payment of tax.

“(II) *EXCEPTIONS.*—Subclause (I) shall not apply to any transfer pursuant to a decree of divorce or separate maintenance or a written instrument

incident to such a decree or to any transfer which an individual establishes did not have as its principal purpose the avoidance of tax or payment of tax.

“(d) *ALLOCATION OF DEFICIENCY.*—*For purposes of subsection (c)—*

“(1) *IN GENERAL.*—*The portion of any deficiency on a joint return allocated to an individual shall be the amount which bears the same ratio to such deficiency as the net amount of items taken into account in computing the deficiency and allocable to the individual under paragraph (3) bears to the net amount of all items taken into account in computing the deficiency.*

“(2) *SEPARATE TREATMENT OF CERTAIN ITEMS.*—*If a deficiency (or portion thereof) is attributable to—*

“(A) *the disallowance of a credit, or*

“(B) *any tax (other than tax imposed by section 1 or 55) required to be included with the joint return,*

and such item is allocated to 1 individual under paragraph (3), such deficiency (or portion) shall be

allocated to such individual. Any such item shall not be taken into account under paragraph (1).

“(3) ALLOCATION OF ITEMS GIVING RISE TO THE DEFICIENCY.—For purposes of this subsection—

“(A) IN GENERAL.—Except as provided in paragraphs (4) and (5), any item giving rise to a deficiency on a joint return shall be allocated to individuals filing the return in the same manner as it would have been allocated if the individuals had filed separate returns for the taxable year.

“(B) EXCEPTION WHERE OTHER SPOUSE BENEFITS.—Under rules prescribed by the Secretary, an item otherwise allocable to an individual under subparagraph (A) shall be allocated to the other individual filing the joint return to the extent the item gave rise to a tax benefit on the joint return to the other individual.

“(C) EXCEPTION FOR FRAUD.—The Secretary may provide for an allocation of any item in a manner not prescribed by subparagraph (A) if the Secretary establishes that such allocation is appropriate due to fraud of 1 or both individuals.

“(4) *LIMITATIONS ON SEPARATE RETURNS DISREGARDED.*—If an item of deduction or credit is disallowed in its entirety solely because a separate return is filed, such disallowance shall be disregarded and the item shall be computed as if a joint return had been filed and then allocated between the spouses appropriately. A similar rule shall apply for purposes of section 86.

“(5) *CHILD’S LIABILITY.*—If the liability of a child of a taxpayer is included on a joint return, such liability shall be disregarded in computing the separate liability of either spouse and such liability shall be allocated appropriately between the spouses.

“(e) *PETITION FOR REVIEW BY TAX COURT.*—

“(1) *IN GENERAL.*—In the case of an individual who elects to have subsection (b) or (c) apply—

“(A) *IN GENERAL.*—The individual may petition the Tax Court (and the Tax Court shall have jurisdiction) to determine the appropriate relief available to the individual under this section if such petition is filed during the 90-day period beginning on the date on which the Secretary mails by certified or registered mail a notice to such individual of the Secretary’s determination of relief available to the individual.

Notwithstanding the preceding sentence, an individual may file such petition at any time after the date which is 6 months after the date such election is filed with the Secretary and before the close of such 90-day period.

“(B) RESTRICTIONS APPLICABLE TO COLLECTION OF ASSESSMENT.—

“(i) IN GENERAL.—Except as otherwise provided in section 6851 or 6861, no levy or proceeding in court shall be made, begun, or prosecuted against the individual making an election under subsection (b) or (c) for collection of any assessment to which such election relates until the expiration of the 90-day period described in subparagraph (A), or, if a petition has been filed with the Tax Court, until the decision of the Tax Court has become final. Rules similar to the rules of section 7485 shall apply with respect to the collection of such assessment.

“(ii) AUTHORITY TO ENJOIN COLLECTION ACTIONS.—Notwithstanding the provisions of section 7421(a), the beginning of such levy or proceeding during the time the prohibition under clause (i) is in force may

be enjoined by a proceeding in the proper court, including the Tax Court. The Tax Court shall have no jurisdiction under this subparagraph to enjoin any action or proceeding unless a timely petition has been filed under subparagraph (A) and then only in respect of the amount of the assessment to which the election under subsection (b) or (c) relates.

“(2) SUSPENSION OF RUNNING OF PERIOD OF LIMITATIONS.—The running of the period of limitations in section 6502 on the collection of the assessment to which the petition under paragraph (1)(A) relates shall be suspended for the period during which the Secretary is prohibited by paragraph (1)(B) from collecting by levy or a proceeding in court and for 60 days thereafter.

“(3) APPLICABLE RULES.—

“(A) ALLOWANCE OF CREDIT OR REFUND.—Except as provided in subparagraph (B), notwithstanding any other law or rule of law (other than section 6512(b), 7121, or 7122), credit or refund shall be allowed or made to the extent attributable to the application of this section.

“(B) RES JUDICATA.—In the case of any election under subsection (b) or (c), if a decision of the Tax Court in any prior proceeding for the same taxable year has become final, such decision shall be conclusive except with respect to the qualification of the individual for relief which was not an issue in such proceeding. The exception contained in the preceding sentence shall not apply if the Tax Court determines that the individual participated meaningfully in such prior proceeding.

“(C) LIMITATION ON TAX COURT JURISDICTION.—If a suit for refund is begun by either individual filing the joint return pursuant to section 6532—

“(i) the Tax Court shall lose jurisdiction of the individual’s action under this section to whatever extent jurisdiction is acquired by the district court or the United States Court of Federal Claims over the taxable years that are the subject of the suit for refund, and

“(ii) the court acquiring jurisdiction shall have jurisdiction over the petition filed under this subsection.

“(4) *NOTICE TO OTHER SPOUSE.*—The Tax Court shall establish rules which provide the individual filing a joint return but not making the election under subsection (b) or (c) with adequate notice and an opportunity to become a party to a proceeding under either such subsection.

“(f) *EQUITABLE RELIEF.*—Under procedures prescribed by the Secretary, if—

“(1) taking into account all the facts and circumstances, it is inequitable to hold the individual liable for any unpaid tax or any deficiency (or any portion of either), and

“(2) relief is not available to such individual under subsection (b) or (c),

the Secretary may relieve such individual of such liability.

“(g) *REGULATIONS.*—The Secretary shall prescribe such regulations as are necessary to carry out the provisions of this section, including—

“(1) regulations providing methods for allocation of items other than the methods under subsection (d)(3), and

“(2) regulations providing the opportunity for an individual to have notice of, and an opportunity to participate in, any administrative proceeding with

respect to an election made under subsection (b) or (c) by the other individual filing the joint return.”

(b) EQUITABLE RELIEF FOR INDIVIDUALS NOT FILING JOINT RETURN.—Section 66(c) (relating to spouse relieved of liability in certain other cases) is amended by adding at the end the following new sentence: “Under procedures prescribed by the Secretary, if, taking into account all the facts and circumstances, it is inequitable to hold the individual liable for any unpaid tax or any deficiency (or any portion of either) attributable to any item for which relief is not available under the preceding sentence, the Secretary may relieve such individual of such liability.”

(c) SEPARATE FORM FOR APPLYING FOR SPOUSAL RELIEF.—Not later than 180 days after the date of the enactment of this Act, the Secretary of the Treasury shall develop a separate form with instructions for use by taxpayers in applying for relief under section 6015(a) of the Internal Revenue Code of 1986, as added by this section.

(d) SEPARATE NOTICE TO EACH FILER.—The Secretary of the Treasury shall, wherever practicable, send any notice relating to a joint return under section 6013 of the Internal Revenue Code of 1986 separately to each individual filing the joint return.

(e) CONFORMING AMENDMENTS.—

(1) *Section 6013 is amended by striking subsection (e).*

(2) *Subparagraph (A) of section 6230(c)(5) is amended by striking “section 6013(e)” and inserting “section 6015”.*

(3) *Section 7421(a) is amended by inserting “6015(d),” after “sections”.*

(f) *CLERICAL AMENDMENT.—The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by inserting after the item relating to section 6014 the following new item:*

“Sec. 6015. Relief from joint and several liability on joint return.”

(g) *EFFECTIVE DATES.—*

(1) *IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to any liability for tax arising after the date of the enactment of this Act and any liability for tax arising on or before such date but remaining unpaid as of such date.*

(2) *2-YEAR PERIOD.—The 2-year period under subsection (b)(1)(E) or (c)(3)(B) of section 6015 of the Internal Revenue Code of 1986 shall not expire before the date which is 2 years after the date of the first collection activity after the date of the enactment of this Act.*

**SEC. 3202. SUSPENSION OF STATUTE OF LIMITATIONS ON
FILING REFUND CLAIMS DURING PERIODS OF
DISABILITY.**

(a) *IN GENERAL.*—Section 6511 (relating to limitations on credit or refund) is amended by redesignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) *RUNNING OF PERIODS OF LIMITATION SUSPENDED WHILE TAXPAYER IS UNABLE TO MANAGE FINANCIAL AFFAIRS DUE TO DISABILITY.*—

“(1) *IN GENERAL.*—In the case of an individual, the running of the periods specified in subsections (a), (b), and (c) shall be suspended during any period of such individual’s life that such individual is financially disabled.

“(2) *FINANCIALLY DISABLED.*—

“(A) *IN GENERAL.*—For purposes of paragraph (1), an individual is financially disabled if such individual is unable to manage his financial affairs by reason of a medically determinable physical or mental impairment of the individual which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. An individual shall not be considered to have such an impairment unless proof of the existence

thereof is furnished in such form and manner as the Secretary may require.

“(B) *EXCEPTION WHERE INDIVIDUAL HAS GUARDIAN, ETC.*—An individual shall not be treated as financially disabled during any period that such individual’s spouse or any other person is authorized to act on behalf of such individual in financial matters.”

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall apply to periods of disability before, on, or after the date of the enactment of this Act but shall not apply to any claim for credit or refund which (without regard to such amendment) is barred by the operation of any law or rule of law (including *res judicata*) as of the date of the enactment of this Act.

Subtitle D—Provisions Relating to Interest and Penalties

SEC. 3301. ELIMINATION OF INTEREST RATE DIFFERENTIAL ON OVERLAPPING PERIODS OF INTEREST ON TAX OVERPAYMENTS AND UNDERPAYMENTS.

(a) *IN GENERAL.*—Section 6621 (relating to determination of rate of interest) is amended by adding at the end the following new subsection:

“(d) *ELIMINATION OF INTEREST ON OVERLAPPING PERIODS OF TAX OVERPAYMENTS AND UNDERPAY-*

MENTS.—To the extent that, for any period, interest is payable under subchapter A and allowable under subchapter B on equivalent underpayments and overpayments by the same taxpayer of tax imposed by this title, the net rate of interest under this section on such amounts shall be zero for such period.”

(b) CONFORMING AMENDMENT.—Subsection (f) of section 6601 (relating to satisfaction by credits) is amended by adding at the end the following new sentence: “The preceding sentence shall not apply to the extent that section 6621(d) applies.”

(c) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided under paragraph (2), the amendments made by this section shall apply to interest for periods beginning after the date of the enactment of this Act.

(2) SPECIAL RULE.—The amendments made by this section shall apply to interest for periods beginning before the date of the enactment of this Act if the taxpayer—

(A) reasonably identifies and establishes periods of such tax overpayments and underpayments for which the zero rate applies, and

(B) not later than December 31, 1999, requests the Secretary of the Treasury to apply sec-

tion 6621(d) of the Internal Revenue Code of 1986, as added by subsection (a), to such periods.

SEC. 3302. INCREASE IN OVERPAYMENT RATE PAYABLE TO TAXPAYERS OTHER THAN CORPORATIONS.

(a) *IN GENERAL.*—Subparagraph (B) of section 6621(a)(1) (defining overpayment rate) is amended to read as follows:

“(B) 3 percentage points (2 percentage points in the case of a corporation).”

(b) *EFFECTIVE DATE.*—The amendment made by this section shall apply to interest for the second and succeeding calendar quarters beginning after the date of the enactment of this Act.

SEC. 3303. MITIGATION OF PENALTY ON INDIVIDUAL'S FAILURE TO PAY FOR MONTHS DURING PERIOD OF INSTALLMENT AGREEMENT.

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

“(h) *LIMITATION ON PENALTY ON INDIVIDUAL'S FAILURE TO PAY FOR MONTHS DURING PERIOD OF INSTALLMENT AGREEMENT.*—In the case of an individual who files a return of tax on or before the due date for the return (including extensions), paragraphs (2) and (3) of subsection (a) shall each be applied by substituting ‘0.25’ for

‘0.5’ each place it appears for purposes of determining the addition to tax for any month during which an installment agreement under section 6159 is in effect for the payment of such tax.”

(b) *EFFECTIVE DATE.*—The amendment made by this section shall apply for purposes of determining additions to the tax for months beginning after December 31, 1999.

SEC. 3304. MITIGATION OF FAILURE TO DEPOSIT PENALTY.

(a) *TAXPAYER MAY DESIGNATE PERIODS TO WHICH DEPOSITS APPLY.*—Section 6656 (relating to underpayment of deposits) is amended by adding at the end the following new subsection:

“(e) *DESIGNATION OF PERIODS TO WHICH DEPOSITS APPLY.*—

“(1) *IN GENERAL.*—A person may, with respect to any deposit of tax to be reported on such person’s return for a specified tax period, designate the period or periods within such specified tax period to which the deposit is to be applied for purposes of this section.

“(2) *TIME FOR MAKING DESIGNATION.*—A person may make a designation under paragraph (1) only during the 90-day period beginning on the date of a notice that a penalty under subsection (a) has been

imposed for the specified tax period to which the deposit relates.”

(b) EXPANSION OF EXEMPTION FOR FIRST-TIME DEPOSITS.—

(1) IN GENERAL.—Paragraph (2) of section 6656(c) (relating to exemption for first-time depositors of employment taxes) is amended to read as follows:

“(2) such failure—

“(A) occurs during the 1st quarter that such person was required to deposit any employment tax, or

“(B) if such person is required to change the frequency of deposits of any employment tax, relates to the first deposit to which such change applies, and”.

(c) PERIODS APPLY TO CURRENT LIABILITIES UNLESS DESIGNATED OTHERWISE.—Paragraph (1) of section 6656(e) (as added by subsection (a) of this section) is amended to read as follows:

“(e) DESIGNATION OF PERIODS TO WHICH DEPOSITS APPLY.—

“(1) IN GENERAL.—A deposit made under this section shall be applied to the most recent period or periods within the specified tax period to which the

deposit relates, unless the person making such deposit designates a different period or periods to which such deposit is to be applied.”

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to deposits required to be made after the 180th day after the date of the enactment of this Act.

(2) APPLICATION TO CURRENT LIABILITIES.—The amendment made by subsection (c) shall apply to deposits required to be made after December 31, 2001.

SEC. 3305. SUSPENSION OF INTEREST AND CERTAIN PENALTIES WHERE SECRETARY FAILS TO CONTACT INDIVIDUAL TAXPAYER.

(a) IN GENERAL.—Section 6404 (relating to abatements) is amended by redesignating subsection (g) as subsection (h) and by inserting after subsection (f) the following new subsection:

“(g) SUSPENSION OF INTEREST AND CERTAIN PENALTIES WHERE SECRETARY FAILS TO CONTACT TAXPAYER.—

“(1) SUSPENSION.—

“(A) IN GENERAL.—In the case of an individual who files a return of tax imposed by subtitle A for a taxable year on or before the due

date for the return (including extensions), if the Secretary does not provide a notice to the taxpayer specifically stating the taxpayer's liability and the basis for the liability before the close of the 1-year period (18-month period in the case of taxable years beginning before January 1, 2004) beginning on the later of—

“(i) the date on which the return is filed, or

“(ii) the due date of the return without regard to extensions,

the Secretary shall suspend the imposition of any interest, penalty, addition to tax, or additional amount with respect to any failure relating to the return which is computed by reference to the period of time the failure continues to exist and which is properly allocable to the suspension period.

“(B) SEPARATE APPLICATION.—This paragraph shall be applied separately with respect to each item or adjustment.

“(2) EXCEPTIONS.—Paragraph (1) shall not apply to—

“(A) any penalty imposed by section 6651,

“(B) any interest, penalty, addition to tax, or additional amount in a case involving fraud,

“(C) any interest, penalty, addition to tax, or additional amount with respect to any tax liability shown on the return, or

“(D) any criminal penalty.

“(3) *SUSPENSION PERIOD*.—For purposes of this subsection, the term ‘suspension period’ means the period—

“(A) beginning on the day after the close of the 1-year period (18-month period in the case of taxable years beginning before January 1, 2004) under paragraph (1), and

“(B) ending on the date which is 21 days after the date on which notice described in paragraph (1)(A) is provided by the Secretary.”

(b) *EFFECTIVE DATE*.—The amendments made by this section shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 3306. PROCEDURAL REQUIREMENTS FOR IMPOSITION OF PENALTIES AND ADDITIONS TO TAX.

(a) *IN GENERAL*.—Chapter 68 (relating to additions to the tax, additional amounts, and assessable penalties) is amended by adding at the end the following new subchapter:

“Subchapter C—Procedural Requirements

“Sec. 6751. Procedural requirements.

“SEC. 6751. PROCEDURAL REQUIREMENTS.

“(a) COMPUTATION OF PENALTY INCLUDED IN NOTICE.—The Secretary shall include with each notice of penalty under this title information with respect to the name of the penalty, the section of this title under which the penalty is imposed, and a computation of the penalty.

“(b) APPROVAL OF ASSESSMENT.—

“(1) IN GENERAL.—No penalty under this title shall be assessed unless the initial determination of such assessment is personally approved (in writing) by the immediate supervisor of the individual making such determination or such higher level official as the Secretary may designate.

“(2) EXCEPTIONS.—Paragraph (1) shall not apply to—

“(A) any addition to tax under section 6651, 6654, or 6655, or

“(B) any other penalty automatically calculated through electronic means.

“(c) PENALTIES.—For purposes of this section, the term ‘penalty’ includes any addition to tax or any additional amount.”

(b) *CONFORMING AMENDMENT.*—The table of subchapters for chapter 68 is amended by adding at the end the following new item:

“SUBCHAPTER C. Procedural requirements.”

(c) *EFFECTIVE DATE.*—The amendments made by this section shall apply to notices issued, and penalties assessed, after December 31, 2000.

**SEC. 3307. PERSONAL DELIVERY OF NOTICE OF PENALTY
UNDER SECTION 6672.**

(a) *IN GENERAL.*—Paragraph (1) of section 6672(b) (relating to failure to collect and pay over tax, or attempt to evade or defeat tax) is amended by inserting “or in person” after “section 6212(b)”.

(b) *CONFORMING AMENDMENTS.*—

(1) Paragraph (2) of section 6672(b) is amended by inserting “(or, in the case of such a notice delivered in person, such delivery)” after “paragraph (1)”.

(2) Paragraph (3) of section 6672(b) is amended by inserting “or delivered in person” after “mailed” each place it appears.

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

SEC. 3308. NOTICE OF INTEREST CHARGES.

(a) *IN GENERAL.*—Chapter 67 (relating to interest) is amended by adding at the end the following new subchapter:

“Subchapter D—Notice requirements

“Sec. 6631. Notice requirements.

“SEC. 6631. NOTICE REQUIREMENTS.

“The Secretary shall include with each notice to an individual taxpayer which includes an amount of interest required to be paid by such taxpayer under this title information with respect to the section of this title under which the interest is imposed and a computation of the interest.”

(b) *CONFORMING AMENDMENT.*—The table of subchapters for chapter 67 is amended by adding at the end the following new item:

“SUBCHAPTER D. Notice requirements.”

(c) *EFFECTIVE DATE.*—The amendments made by this section shall apply to notices issued after December 31, 2000.

**SEC. 3309. ABATEMENT OF INTEREST ON UNDERPAYMENTS
BY TAXPAYERS IN PRESIDENTIALLY DE-
CLARED DISASTER AREAS.**

(a) *IN GENERAL.*—Section 6404 (relating to abatements), as amended by section 3305, is amended by redesc-

ignating subsection (h) as subsection (i) and by inserting after subsection (g) the following new subsection:

“(h) *ABATEMENT OF INTEREST ON UNDERPAYMENTS BY TAXPAYERS IN PRESIDENTIALLY DECLARED DISASTER AREAS.*—

“(1) *IN GENERAL.*—If the Secretary extends for any period the time for filing income tax returns under section 6081 and the time for paying income tax with respect to such returns under section 6161 for any taxpayer located in a Presidentially declared disaster area, the Secretary shall abate for such period the assessment of any interest prescribed under section 6601 on such income tax.

“(2) *PRESIDENTIALLY DECLARED DISASTER AREA.*—For purposes of paragraph (1), the term ‘Presidentially declared disaster area’ means, with respect to any taxpayer, any area which the President has determined warrants assistance by the Federal Government under the Disaster Relief and Emergency Assistance Act.”

(b) *EFFECTIVE DATE.*—The amendment made by this section shall apply to disasters declared after December 31, 1997, with respect to taxable years beginning after December 31, 1997.

(c) *EMERGENCY DESIGNATION.*—

(1) *For the purposes of section 252(e) of the Balanced Budget and Emergency Deficit Control Act, Congress designates the provisions of this section as an emergency requirement.*

(2) *The amendments made by subsections (a) and (b) of this section shall only take effect upon the transmittal by the President to the Congress of a message designating the provisions of subsections (a) and (b) as an emergency requirement pursuant to section 252(e) of the Balanced Budget and Emergency Deficit Control Act.*

Subtitle E—Protections for Taxpayers Subject to Audit or Collection Activities

PART I—DUE PROCESS

SEC. 3401. DUE PROCESS IN IRS COLLECTION ACTIONS.

(a) *NOTICE AND OPPORTUNITY FOR HEARING UPON FILING OF NOTICE OF LIEN.—Subchapter C of chapter 64 (relating to lien for taxes) is amended by inserting before the table of sections the following:*

“Part I. Due process for liens.

“Part II. Liens.

“PART I—DUE PROCESS FOR LIENS

“Sec. 6320. Notice and opportunity for hearing upon filing of notice of lien.

**“SEC. 6320. NOTICE AND OPPORTUNITY FOR HEARING
UPON FILING OF NOTICE OF LIEN.**

“(a) *REQUIREMENT OF NOTICE.*—

“(1) *IN GENERAL.*—*The Secretary shall notify in writing the person described in section 6321 of the filing of a notice of lien under section 6323.*

“(2) *TIME AND METHOD FOR NOTICE.*—*The notice required under paragraph (1) shall be—*

“(A) *given in person,*

“(B) *left at the dwelling or usual place of business of such person, or*

“(C) *sent by certified or registered mail to such person’s last known address,*
not more than 5 business days after the day of the filing of the notice of lien.

“(3) *INFORMATION INCLUDED WITH NOTICE.*—*The notice required under paragraph (1) shall include in simple and nontechnical terms—*

“(A) *the amount of unpaid tax,*

“(B) *the right of the person to request a hearing during the 30-day period beginning on the day after the 5-day period described in paragraph (2),*

“(C) *the administrative appeals available to the taxpayer with respect to such lien and the procedures relating to such appeals, and*

“(D) the provisions of this title and procedures relating to the release of liens on property.

“(b) *RIGHT TO FAIR HEARING.*—

“(1) *IN GENERAL.*—If the person requests a hearing under subsection (a)(3)(B), such hearing shall be held by the Internal Revenue Service Office of Appeals.

“(2) *ONE HEARING PER PERIOD.*—A person shall be entitled to only one hearing under this section with respect to the taxable period to which the unpaid tax specified in subsection (a)(3)(A) relates.

“(3) *IMPARTIAL OFFICER.*—The hearing under this subsection shall be conducted by an officer or employee who has had no prior involvement with respect to the unpaid tax specified in subsection (a)(3)(A) before the first hearing under this section or section 6330. A taxpayer may waive the requirement of this paragraph.

“(4) *COORDINATION WITH SECTION 6330.*—To the extent practicable, a hearing under this section shall be held in conjunction with a hearing under section 6330.

“(c) *CONDUCT OF HEARING; REVIEW; SUSPENSIONS.*—For purposes of this section, subsections (c), (d)

(other than paragraph (2)(B) thereof), and (e) of section 6330 shall apply.

“PART II—LIENS”.

(b) *NOTICE AND OPPORTUNITY FOR HEARING BEFORE LEVY.*—Subchapter D of chapter 64 (relating to seizure of property for collection of taxes) is amended by inserting before the table of sections the following:

“Part I. Due process for collections.

“Part II. Levy.

“PART I—DUE PROCESS FOR COLLECTIONS

“Sec. 6330. Notice and opportunity for hearing before levy.

“SEC. 6330. NOTICE AND OPPORTUNITY FOR HEARING BEFORE LEVY.

“(a) *REQUIREMENT OF NOTICE BEFORE LEVY.*—

“(1) *IN GENERAL.*—No levy may be made on any property or right to property of any person unless the Secretary has notified such person in writing of their right to a hearing under this section before such levy is made. Such notice shall be required only once for the taxable period to which the unpaid tax specified in paragraph (3)(A) relates.

“(2) *TIME AND METHOD FOR NOTICE.*—The notice required under paragraph (1) shall be—

“(A) given in person,

“(B) left at the dwelling or usual place of business of such person, or

“(C) sent by certified or registered mail, return receipt requested, to such person’s last known address,
not less than 30 days before the day of the first levy with respect to the amount of the unpaid tax for the taxable period.

“(3) *INFORMATION INCLUDED WITH NOTICE.*—
The notice required under paragraph (1) shall include in simple and nontechnical terms—

“(A) the amount of unpaid tax,

“(B) the right of the person to request a hearing during the 30-day period under paragraph (2), and

“(C) the proposed action by the Secretary and the rights of the person with respect to such action, including a brief statement which sets forth—

“(i) the provisions of this title relating to levy and sale of property,

“(ii) the procedures applicable to the levy and sale of property under this title,

“(iii) the administrative appeals available to the taxpayer with respect to such levy and sale and the procedures relating to such appeals,

“(iv) the alternatives available to taxpayers which could prevent levy on property (including installment agreements under section 6159), and

“(v) the provisions of this title and procedures relating to redemption of property and release of liens on property.

“(b) *RIGHT TO FAIR HEARING.*—

“(1) *IN GENERAL.*—If the person requests a hearing under subsection (a)(3)(B), such hearing shall be held by the Internal Revenue Service Office of Appeals.

“(2) *ONE HEARING PER PERIOD.*—A person shall be entitled to only one hearing under this section with respect to the taxable period to which the unpaid tax specified in subsection (a)(3)(A) relates.

“(3) *IMPARTIAL OFFICER.*—The hearing under this subsection shall be conducted by an officer or employee who has had no prior involvement with respect to the unpaid tax specified in subsection (a)(3)(A) before the first hearing under this section or section 6320. A taxpayer may waive the requirement of this paragraph.

“(c) *MATTERS CONSIDERED AT HEARING.*—In the case of any hearing conducted under this section—

“(1) *REQUIREMENT OF INVESTIGATION.*—*The appeals officer shall at the hearing obtain verification from the Secretary that the requirements of any applicable law or administrative procedure have been met.*

“(2) *ISSUES AT HEARING.*—

“(A) *IN GENERAL.*—*The person may raise at the hearing any relevant issue relating to the unpaid tax or the proposed levy, including—*

“(i) *appropriate spousal defenses,*

“(ii) *challenges to the appropriateness of collection actions, and*

“(iii) *offers of collection alternatives, which may include the posting of a bond, the substitution of other assets, an installment agreement, or an offer-in-compromise.*

“(B) *UNDERLYING LIABILITY.*—*The person may also raise at the hearing challenges to the existence or amount of the underlying tax liability for any tax period if the person did not receive any statutory notice of deficiency for such tax liability or did not otherwise have an opportunity to dispute such tax liability.*

“(3) *BASIS FOR THE DETERMINATION.*—The determination by an appeals officer under this subsection shall take into consideration—

“(A) the verification presented under paragraph (1),

“(B) the issues raised under paragraph (2),
and

“(C) whether any proposed collection action balances the need for the efficient collection of taxes with the legitimate concern of the person that any collection action be no more intrusive than necessary.

“(4) *CERTAIN ISSUES PRECLUDED.*—An issue may not be raised at the hearing if—

“(A) the issue was raised and considered at a previous hearing under section 6320 or in any other previous administrative or judicial proceeding, and

“(B) the person seeking to raise the issue participated meaningfully in such hearing or proceeding.

This paragraph shall not apply to any issue with respect to which subsection (d)(2)(B) applies.

“(d) *PROCEEDING AFTER HEARING.*—

“(1) *JUDICIAL REVIEW OF DETERMINATION.*—

The person may, within 30 days of a determination under this section, appeal such determination—

“(A) *to the Tax Court (and the Tax Court shall have jurisdiction to hear such matter), or*

“(B) *if the Tax Court does not have jurisdiction of the underlying tax liability, to a district court of the United States.*

If a court determines that the appeal was to an incorrect court, a person shall have 30 days after the court determination to file such appeal with the correct court.

“(2) *JURISDICTION RETAINED AT IRS OFFICE OF APPEALS.*—*The Internal Revenue Service Office of Appeals shall retain jurisdiction with respect to any determination made under this section, including subsequent hearings requested by the person who requested the original hearing on issues regarding—*

“(A) *collection actions taken or proposed with respect to such determination, and*

“(B) *after the person has exhausted all administrative remedies, a change in circumstances with respect to such person which affects such determination.*

“(e) *SUSPENSION OF COLLECTIONS AND STATUTE OF LIMITATIONS.*—

“(1) *IN GENERAL.*—*Except as provided in paragraph (2), if a hearing is requested under subsection (a)(3)(B), the levy actions which are the subject of the requested hearing and the running of any period of limitations under section 6502 (relating to collection after assessment), section 6531 (relating to criminal prosecutions), or section 6532 (relating to other suits) shall be suspended for the period during which such hearing, and appeals therein, are pending. In no event shall any such period expire before the 90th day after the day on which there is a final determination in such hearing.*

“(2) *LEVY UPON APPEAL.*—*Paragraph (1) shall not apply to a levy action while an appeal is pending if the underlying tax liability is not at issue in the appeal and the court determines that the Secretary has shown good cause not to suspend the levy.*

“(f) *JEOPARDY AND STATE REFUND COLLECTION.*—
If—

“(1) *the Secretary has made a finding under the last sentence of section 6331(a) that the collection of tax is in jeopardy, or*

“(2) the Secretary has served a levy on a State to collect a Federal tax liability from a State tax refund,

this section shall not apply, except that the taxpayer shall be given the opportunity for the hearing described in this section within a reasonable period of time after the levy.

“PART II—LEVY”.

(c) REVIEW BY SPECIAL TRIAL JUDGES ALLOWED.—

(1) IN GENERAL.—Section 7443(b) (relating to proceedings which may be assigned to special trial judges) is amended by striking “and” at the end of paragraph (3), by redesignating paragraph (4) as paragraph (5), and by inserting after paragraph (3) the following new paragraph:

“(4) any proceeding under section 6320 or 6330, and”.

(2) AUTHORITY TO MAKE DECISIONS.—Section 7443(c) (relating to authority to make court decisions) is amended by striking “or (3)” and inserting “(3), or (4)”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to collection actions initiated after the date which is 180 days after the date of the enactment of this Act.

PART II—EXAMINATION ACTIVITIES**SEC. 3411. CONFIDENTIALITY PRIVILEGES RELATING TO
TAXPAYER COMMUNICATIONS.**

(a) *IN GENERAL.*—Chapter 77 (relating to miscellaneous provisions) is amended by adding at the end the following new section:

**“SEC. 7525. CONFIDENTIALITY PRIVILEGES RELATING TO
TAXPAYER COMMUNICATIONS.**

“(a) *UNIFORM APPLICATION TO TAXPAYER COMMUNICATIONS WITH FEDERALLY AUTHORIZED PRACTITIONERS.*—

“(1) *GENERAL RULE.*—With respect to tax advice, the same common law protections of confidentiality which apply to a communication between a taxpayer and an attorney shall also apply to a communication between a taxpayer and any federally authorized tax practitioner to the extent the communication would be considered a privileged communication if it were between a taxpayer and an attorney.

“(2) *LIMITATIONS.*—Paragraph (1) may only be asserted in—

“(A) any noncriminal tax matter before the Internal Revenue Service, and

“(B) any noncriminal tax proceeding in Federal court brought by or against the United States.

“(3) *DEFINITIONS.*—For purposes of this subsection—

“(A) *FEDERALLY AUTHORIZED TAX PRACTITIONER.*—The term ‘federally authorized tax practitioner’ means any individual who is authorized under Federal law to practice before the Internal Revenue Service if such practice is subject to Federal regulation under section 330 of title 31, United States Code.

“(B) *TAX ADVICE.*—The term ‘tax advice’ means advice given by an individual with respect to a matter which is within the scope of the individual’s authority to practice described in subparagraph (A).

“(b) *SECTION NOT TO APPLY TO COMMUNICATIONS REGARDING CORPORATE TAX SHELTERS.*—The privilege under subsection (a) shall not apply to any written communication between a federally authorized tax practitioner and a director, shareholder, officer, or employee, agent, or representative of a corporation in connection with the promotion of the direct or indirect participation of such corporation in any tax shelter (as defined in section 6662(d)(2)(C)(iii)).”

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

“Sec. 7525. Confidentiality privileges relating to taxpayer communications.”

(c) *EFFECTIVE DATE.*—*The amendments made by this section shall apply to communications made on or after the date of the enactment of this Act.*

SEC. 3412. LIMITATION ON FINANCIAL STATUS AUDIT TECHNIQUES.

Section 7602 (relating to examination of books and witnesses) is amended by adding at the end the following new subsection:

“(d) LIMITATION ON EXAMINATION ON UNREPORTED INCOME.—The Secretary shall not use financial status or economic reality examination techniques to determine the existence of unreported income of any taxpayer unless the Secretary has a reasonable indication that there is a likelihood of such unreported income.”

SEC. 3413. SOFTWARE TRADE SECRETS PROTECTION.

(a) *IN GENERAL.*—*Subchapter A of chapter 78 (relating to examination and inspection) is amended by redesignating section 7612 as section 7613 and by inserting after 7611 the following new section:*

**“SEC. 7612. SPECIAL PROCEDURES FOR SUMMONSES FOR
COMPUTER SOFTWARE.**

“(a) *GENERAL RULE.*—For purposes of this title—

“(1) *except as provided in subsection (b), no summons may be issued under this title, and the Secretary may not begin any action under section 7604 to enforce any summons to produce or analyze any tax-related computer software source code, and*

“(2) *any software and related materials which are provided to the Secretary under this title shall be subject to the safeguards under subsection (c).*

“(b) *CIRCUMSTANCES UNDER WHICH COMPUTER SOFTWARE SOURCE CODE MAY BE PROVIDED.*—

“(1) *IN GENERAL.*—Subsection (a)(1) shall not apply to any portion, item, or component of tax-related computer software source code if—

“(A) *the Secretary is unable to otherwise reasonably ascertain the correctness of any item on a return from—*

“(i) *the taxpayer’s books, papers, records, or other data, or*

“(ii) *the computer software executable code (and any modifications thereof) to which such source code relates and any associated data which, when executed, pro-*

duces the output to ascertain the correctness of the item,

“(B) the Secretary identifies with reasonable specificity the portion, item, or component of such source code needed to verify the correctness of such item on the return, and

“(C) the Secretary determines that the need for the portion, item, or component of such source code with respect to such item outweighs the risks of unauthorized disclosure of trade secrets.

“(2) EXCEPTIONS.—Subsection (a)(1) shall not apply to—

“(A) any inquiry into any offense connected with the administration or enforcement of the internal revenue laws,

“(B) any tax-related computer software source code acquired or developed by the taxpayer or a related person primarily for internal use by the taxpayer or such person rather than for commercial distribution,

“(C) any communications between the owner of the tax-related computer software source code and the taxpayer or related persons, or

“(D) any tax-related computer software source code which is required to be provided or made available pursuant to any other provision of this title.

“(3) COOPERATION REQUIRED.—For purposes of paragraph (1), the Secretary shall be treated as meeting the requirements of subparagraphs (A) and (B) of such paragraph if—

“(A) the Secretary determines that it is not feasible to determine the correctness of an item without access to the computer software executable code and associated data described in paragraph (1)(A)(ii),

“(B) the Secretary makes a formal request to the taxpayer for such code and data and to the owner of the computer software source code for such executable code, and

“(C) such code and data is not provided within 180 days of such request.

“(4) RIGHT TO CONTEST SUMMONS.—In any proceeding brought under section 7604 to enforce a summons issued under the authority of this subsection, the court shall, at the request of any party, hold a hearing to determine whether the applicable requirements of this subsection have been met.

“(c) *SAFEGUARDS TO ENSURE PROTECTION OF TRADE SECRETS AND OTHER CONFIDENTIAL INFORMATION.*—

“(1) *ENTRY OF PROTECTIVE ORDER.*—*In any court proceeding to enforce a summons for any portion of software, the court may receive evidence and issue any order necessary to prevent the disclosure of trade secrets or other confidential information with respect to such software, including requiring that any information be placed under seal to be opened only as directed by the court.*

“(2) *PROTECTION OF SOFTWARE.*—*Notwithstanding any other provision of this section, and in addition to any protections ordered pursuant to paragraph (1), in the case of software that comes into the possession or control of the Secretary in the course of any examination with respect to any taxpayer—*

“(A) *the software may be used only in connection with the examination of such taxpayer’s return, any appeal by the taxpayer to the Internal Revenue Service Office of Appeals, any judicial proceeding (and any appeals therefrom), and any inquiry into any offense connected with the administration or enforcement of the internal revenue laws,*

“(B) the Secretary shall provide, in advance, to the taxpayer and the owner of the software a written list of the names of all individuals who will analyze or otherwise have access to the software,

“(C) the software shall be maintained in a secure area or place, and, in the case of computer software source code, shall not be removed from the owner’s place of business unless the owner permits, or a court orders, such removal,

“(D) the software may not be copied except as necessary to perform such analysis, and the Secretary shall number all copies made and certify in writing that no other copies have been (or will be) made,

“(E) at the end of the period during which the software may be used under subparagraph (A)—

“(i) the software and all copies thereof shall be returned to the person from whom they were obtained and any copies thereof made under subparagraph (D) on the hard drive of a machine or other mass storage device shall be permanently deleted, and

“(ii) the Secretary shall obtain from any person who analyzes or otherwise had access to such software a written certification under penalty of perjury that all copies and related materials have been returned and that no copies were made of them,

“(F) the software may not be decompiled or disassembled,

“(G) the Secretary shall provide to the taxpayer and the owner of any interest in such software, as the case may be, a written agreement, between the Secretary and any person who is not an officer or employee of the United States and who will analyze or otherwise have access to such software, which provides that such person agrees not to—

“(i) disclose such software to any person other than persons to whom such information could be disclosed for tax administration purposes under section 6103, or

“(ii) participate for 2 years in the development of software which is intended for a similar purpose as the software examined, and

“(H) the software shall be treated as return information for purposes of section 6103.

For purposes of subparagraph (C), the owner shall make available any necessary equipment or materials for analysis of computer software source code required to be conducted on the owner’s premises. The owner of any interest in the software shall be considered a party to any agreement described in subparagraph (G).

“(d) DEFINITIONS.—For purposes of this section—

“(1) SOFTWARE.—The term ‘software’ includes computer software source code and computer software executable code.

“(2) COMPUTER SOFTWARE SOURCE CODE.—The term ‘computer software source code’ means—

“(A) the code written by a programmer using a programming language which is comprehensible to appropriately trained persons and is not capable of directly being used to give instructions to a computer,

“(B) related programmers’ notes, design documents, memoranda, and similar documentation, and

“(C) related customer communications.

“(3) *COMPUTER SOFTWARE EXECUTABLE CODE.*—The term ‘computer software executable code’ means—

“(A) any object code, machine code, or other code readable by a computer when loaded into its memory and used directly by such computer to execute instructions, and

“(B) any related user manuals.

“(4) *OWNER.*—The term ‘owner’ shall, with respect to any software, include the developer of the software.

“(5) *RELATED PERSON.*—A person shall be treated as related to another person if such persons are related persons under section 267 or 707(b).

“(6) *TAX-RELATED COMPUTER SOFTWARE SOURCE CODE.*—The term ‘tax-related computer software source code’ means the computer source code for any computer software program intended for accounting, tax return preparation or compliance, or tax planning.”

(b) *UNAUTHORIZED DISCLOSURE OF SOFTWARE.*—Section 7213 (relating to unauthorized disclosure of information) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

“(d) DISCLOSURE OF SOFTWARE.—Any person who willfully divulges or makes known software (as defined in section 7612(d)(1)) to any person in violation of section 7612 shall be guilty of a felony and, upon conviction thereof, shall be fined not more than \$5,000, or imprisoned not more than 5 years, or both, together with the costs of prosecution.”

(c) APPLICATION OF SPECIAL PROCEDURES FOR THIRD-PARTY SUMMONSES.—Paragraph (2) of section 7603(b), as amended by section 3416(a), is amended by striking “and” at the end of subparagraph (H), by striking a period at the end of subparagraph (I) and inserting “, and”, and by adding at the end the following new subparagraph:

“(J) any owner or developer of a computer software source code (as defined in section 7612(d)(2)).

Subparagraph (J) shall apply only with respect to a summons requiring the production of the source code referred to in subparagraph (J) or the program and data described in section 7612(b)(1)(A)(ii) to which such source code relates.”

(d) CONFORMING AMENDMENT.—The table of sections for subchapter A of chapter 78 is amended by striking the

item relating to section 7612 and by inserting the following new item:

“Sec. 7612. Special procedures for summonses for computer software.

“Sec. 7613. Cross references.”

(e) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply to summonses issued, and software acquired, after the date of the enactment of this Act.

(2) SOFTWARE PROTECTION.—In the case of any software acquired on or before such date of enactment, the requirements of section 7612(a)(2) of the Internal Revenue Code of 1986 (as added by such amendments) shall apply after the 90th day after such date. The preceding sentence shall not apply to the requirement under section 7612(c)(2)(G)(vi) of such Code (as so added).

**SEC. 3414. THREAT OF AUDIT PROHIBITED TO COERCE TIP
REPORTING ALTERNATIVE COMMITMENT
AGREEMENTS.**

The Secretary of the Treasury or the Secretary’s delegate shall instruct employees of the Internal Revenue Service that they may not threaten to audit any taxpayer in an attempt to coerce the taxpayer into entering into a Tip Reporting Alternative Commitment Agreement.

**SEC. 3415. TAXPAYERS ALLOWED MOTION TO QUASH ALL
THIRD-PARTY SUMMONSES.**

(a) *IN GENERAL.*—Paragraph (1) of section 7609(a) (relating to summonses to which section applies) is amended by striking so much of such paragraph as precedes “notice of the summons” and inserting the following:

“(1) *IN GENERAL.*—If any summons to which this section applies requires the giving of testimony on or relating to, the production of any portion of records made or kept on or relating to, or the production of any computer software source code (as defined in 7612(d)(2)) with respect to, any person (other than the person summoned) who is identified in the summons, then”.

(b) *COORDINATION WITH OTHER AUTHORITY.*—Section 7609 (relating to special procedures for third-party summonses) is amended by adding at the end the following new subsection:

“(j) *USE OF SUMMONS NOT REQUIRED.*—Nothing in this section shall be construed to limit the Secretary’s ability to obtain information, other than by summons, through formal or informal procedures authorized by sections 7601 and 7602.”

(c) *CONFORMING AMENDMENTS.*—

(1) Subsection (a) of section 7609 is amended by striking paragraphs (3) and (4), by redesignating

paragraph (5) as paragraph (3), and by striking in paragraph (3) (as so redesignated) “subsection (c)(2)(B)” and inserting “subsection (c)(2)(D)”.

(2) Subsection (c) of section 7609 is amended to read as follows:

“(c) SUMMONS TO WHICH SECTION APPLIES.—

“(1) IN GENERAL.—Except as provided in paragraph (2), this section shall apply to any summons issued under paragraph (2) of section 7602(a) or under section 6420(e)(2), 6421(g)(2), 6427(j)(2), or 7612.

“(2) EXCEPTIONS.—This section shall not apply to any summons—

“(A) served on the person with respect to whose liability the summons is issued, or any officer or employee of such person,

“(B) issued to determine whether or not records of the business transactions or affairs of an identified person have been made or kept,

“(C) issued solely to determine the identity of any person having a numbered account (or similar arrangement) with a bank or other institution described in section 7603(b)(2)(A),

“(D) issued in aid of the collection of—

“(i) an assessment made or judgment rendered against the person with respect to whose liability the summons is issued, or

“(ii) the liability at law or in equity of any transferee or fiduciary of any person referred to in clause (i),

“(E)(i) issued by a criminal investigator of the Internal Revenue Service in connection with the investigation of an offense connected with the administration or enforcement of the internal revenue laws, and

“(ii) served on any person who is not a third-party recordkeeper (as defined in section 7603(b)), or

“(F) described in subsection (f) or (g).

“(3) RECORDS.—For purposes of this section, the term ‘records’ includes books, papers, and other data.”

(3) Paragraph (2) of section 7609(e) is amended by striking “third-party recordkeeper’s” and all that follows through “subsection (f)” and inserting “summoned party’s response to the summons”.

(4) Subsection (f) of section 7609 is amended—

(A) by striking “described in subsection (c)” and inserting “described in subsection (c)(1)”, and

(B) by inserting “or testimony” after “records” in paragraph (3).

(5) Subsection (g) of section 7609 is amended by striking “In the case of any summons described in subsection (c), the provisions of subsections (a)(1) and (b) shall not apply if” and inserting “A summons is described in this subsection if”.

(6)(A) Subsection (i) of section 7609 is amended by striking “THIRD-PARTY RECORDKEEPER AND” in the subsection heading.

(B) Paragraph (1) of section 7609(i) is amended by striking “described in subsection (c), the third-party recordkeeper” and inserting “to which this section applies for the production of records, the summoned party”.

(C) Paragraph (2) of section 7609(i) is amended—

(i) by striking “RECORDKEEPER” in the heading and inserting “SUMMONED PARTY”, and

(ii) by striking “the third-party recordkeeper” and inserting “the summoned party”.

(D) Paragraph (3) of section 7609(i) is amended to read as follows:

“(3) PROTECTION FOR SUMMONED PARTY WHO DISCLOSES.—Any summoned party, or agent or em-

ployee thereof, making a disclosure of records or testimony pursuant to this section in good faith reliance on the certificate of the Secretary or an order of a court requiring production of records or the giving of such testimony shall not be liable to any customer or other person for such disclosure.”

(d) EFFECTIVE DATE.—The amendments made by this section shall apply to summonses served after the date of the enactment of this Act.

SEC. 3416. SERVICE OF SUMMONSES TO THIRD-PARTY RECORDKEEPERS PERMITTED BY MAIL.

(a) IN GENERAL.—Section 7603 (relating to service of summons) is amended by striking “A summons issued” and inserting “(a) IN GENERAL.—A summons issued” and by adding at the end the following new subsection:

“(b) SERVICE BY MAIL TO THIRD-PARTY RECORDKEEPERS.—

“(1) IN GENERAL.—A summons referred to in subsection (a) for the production of books, papers, records, or other data by a third-party recordkeeper may also be served by certified or registered mail to the last known address of such recordkeeper.

“(2) THIRD-PARTY RECORDKEEPER.—For purposes of paragraph (1), the term ‘third-party recordkeeper’ means—

“(A) any mutual savings bank, cooperative bank, domestic building and loan association, or other savings institution chartered and supervised as a savings and loan or similar association under Federal or State law, any bank (as defined in section 581), or any credit union (within the meaning of section 501(c)(14)(A));

“(B) any consumer reporting agency (as defined under section 603(f) of the Fair Credit Reporting Act (15 U.S.C. 1681a(f)));

“(C) any person extending credit through the use of credit cards or similar devices;

“(D) any broker (as defined in section 3(a)(4) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(4)));

“(E) any attorney;

“(F) any accountant;

“(G) any barter exchange (as defined in section 6045(c)(3));

“(H) any regulated investment company (as defined in section 851) and any agent of such regulated investment company when acting as an agent thereof, and

“(I) any enrolled agent.”

(b) *EFFECTIVE DATE.*—*The amendment made by this section shall apply to summonses served after the date of the enactment of this Act.*

SEC. 3417. NOTICE OF IRS CONTACT OF THIRD PARTIES.

(a) *IN GENERAL.*—*Section 7602 (relating to examination of books and witnesses), as amended by section 3412, is amended by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by inserting after subsection (b) the following new subsection:*

“(c) *NOTICE OF CONTACT OF THIRD PARTIES.*—

“(1) *GENERAL NOTICE.*—*An officer or employee of the Internal Revenue Service may not contact any person other than the taxpayer with respect to the determination or collection of the tax liability of such taxpayer without providing reasonable notice in advance to the taxpayer that contacts with persons other than the taxpayer may be made.*

“(2) *NOTICE OF SPECIFIC CONTACTS.*—*The Secretary shall periodically provide to a taxpayer a record of persons contacted during such period by the Secretary with respect to the determination or collection of the tax liability of such taxpayer. Such record shall also be provided upon request of the taxpayer.*

“(3) *EXCEPTIONS.*—*This subsection shall not apply—*

“(A) to any contact which the taxpayer has authorized,

“(B) if the Secretary determines for good cause shown that such notice would jeopardize collection of any tax or such notice may involve reprisal against any person, or

“(C) with respect to any pending criminal investigation.”

(b) *EFFECTIVE DATE.*—The amendments made by subsection (a) shall apply to contacts made after the 180th day after the date of the enactment of this Act.

PART III—COLLECTION ACTIVITIES

Subpart A—Approval Process

SEC. 3421. APPROVAL PROCESS FOR LIENS, LEVIES, AND SEIZURES.

(a) *IN GENERAL.*—The Commissioner of Internal Revenue shall develop and implement procedures under which—

(1) a determination by an employee to file a notice of lien or levy with respect to, or to levy or seize, any property or right to property would, where appropriate, be required to be reviewed by a supervisor of the employee before the action was taken, and

(2) *appropriate disciplinary action would be taken against the employee or supervisor where the procedures under paragraph (1) were not followed.*

(b) *REVIEW PROCESS.—The review process under subsection (a)(1) may include a certification that the employee has—*

(1) *reviewed the taxpayer's information,*

(2) *verified that a balance is due, and*

(3) *affirmed that the action proposed to be taken is appropriate given the taxpayer's circumstances, considering the amount due and the value of the property or right to property.*

(c) *EFFECTIVE DATES.—*

(1) *IN GENERAL.—Except as provided in paragraph (2), this section shall take effect on the date of the enactment of this Act.*

(2) *AUTOMATED COLLECTION SYSTEM ACTIONS.—In the case of any action under an automated collection system, this section shall apply to actions initiated after December 31, 2000.*

Subpart B—Liens and Levies

SEC. 3431. MODIFICATIONS TO CERTAIN LEVY EXEMPTION AMOUNTS.

(a) *FUEL, ETC.*—Section 6334(a)(2) (relating to fuel, provisions, furniture, and personal effects) is amended by striking “\$2,500” and inserting “\$6,250”.

(b) *BOOKS, ETC.*—Section 6334(a)(3) (relating to books and tools of a trade, business, or profession) is amended by striking “\$1,250” and inserting “\$3,125”.

(c) *CONFORMING AMENDMENT.*—Section 6334(g)(1) (relating to inflation adjustment) is amended—

(1) by striking “1997” and inserting “1999”,
and

(2) by striking “1996” in subparagraph (B) and inserting “1998”.

(d) *EFFECTIVE DATE.*—The amendments made by this section shall take effect with respect to levies issued after the date of the enactment of this Act.

SEC. 3432. RELEASE OF LEVY UPON AGREEMENT THAT AMOUNT IS UNCOLLECTIBLE.

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

“(e) *RELEASE OF LEVY UPON AGREEMENT THAT AMOUNT IS NOT COLLECTIBLE.*—In the case of a levy on the salary or wages payable to or received by the taxpayer,

upon agreement with the taxpayer that the tax is not collectible, the Secretary shall release such levy as soon as practicable.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to levies imposed after December 31, 1999.

SEC. 3433. LEVY PROHIBITED DURING PENDENCY OF RE-FUND PROCEEDINGS.

(a) IN GENERAL.—Section 6331 (relating to levy and distraint) is amended by redesignating subsection (i) as subsection (j) and by inserting after subsection (h) the following new subsection:

“(i) NO LEVY DURING PENDENCY OF PROCEEDINGS FOR REFUND OF DIVISIBLE TAX.—

“(1) IN GENERAL.—No levy may be made under subsection (a) on the property or rights to property of any person with respect to any unpaid divisible tax during the pendency of any proceeding brought by such person in a proper Federal trial court for the recovery of any portion of such divisible tax which was paid by such person if—

“(A) the decision in such proceeding would be res judicata with respect to such unpaid tax, or

“(B) such person would be collaterally estopped from contesting such unpaid tax by reason of such proceeding.

“(2) *DIVISIBLE TAX.*—For purposes of paragraph (1), the term ‘divisible tax’ means—

“(A) any tax imposed by subtitle C, and

“(B) the penalty imposed by section 6672 with respect to any such tax.

“(3) *EXCEPTIONS.*—

“(A) *CERTAIN UNPAID TAXES.*—This subsection shall not apply with respect to any unpaid tax if—

“(i) the taxpayer files a written notice with the Secretary which waives the restriction imposed by this subsection on levy with respect to such tax, or

“(ii) the Secretary finds that the collection of such tax is in jeopardy.

“(B) *CERTAIN LEVIES.*—This subsection shall not apply to—

“(i) any levy to carry out an offset under section 6402, and

“(ii) any levy which was first made before the date that the applicable proceeding under this subsection commenced.

“(4) *LIMITATION ON COLLECTION ACTIVITY; AUTHORITY TO ENJOIN COLLECTION.*—

“(A) *LIMITATION ON COLLECTION.*—No proceeding in court for the collection of any unpaid tax to which paragraph (1) applies shall be begun by the Secretary during the pendency of a proceeding under such paragraph. This subparagraph shall not apply to—

“(i) any counterclaim in a proceeding under such paragraph, or

“(ii) any proceeding relating to a proceeding under such paragraph.

“(B) *AUTHORITY TO ENJOIN.*—Notwithstanding section 7421(a), a levy or collection proceeding prohibited by this subsection may be enjoined (during the period such prohibition is in force) by the court in which the proceeding under paragraph (1) is brought.

“(5) *SUSPENSION OF STATUTE OF LIMITATIONS ON COLLECTION.*—The period of limitations under section 6502 shall be suspended for the period during which the Secretary is prohibited under this subsection from making a levy.

“(6) *PENDENCY OF PROCEEDING.*—For purposes of this subsection, a proceeding is pending beginning

on the date such proceeding commences and ending on the date that a final order or judgment from which an appeal may be taken is entered in such proceeding.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to unpaid tax attributable to taxable periods beginning after December 31, 1998.

SEC. 3434. APPROVAL REQUIRED FOR JEOPARDY AND TERMINATION ASSESSMENTS AND JEOPARDY LEVIES.

(a) IN GENERAL.—Paragraph (1) of section 7429(a) (relating to review of jeopardy levy or assessment procedures) is amended to read as follows:

“(1) ADMINISTRATIVE REVIEW.—

“(A) PRIOR APPROVAL REQUIRED.—No assessment may be made under section 6851(a), 6852(a), 6861(a), or 6862, and no levy may be made under section 6331(a) less than 30 days after notice and demand for payment is made, unless the Chief Counsel for the Internal Revenue Service (or such Counsel’s delegate) personally approves (in writing) such assessment or levy.

“(B) INFORMATION TO TAXPAYER.—Within 5 days after the day on which such an assessment or levy is made, the Secretary shall provide

the taxpayer with a written statement of the information upon which the Secretary relied in making such assessment or levy.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxes assessed and levies made after the date of the enactment of this Act.

***SEC. 3435. INCREASE IN AMOUNT OF CERTAIN PROPERTY
ON WHICH LIEN NOT VALID.***

(a) CERTAIN PROPERTY.—

(1) IN GENERAL.—Subsection (b) of section 6323 (relating to validity and priority against certain persons) is amended—

(A) by striking “\$250” in paragraph (4) (relating to personal property purchased in casual sale) and inserting “\$1,000”, and

(B) by striking “\$1,000” in paragraph (7) (relating to residential property subject to a mechanic’s lien for certain repairs and improvements) and inserting “\$5,000”.

(2) INFLATION ADJUSTMENT.—Subsection (i) of section 6323 (relating to special rules) is amended by adding at the end the following new paragraph:

“(4) COST-OF-LIVING ADJUSTMENT.—In the case of notices of liens imposed by section 6321 which are filed in any calendar year after 1998, each of the dol-

lar amounts under paragraph (4) or (7) of subsection (b) shall be increased by an amount equal to—

“(A) such dollar amount, multiplied by

“(B) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year, determined by substituting ‘calendar year 1996’ for ‘calendar year 1992’ in subparagraph (B) thereof.

If any amount as adjusted under the preceding sentence is not a multiple of \$10, such amount shall be rounded to the nearest multiple of \$10.”

(b) *EXPANSION OF TREATMENT OF PASSBOOK LOANS.*—Paragraph (10) of section 6323(b) is amended—

(1) by striking “PASSBOOK LOANS” in the heading and inserting “DEPOSIT-SECURED LOANS”,

(2) by striking “, evidenced by a passbook,”, and

(3) by striking all that follows “secured by such account” and inserting a period.

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

**SEC. 3436. WAIVER OF EARLY WITHDRAWAL TAX FOR IRS
LEVIES ON EMPLOYER-SPONSORED RETIRE-
MENT PLANS OR IRAS.**

(a) *IN GENERAL.*—Section 72(t)(2)(A) (relating to subsection not to apply to certain distributions) is amended by striking “or” at the end of clauses (iv) and (v), by striking the period at the end of clause (vi) and inserting “, or”, and by adding at the end the following new clause:

“(vii) made on account of a levy under section 6331 on the qualified retirement plan.”

(b) *EFFECTIVE DATE.*—The amendments made by this section shall apply to distributions after December 31, 1999.

Subpart C—Seizures

**SEC. 3441. PROHIBITION OF SALES OF SEIZED PROPERTY
AT LESS THAN MINIMUM BID.**

(a) *IN GENERAL.*—Section 6335(e)(1)(A)(i) (relating to determinations relating to minimum price) is amended by striking “a minimum price for which such property shall be sold” and inserting “a minimum price below which such property shall not be sold”.

(b) *REFERENCE TO PENALTY FOR VIOLATION.*—Section 6335(e) is amended by adding at the end the following new paragraph:

“(4) *CROSS REFERENCE.*—

“For provision providing for civil damages for violation of paragraph (1)(A)(i), see section 7433.”

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

SEC. 3442. ACCOUNTING OF SALES OF SEIZED PROPERTY.

(a) *IN GENERAL.*—Section 6340 (relating to records of sale) is amended—

(1) in subsection (a)—

(A) by striking “real”, and

(B) by inserting “or certificate of sale of personal property” after “deed”, and

(2) by adding at the end the following new subsection:

“(c) *ACCOUNTING TO TAXPAYER.*—The taxpayer with respect to whose liability the sale was conducted or who redeemed the property shall be furnished—

“(1) the record under subsection (a) (other than the names of the purchasers),

“(2) the amount from such sale applied to the taxpayer’s liability, and

“(3) the remaining balance of such liability.”

(b) *EFFECTIVE DATE.*—The amendments made by this section shall apply to seizures occurring after the date of the enactment of this Act.

SEC. 3443. UNIFORM ASSET DISPOSAL MECHANISM.

Not later than the date which is 2 years after the date of the enactment of this Act, the Secretary of the Treasury or the Secretary's delegate shall implement a uniform asset disposal mechanism for sales under section 6335 of the Internal Revenue Code of 1986. The mechanism should be designed to remove any participation in such sales by revenue officers of the Internal Revenue Service and should consider the use of outsourcing.

SEC. 3444. CODIFICATION OF IRS ADMINISTRATIVE PROCEDURES FOR SEIZURE OF TAXPAYER'S PROPERTY.

(a) IN GENERAL.—Section 6331 (relating to levy and distraint), as amended by section 3433, is amended by redesignating subsection (j) as subsection (k) and by inserting after subsection (i) the following new subsection:

“(j) NO LEVY BEFORE INVESTIGATION OF STATUS OF PROPERTY.—

“(1) IN GENERAL.—For purposes of applying the provisions of this subchapter, no levy may be made on any property or right to property which is to be sold under section 6335 until a thorough investigation of the status of such property has been completed.

“(2) ELEMENTS IN INVESTIGATION.—For purposes of paragraph (1), an investigation of the status of any property shall include—

“(A) a verification of the taxpayer’s liability,

“(B) the completion of an analysis under subsection (f),

“(C) the determination that the equity in such property is sufficient to yield net proceeds from the sale of such property to apply to such liability, and

“(D) a thorough consideration of alternative collection methods.”

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

SEC. 3445. PROCEDURES FOR SEIZURE OF RESIDENCES AND BUSINESSES.

(a) *IN GENERAL.*—Section 6334(a)(13) (relating to property exempt from levy) is amended to read as follows:

“(13) *RESIDENCES EXEMPT IN SMALL DEFICIENCY CASES AND PRINCIPAL RESIDENCES AND CERTAIN BUSINESS ASSETS EXEMPT IN ABSENCE OF CERTAIN APPROVAL OR JEOPARDY.*—

“(A) *RESIDENCES IN SMALL DEFICIENCY CASES.*—If the amount of the levy does not exceed \$5,000—

“(i) any real property used as a residence by the taxpayer, or

“(ii) any real property of the taxpayer (other than real property which is rented) used by any other individual as a residence.

“(B) *PRINCIPAL RESIDENCES AND CERTAIN BUSINESS ASSETS.*—Except to the extent provided in subsection (e)—

“(i) the principal residence of the taxpayer (within the meaning of section 121), and

“(ii) tangible personal property or real property (other than real property which is rented) used in the trade or business of an individual taxpayer.”

(b) *LEVY ALLOWED IN CERTAIN CIRCUMSTANCES.*—

Section 6334(e) is amended to read as follows:

“(e) *LEVY ALLOWED ON PRINCIPAL RESIDENCES AND CERTAIN BUSINESS ASSETS IN CERTAIN CIRCUMSTANCES.*—

“(1) *PRINCIPAL RESIDENCES.*—

“(A) *APPROVAL REQUIRED.*—A principal residence shall not be exempt from levy if a judge or magistrate of a district court of the United

States approves (in writing) the levy of such residence.

“(B) JURISDICTION.—The district courts of the United States shall have exclusive jurisdiction to approve a levy under subparagraph (A).

“(2) CERTAIN BUSINESS ASSETS.—Property (other than a principal residence) described in subsection (a)(13)(B) shall not be exempt from levy if—

“(A) a district director or assistant district director of the Internal Revenue Service personally approves (in writing) the levy of such property, or

“(B) the Secretary finds that the collection of tax is in jeopardy.

An official may not approve a levy under subparagraph (A) unless the official determines that the taxpayer’s other assets subject to collection are insufficient to pay the amount due, together with expenses of the proceedings.”

(c) STATE FISH AND WILDLIFE PERMITS.—

(1) IN GENERAL.—With respect to permits issued by a State and required under State law for the harvest of fish or wildlife in the trade or business of an individual taxpayer, the term “other assets” as used in section 6334(e)(2) of the Internal Revenue Code of

1986 shall include future income which may be derived by such taxpayer from the commercial sale of fish or wildlife under such permit.

(2) *CONSTRUCTION.*—Paragraph (1) shall not be construed to invalidate or in any way prejudice any assertion that the privilege embodied in permits described in paragraph (1) is not property or a right to property under the Internal Revenue Code of 1986.

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

PART IV—PROVISIONS RELATING TO

EXAMINATION AND COLLECTION ACTIVITIES

SEC. 3461. PROCEDURES RELATING TO EXTENSIONS OF

STATUTE OF LIMITATIONS BY AGREEMENT.

(a) *AUTHORITY TO EXTEND 10-YEAR COLLECTION PERIOD AFTER ASSESSMENT.*—Section 6502(a) (relating to length of period after collection) is amended—

(1) by striking paragraph (2) and inserting:

“(2) if—

“(A) there is an installment agreement between the taxpayer and the Secretary, prior to the date which is 90 days after the expiration of any period for collection agreed upon in writing

by the Secretary and the taxpayer at the time the installment agreement was entered into, or

“(B) there is a release of levy under section 6343 after such 10-year period, prior to the expiration of any period for collection agreed upon in writing by the Secretary and the taxpayer before such release.”, and

(2) by striking the first sentence in the matter following paragraph (2).

(b) NOTICE TO TAXPAYER OF RIGHT TO REFUSE OR LIMIT EXTENSION.—Paragraph (4) of section 6501(c) (relating to the period for limitations on assessment and collection) is amended—

(1) by striking “Where” and inserting the following:

“(A) IN GENERAL.—Where”, and

(2) by adding at the end the following new subparagraph:

“(B) NOTICE TO TAXPAYER OF RIGHT TO REFUSE OR LIMIT EXTENSION.—The Secretary shall notify the taxpayer of the taxpayer’s right to refuse to extend the period of limitations, or to limit such extension to particular issues or to a particular period of time, on each occasion

when the taxpayer is requested to provide such consent.”

(c) *EFFECTIVE DATE.*—

(1) *IN GENERAL.*—The amendments made by this section shall apply to requests to extend the period of limitations made after December 31, 1999.

(2) *PRIOR REQUEST.*—If, in any request to extend the period of limitations made on or before December 31, 1999, a taxpayer agreed to extend such period beyond the 10-year period referred to in section 6502(a) of the Internal Revenue Code of 1986, such extension shall expire on the latest of—

(A) the last day of such 10-year period,

(B) December 31, 2002, or

(C) in the case of an extension in connection with an installment agreement, the 90th day after the end of the period of such extension.

SEC. 3462. OFFERS-IN-COMPROMISE.

(a) *STANDARDS FOR EVALUATION OF OFFERS-IN-COMPROMISE.*—Section 7122 (relating to offers-in-compromise) is amended by adding at the end the following new subsection:

“(c) *STANDARDS FOR EVALUATION OF OFFERS.*—

“(1) *IN GENERAL.*—The Secretary shall prescribe guidelines for officers and employees of the Internal

Revenue Service to determine whether an offer-in-compromise is adequate and should be accepted to resolve a dispute.

“(2) *ALLOWANCES FOR BASIC LIVING EXPENSES.*—

“(A) *IN GENERAL.*—*In prescribing guidelines under paragraph (1), the Secretary shall develop and publish schedules of national and local allowances designed to provide that taxpayers entering into a compromise have an adequate means to provide for basic living expenses.*

“(B) *USE OF SCHEDULES.*—*The guidelines shall provide that officers and employees of the Internal Revenue Service shall determine, on the basis of the facts and circumstances of each taxpayer, whether the use of the schedules published under subparagraph (A) is appropriate and shall not use the schedules to the extent such use would result in the taxpayer not having adequate means to provide for basic living expenses.*

“(3) *SPECIAL RULES RELATING TO TREATMENT OF OFFERS.*—*The guidelines under paragraph (1) shall provide that—*

“(A) *an officer or employee of the Internal Revenue Service shall not reject an offer-in-com-*

promise from a low-income taxpayer solely on the basis of the amount of the offer, and

“(B) in the case of an offer-in-compromise which relates only to issues of liability of the taxpayer—

“(i) such offer shall not be rejected solely because the Secretary is unable to locate the taxpayer’s return or return information for verification of such liability, and

“(ii) the taxpayer shall not be required to provide a financial statement.”

(b) LEVY PROHIBITED WHILE OFFER-IN-COMPROMISE PENDING OR INSTALLMENT AGREEMENT PENDING OR IN EFFECT.—Section 6331 (relating to levy and distraint), as amended by sections 3433 and 3444, is amended by redesignating subsection (k) as subsection (l) and by inserting after subsection (j) the following new subsection:

“(k) NO LEVY WHILE CERTAIN OFFERS PENDING OR INSTALLMENT AGREEMENT PENDING OR IN EFFECT.—

“(1) OFFER-IN-COMPROMISE PENDING.—No levy may be made under subsection (a) on the property or rights to property of any person with respect to any unpaid tax—

“(A) during the period that an offer-in-compromise by such person under section 7122 of such unpaid tax is pending with the Secretary, and

“(B) if such offer is rejected by the Secretary, during the 30 days thereafter (and, if an appeal of such rejection is filed within such 30 days, during the period that such appeal is pending).

For purposes of subparagraph (A), an offer is pending beginning on the date the Secretary accepts such offer for processing.

“(2) INSTALLMENT AGREEMENTS.—No levy may be made under subsection (a) on the property or rights to property of any person with respect to any unpaid tax—

“(A) during the period that an offer by such person for an installment agreement under section 6159 for payment of such unpaid tax is pending with the Secretary,

“(B) if such offer is rejected by the Secretary, during the 30 days thereafter (and, if an appeal of such rejection is filed within such 30 days, during the period that such appeal is pending),

“(C) during the period that such an installment agreement for payment of such unpaid tax is in effect, and

“(D) if such agreement is terminated by the Secretary, during the 30 days thereafter (and, if an appeal of such termination is filed within such 30 days, during the period that such appeal is pending).

“(3) CERTAIN RULES TO APPLY.—Rules similar to the rules of paragraphs (3), (4), and (5) of subsection (i) shall apply for purposes of this subsection.”

(c) REVIEW OF REJECTIONS OF OFFERS-IN-COMPROMISE AND INSTALLMENT AGREEMENTS.—

(1) IN GENERAL.—Section 7122 (relating to compromises), as amended by subsection (a), is amended by adding at the end the following new subsection:

“(d) ADMINISTRATIVE REVIEW.—The Secretary shall establish procedures—

“(1) for an independent administrative review of any rejection of a proposed offer-in-compromise or installment agreement made by a taxpayer under this section or section 6159 before such rejection is communicated to the taxpayer, and

“(2) which allow a taxpayer to appeal any rejection of such offer or agreement to the Internal Revenue Service Office of Appeals.”

(2) CONFORMING AMENDMENT.—Section 6159 (relating to installment agreements) is amended by adding at the end the following new subsection:

“(d) CROSS REFERENCE.—

“For rights to administrative review and appeal, see section 7122(d).”

(d) PREPARATION OF STATEMENT RELATING TO OFFERS-IN-COMPROMISE.—The Secretary of the Treasury shall prepare a statement which sets forth in simple, non-technical terms the rights of a taxpayer and the obligations of the Internal Revenue Service relating to offers-in-compromise. Such statement shall—

(1) advise taxpayers who have entered into a compromise of the advantages of promptly notifying the Internal Revenue Service of any change of address or marital status,

(2) provide notice to taxpayers that in the case of a compromise terminated due to the actions of 1 spouse or former spouse, the Internal Revenue Service will, upon application, reinstate such compromise with the spouse or former spouse who remains in compliance with such compromise, and

(3) provide notice to the taxpayer that the taxpayer may appeal the rejection of an offer-in-compromise to the Internal Revenue Service Office of Appeals.

(e) *EFFECTIVE DATES.*—

(1) *IN GENERAL.*—The amendments made by this section shall apply to proposed offers-in-compromise and installment agreements submitted after the date of the enactment of this Act.

(2) *SUSPENSION OF COLLECTION BY LEVY.*—The amendment made by subsection (b) shall apply to offers-in-compromise pending on or made after December 31, 1999.

**SEC. 3463. NOTICE OF DEFICIENCY TO SPECIFY DEADLINES
FOR FILING TAX COURT PETITION.**

(a) *IN GENERAL.*—The Secretary of the Treasury or the Secretary's delegate shall include on each notice of deficiency under section 6212 of the Internal Revenue Code of 1986 the date determined by such Secretary (or delegate) as the last day on which the taxpayer may file a petition with the Tax Court.

(b) *LATER FILING DEADLINES SPECIFIED ON NOTICE OF DEFICIENCY TO BE BINDING.*—Subsection (a) of section 6213 (relating to restrictions applicable to deficiencies; petition to Tax Court) is amended by adding at

the end the following new sentence: “Any petition filed with the Tax Court on or before the last date specified for filing such petition by the Secretary in the notice of deficiency shall be treated as timely filed.”

(c) *EFFECTIVE DATE.*—Subsection (a) and the amendment made by subsection (b) shall apply to notices mailed after December 31, 1998.

SEC. 3464. REFUND OR CREDIT OF OVERPAYMENTS BEFORE FINAL DETERMINATION.

(a) *TAX COURT PROCEEDINGS.*—Subsection (a) of section 6213 is amended—

(1) by striking “, including the Tax Court.” and inserting “, including the Tax Court, and a refund may be ordered by such court of any amount collected within the period during which the Secretary is prohibited from collecting by levy or through a proceeding in court under the provisions of this subsection.”, and

(2) by striking “to enjoin any action or proceeding” and inserting “to enjoin any action or proceeding or order any refund”.

(b) *OTHER PROCEEDINGS.*—Subsection (a) of section 6512 is amended by striking the period at the end of paragraph (4) and inserting “, and”, and by inserting after paragraph (4) the following new paragraphs:

“(5) *As to any amount collected within the period during which the Secretary is prohibited from making the assessment or from collecting by levy or through a proceeding in court under the provisions of section 6213(a), and*

“(6) *As to overpayments the Secretary is authorized to refund or credit pending appeal as provided in subsection (b).*”

(c) *REFUND OR CREDIT PENDING APPEAL.*—Paragraph (1) of section 6512(b) is amended by adding at the end the following new sentence: “*If a notice of appeal in respect of the decision of the Tax Court is filed under section 7483, the Secretary is authorized to refund or credit the overpayment determined by the Tax Court to the extent the overpayment is not contested on appeal.*”

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

SEC. 3465. IRS PROCEDURES RELATING TO APPEALS OF EXAMINATIONS AND COLLECTIONS.

(a) *DISPUTE RESOLUTION PROCEDURES.*—

(1) *IN GENERAL.*—Chapter 74 (relating to closing agreements and compromises) is amended by redesignating section 7123 as section 7124 and by inserting after section 7122 the following new section:

“SEC. 7123. APPEALS DISPUTE RESOLUTION PROCEDURES.

“(a) *EARLY REFERRAL TO APPEALS PROCEDURES.*—
The Secretary shall prescribe procedures by which any taxpayer may request early referral of 1 or more unresolved issues from the examination or collection division to the Internal Revenue Service Office of Appeals.

“(b) *ALTERNATIVE DISPUTE RESOLUTION PROCEDURES.*—

“(1) *MEDIATION.*—The Secretary shall prescribe procedures under which a taxpayer or the Internal Revenue Service Office of Appeals may request non-binding mediation on any issue unresolved at the conclusion of—

“(A) appeals procedures, or

“(B) unsuccessful attempts to enter into a closing agreement under section 7121 or a compromise under section 7122.

“(2) *ARBITRATION.*—The Secretary shall establish a pilot program under which a taxpayer and the Internal Revenue Service Office of Appeals may jointly request binding arbitration on any issue unresolved at the conclusion of—

“(A) appeals procedures, or

“(B) unsuccessful attempts to enter into a closing agreement under section 7121 or a compromise under section 7122.”

(2) *CONFORMING AMENDMENT.*—*The table of sections for chapter 74 is amended by striking the item relating to section 7123 and inserting the following new items:*

“Sec. 7123. *Appeals dispute resolution procedures.*

“Sec. 7124. *Cross references.*”

(b) *APPEALS OFFICERS IN EACH STATE.*—*The Commissioner of Internal Revenue shall ensure that an appeals officer is regularly available within each State.*

(c) *APPEALS VIDEOCONFERENCING ALTERNATIVE FOR RURAL AREAS.*—*The Commissioner of Internal Revenue shall consider the use of the videoconferencing of appeals conferences between appeals officers and taxpayers seeking appeals in rural or remote areas.*

SEC. 3466. APPLICATION OF CERTAIN FAIR DEBT COLLECTION PROCEDURES.

(a) *IN GENERAL.*—*Subchapter A of chapter 64 (relating to collection) is amended by inserting after section 6303 the following new section:*

“SEC. 6304. FAIR TAX COLLECTION PRACTICES.

“(a) COMMUNICATION WITH THE TAXPAYER.—*Without the prior consent of the taxpayer given directly to the Secretary or the express permission of a court of competent jurisdiction, the Secretary may not communicate with a taxpayer in connection with the collection of any unpaid tax—*

“(1) *at any unusual time or place or a time or place known or which should be known to be inconvenient to the taxpayer;*

“(2) *if the Secretary knows the taxpayer is represented by any person authorized to practice before the Internal Revenue Service with respect to such unpaid tax and has knowledge of, or can readily ascertain, such person’s name and address, unless such person fails to respond within a reasonable period of time to a communication from the Secretary or unless such person consents to direct communication with the taxpayer; or*

“(3) *at the taxpayer’s place of employment if the Secretary knows or has reason to know that the taxpayer’s employer prohibits the taxpayer from receiving such communication.*

In the absence of knowledge of circumstances to the contrary, the Secretary shall assume that the convenient time for communicating with a taxpayer is after 8 a.m. and before 9 p.m., local time at the taxpayer’s location.

“(b) *PROHIBITION OF HARASSMENT AND ABUSE.—*
The Secretary may not engage in any conduct the natural consequence of which is to harass, oppress, or abuse any person in connection with the collection of any unpaid tax.

Without limiting the general application of the foregoing, the following conduct is a violation of this subsection:

“(1) The use or threat of use of violence or other criminal means to harm the physical person, reputation, or property of any person.

“(2) The use of obscene or profane language or language the natural consequence of which is to abuse the hearer or reader.

“(3) Causing a telephone to ring or engaging any person in telephone conversation repeatedly or continuously with intent to annoy, abuse, or harass any person at the called number.

“(4) Except as provided under rules similar to the rules in section 804 of the Fair Debt Collection Practices Act (15 U.S.C. 1692b), the placement of telephone calls without meaningful disclosure of the caller’s identity.

“(c) CIVIL ACTION FOR VIOLATIONS OF SECTION.—

“For civil action for violations of this section, see section 7433.”

(b) CLERICAL AMENDMENT.—The table of sections for subchapter A of chapter 64 is amended by inserting after the item relating to section 6303 the following new item:

“Sec. 6304. Fair tax collection practices.”

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

SEC. 3467. GUARANTEED AVAILABILITY OF INSTALLMENT AGREEMENTS.

(a) *IN GENERAL.*—Section 6159 (relating to agreements for payment of tax liability in installments) is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

“(c) *SECRETARY REQUIRED TO ENTER INTO INSTALLMENT AGREEMENTS IN CERTAIN CASES.*—In the case of a liability for tax of an individual under subtitle A, the Secretary shall enter into an agreement to accept the payment of such tax in installments if, as of the date the individual offers to enter into the agreement—

“(1) the aggregate amount of such liability (determined without regard to interest, penalties, additions to the tax, and additional amounts) does not exceed \$10,000,

“(2) the taxpayer (and, if such liability relates to a joint return, the taxpayer’s spouse) has not, during any of the preceding 5 taxable years—

“(A) failed to file any return of tax imposed by subtitle A,

“(B) failed to pay any tax required to be shown on any such return, or

“(C) entered into an installment agreement under this section for payment of any tax imposed by subtitle A,

“(3) the Secretary determines that the taxpayer is financially unable to pay such liability in full when due (and the taxpayer submits such information as the Secretary may require to make such determination),

“(4) the agreement requires full payment of such liability within 3 years, and

“(5) the taxpayer agrees to comply with the provisions of this title for the period such agreement is in effect.”

(b) *EFFECTIVE DATE.*—The amendment made by this section shall take effect on the date of the enactment of this Act.

SEC. 3468. PROHIBITION ON REQUESTS TO TAXPAYERS TO GIVE UP RIGHTS TO BRING ACTIONS.

(a) *PROHIBITION.*—No officer or employee of the United States may request a taxpayer to waive the taxpayer’s right to bring a civil action against the United States or any officer or employee of the United States for

any action taken in connection with the internal revenue laws.

(b) *EXCEPTIONS.*—Subsection (a) shall not apply in any case where—

(1) a taxpayer waives the right described in subsection (a) knowingly and voluntarily, or

(2) the request by the officer or employee is made in person and the taxpayer's attorney or other federally authorized tax practitioner (within the meaning of section 7525(a)(3)(A) of the Internal Revenue Code of 1986) is present, or the request is made in writing to the taxpayer's attorney or other representative.

Subtitle F—Disclosures to Taxpayers

SEC. 3501. EXPLANATION OF JOINT AND SEVERAL LIABILITY.

(a) *IN GENERAL.*—The Secretary of the Treasury or the Secretary's delegate shall, as soon as practicable, but not later than 180 days after the date of the enactment of this Act, establish procedures to clearly alert married taxpayers of their joint and several liabilities on all appropriate publications and instructions.

(b) *RIGHT TO LIMIT LIABILITY.*—The procedures under subsection (a) shall include requirements that notice of an individual's right to relief under section 6015 of the

Internal Revenue Code of 1986 shall be included in the statement required by section 6227 of the Omnibus Taxpayer Bill of Rights (Internal Revenue Service Publication No. 1) and in any collection-related notices.

SEC. 3502. EXPLANATION OF TAXPAYERS' RIGHTS IN INTERVIEWS WITH THE INTERNAL REVENUE SERVICE.

The Secretary of the Treasury or the Secretary's delegate shall, as soon as practicable, but not later than 180 days after the date of the enactment of this Act, revise the statement required by section 6227 of the Omnibus Taxpayer Bill of Rights (Internal Revenue Service Publication No. 1) to more clearly inform taxpayers of their rights—

(1) to be represented at interviews with the Internal Revenue Service by any person authorized to practice before the Internal Revenue Service, and

(2) to suspend an interview pursuant to section 7521(b)(2) of the Internal Revenue Code of 1986.

SEC. 3503. DISCLOSURE OF CRITERIA FOR EXAMINATION SELECTION.

(a) IN GENERAL.—The Secretary of the Treasury or the Secretary's delegate shall, as soon as practicable, but not later than 180 days after the date of the enactment of this Act, incorporate into the statement required by section 6227 of the Omnibus Taxpayer Bill of Rights (Internal

Revenue Service Publication No. 1) a statement which sets forth in simple and nontechnical terms the criteria and procedures for selecting taxpayers for examination. Such statement shall not include any information the disclosure of which would be detrimental to law enforcement, but shall specify the general procedures used by the Internal Revenue Service, including whether taxpayers are selected for examination on the basis of information available in the media or on the basis of information provided to the Internal Revenue Service by informants.

(b) TRANSMISSION TO COMMITTEES OF CONGRESS.—The Secretary shall transmit drafts of the statement required under subsection (a) (or proposed revisions to any such statement) to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the same day.

SEC. 3504. EXPLANATIONS OF APPEALS AND COLLECTION PROCESS.

The Secretary of the Treasury or the Secretary's delegate shall, as soon as practicable, but not later than 180 days after the date of the enactment of this Act, include with any 1st letter of proposed deficiency which allows the taxpayer an opportunity for administrative review in the Internal Revenue Service Office of Appeals an explanation of the entire process from examination through collection

with respect to such proposed deficiency, including the assistance available to the taxpayer from the National Taxpayer Advocate at various points in the process.

SEC. 3505. EXPLANATION OF REASON FOR REFUND DISALLOWANCE.

(a) IN GENERAL.—Section 6402 (relating to authority to make credits or refunds) is amended by adding at the end the following new subsection:

“(j) EXPLANATION OF REASON FOR REFUND DISALLOWANCE.—In the case of a disallowance of a claim for refund, the Secretary shall provide the taxpayer with an explanation for such disallowance.”

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to disallowances after the 180th day after the date of the enactment of this Act.

SEC. 3506. STATEMENTS REGARDING INSTALLMENT AGREEMENTS.

The Secretary of the Treasury or the Secretary’s delegate shall, beginning not later than July 1, 2000, provide each taxpayer who has an installment agreement in effect under section 6159 of the Internal Revenue Code of 1986 an annual statement setting forth the initial balance at the beginning of the year, the payments made during the year, and the remaining balance as of the end of the year.

SEC. 3507. NOTIFICATION OF CHANGE IN TAX MATTERS**PARTNER.**

(a) *IN GENERAL.*—Section 6231(a)(7) (defining tax matters partner) is amended by adding at the end the following new sentence: “The Secretary shall, within 30 days of selecting a tax matters partner under the preceding sentence, notify all partners required to receive notice under section 6223(a) of the name and address of the person selected.”

(b) *EFFECTIVE DATE.*—The amendment made by this section shall apply to selections of tax matters partners made by the Secretary of the Treasury after the date of the enactment of this Act.

SEC. 3508. DISCLOSURE TO TAXPAYERS.

The Secretary of the Treasury or the Secretary’s delegate shall ensure that any instructions booklet accompanying an individual Federal income tax return form (including forms 1040, 1040A, 1040EZ, and any similar or successor forms) shall include, in clear language, in conspicuous print, and in a conspicuous place, a concise description of the conditions under which return information may be disclosed to any party outside the Internal Revenue Service, including disclosure to any State or agency, body, or commission (or legal representative) thereof.

SEC. 3509. DISCLOSURE OF CHIEF COUNSEL ADVICE.

(a) *IN GENERAL.*—Section 6110(b)(1) (defining written determination) is amended by striking “or technical advice memorandum” and inserting “technical advice memorandum, or Chief Counsel advice”.

(b) *CHIEF COUNSEL ADVICE.*—Section 6110 (relating to public inspection of written determinations) is amended by redesignating subsections (i), (j), (k), and (l) as subsections (j), (k), (l), and (m), respectively, and by inserting after subsection (h) the following new subsection:

“(i) *SPECIAL RULES FOR DISCLOSURE OF CHIEF COUNSEL ADVICE.*—

“(1) *CHIEF COUNSEL ADVICE DEFINED.*—

“(A) *IN GENERAL.*—For purposes of this section, the term ‘Chief Counsel advice’ means written advice or instruction, under whatever name or designation, prepared by any national office component of the Office of Chief Counsel which—

“(i) is issued to field or service center employees of the Service or regional or district employees of the Office of Chief Counsel, and

“(ii) conveys—

“(I) any legal interpretation of a revenue provision,

“(II) any Internal Revenue Service or Office of Chief Counsel position or policy concerning a revenue provision, or

“(III) any legal interpretation of State law, foreign law, or other Federal law relating to the assessment or collection of any liability under a revenue provision.

“(B) REVENUE PROVISION DEFINED.—For purposes of subparagraph (A), the term ‘revenue provision’ means any existing or former internal revenue law, regulation, revenue ruling, revenue procedure, other published or unpublished guidance, or tax treaty, either in general or as applied to specific taxpayers or groups of specific taxpayers.

“(2) ADDITIONAL DOCUMENTS TREATED AS CHIEF COUNSEL ADVICE.—The Secretary may by regulation provide that this section shall apply to any advice or instruction prepared and issued by the Office of Chief Counsel which is not described in paragraph (1).

“(3) *DELETIONS FOR CHIEF COUNSEL ADVICE.*—
In the case of Chief Counsel advice open to public inspection pursuant to this section—

“(A) *paragraphs (2) through (7) of subsection (c) shall not apply, but*

“(B) *the Secretary may make deletions of material in accordance with subsections (b) and (c) of section 552 of title 5, United States Code, except that in applying subsection (b)(3) of such section, no statutory provision of this title shall be taken into account.*

“(4) *NOTICE OF INTENTION TO DISCLOSE.*—

“(A) *NONTAXPAYER-SPECIFIC CHIEF COUNSEL ADVICE.*—*In the case of Chief Counsel advice which is written without reference to a specific taxpayer or group of specific taxpayers—*

“(i) *subsection (f)(1) shall not apply, and*

“(ii) *the Secretary shall, within 60 days after the issuance of the Chief Counsel advice, complete any deletions described in subsection (c)(1) or paragraph (3) and make the Chief Counsel advice, as so edited, open for public inspection.*

“(B) TAXPAYER-SPECIFIC CHIEF COUNSEL ADVICE.—In the case of Chief Counsel advice which is written with respect to a specific taxpayer or group of specific taxpayers, the Secretary shall, within 60 days after the issuance of the Chief Counsel advice, mail the notice required by subsection (f)(1) to each such taxpayer. The notice shall include a copy of the Chief Counsel advice on which is indicated the information that the Secretary proposes to delete pursuant to subsection (c)(1). The Secretary may also delete from the copy of the text of the Chief Counsel advice any of the information described in paragraph (3), and shall delete the names, addresses, and other identifying details of taxpayers other than the person to whom the advice pertains, except that the Secretary shall not delete from the copy of the Chief Counsel advice that is furnished to the taxpayer any information of which that taxpayer was the source.”

(c) CONFORMING AMENDMENTS.—

(1) Section 6110(f)(1) is amended by striking “The Secretary” and inserting “Except as otherwise provided by subsection (i), the Secretary”.

(2) Paragraphs (1)(B) and (2) of section 6110(j)(1), as redesignated by this section, are amended by striking “subsection (g)” each place it appears and inserting “subsection (g) or (i)(4)(B)”.

(3) Section 6110(k)(1)(B), as so redesignated, is amended by striking “subsection (c)” and inserting “subsection (c)(1) or (i)(3)”.

(d) *EFFECTIVE DATES.*—

(1) *IN GENERAL.*—*Except as otherwise provided in this subsection, the amendments made by this section shall apply to any Chief Counsel advice issued more than 90 days after the date of the enactment of this Act.*

(2) *TRANSITION RULES.*—*The amendments made by this section shall apply to any Chief Counsel advice issued after December 31, 1985, and before the 91st day after the date of the enactment of this Act by the offices of the associate chief counsel for domestic, employee benefits and exempt organizations, and international, except that any such Chief Counsel advice shall be treated as made available on a timely basis if such advice is made available for public inspection not later than the following dates:*

(A) *One year after the date of the enactment of this Act, in the case of all litigation guideline*

memoranda, service center advice, tax litigation bulletins, criminal tax bulletins, and general litigation bulletins.

(B) Eighteen months after such date of enactment, in the case of field service advice and technical assistance to the field issued on or after January 1, 1994.

(C) Three years after such date of enactment, in the case of field service advice and technical assistance to the field issued on or after January 1, 1992, and before January 1, 1994.

(D) Six years after such date of enactment, in the case of any other Chief Counsel advice issued after December 31, 1985.

(3) DOCUMENTS TREATED AS CHIEF COUNSEL ADVICE.—If the Secretary of the Treasury by regulation provides pursuant to section 6110(i)(2) of the Internal Revenue Code of 1986, as added by this section, that any additional advice or instruction issued by the Office of Chief Counsel shall be treated as Chief Counsel advice, such additional advice or instruction shall be made available for public inspection pursuant to section 6110 of such Code, as amended by this section, only in accordance with the effective date set forth in such regulation.

(4) *CHIEF COUNSEL ADVICE TO BE AVAILABLE ELECTRONICALLY.*—The Internal Revenue Service shall make any Chief Counsel advice issued more than 90 days after the date of the enactment of this Act and made available for public inspection pursuant to section 6110 of such Code, as amended by this section, also available by computer telecommunications within 1 year after issuance.

Subtitle G—Low Income Taxpayer Clinics

SEC. 3601. LOW INCOME TAXPAYER CLINICS.

(a) *IN GENERAL.*—Chapter 77 (relating to miscellaneous provisions), as amended by section 3411, is amended by adding at the end the following new section:

“SEC. 7526. LOW INCOME TAXPAYER CLINICS.

“(a) *IN GENERAL.*—The Secretary may, subject to the availability of appropriated funds, make grants to provide matching funds for the development, expansion, or continuation of qualified low income taxpayer clinics.

“(b) *DEFINITIONS.*—For purposes of this section—

“(1) *QUALIFIED LOW INCOME TAXPAYER CLINIC.*—

“(A) *IN GENERAL.*—The term ‘qualified low income taxpayer clinic’ means a clinic that—

“(i) does not charge more than a nominal fee for its services (except for reimbursement of actual costs incurred), and

“(ii)(I) represents low income taxpayers in controversies with the Internal Revenue Service, or

“(II) operates programs to inform individuals for whom English is a second language about their rights and responsibilities under this title.

“(B) REPRESENTATION OF LOW INCOME TAXPAYERS.—A clinic meets the requirements of subparagraph (A)(ii)(I) if—

“(i) at least 90 percent of the taxpayers represented by the clinic have incomes which do not exceed 250 percent of the poverty level, as determined in accordance with criteria established by the Director of the Office of Management and Budget, and

“(ii) the amount in controversy for any taxable year generally does not exceed the amount specified in section 7463.

“(2) CLINIC.—The term ‘clinic’ includes—

“(A) a clinical program at an accredited law, business, or accounting school in which students represent low income taxpayers in controversies arising under this title, and

“(B) an organization described in section 501(c) and exempt from tax under section 501(a) which satisfies the requirements of paragraph (1) through representation of taxpayers or referral of taxpayers to qualified representatives.

“(3) *QUALIFIED REPRESENTATIVE.*—The term ‘qualified representative’ means any individual (whether or not an attorney) who is authorized to practice before the Internal Revenue Service or the applicable court.

“(c) *SPECIAL RULES AND LIMITATIONS.*—

“(1) *AGGREGATE LIMITATION.*—Unless otherwise provided by specific appropriation, the Secretary shall not allocate more than \$6,000,000 per year (exclusive of costs of administering the program) to grants under this section.

“(2) *LIMITATION ON ANNUAL GRANTS TO A CLINIC.*—The aggregate amount of grants which may be made under this section to a clinic for a year shall not exceed \$100,000.

“(3) *MULTI-YEAR GRANTS.*—Upon application of a qualified low income taxpayer clinic, the Secretary is authorized to award a multi-year grant not to exceed 3 years.

“(4) *CRITERIA FOR AWARDS.*—In determining whether to make a grant under this section, the Secretary shall consider—

“(A) the numbers of taxpayers who will be served by the clinic, including the number of taxpayers in the geographical area for whom English is a second language,

“(B) the existence of other low income taxpayer clinics serving the same population,

“(C) the quality of the program offered by the low income taxpayer clinic, including the qualifications of its administrators and qualified representatives, and its record, if any, in providing service to low income taxpayers, and

“(D) alternative funding sources available to the clinic, including amounts received from other grants and contributions, and the endowment and resources of the institution sponsoring the clinic.

“(5) *REQUIREMENT OF MATCHING FUNDS.*—A low income taxpayer clinic must provide matching

funds on a dollar for dollar basis for all grants provided under this section. Matching funds may include—

“(A) the salary (including fringe benefits) of individuals performing services for the clinic, and

“(B) the cost of equipment used in the clinic.

Indirect expenses, including general overhead of the institution sponsoring the clinic, shall not be counted as matching funds.”

(b) CLERICAL AMENDMENT.—The table of sections for chapter 77, as amended by section 3411, is amended by adding at the end the following new item:

“Sec. 7526. Low income taxpayer clinics.”

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

Subtitle H—Other Matters

SEC. 3701. CATALOGING COMPLAINTS.

In collecting data for the report required under section 1211 of Taxpayer Bill of Rights 2 (Public Law 104–168), the Secretary of the Treasury or the Secretary’s delegate shall, not later than January 1, 2000, maintain records of taxpayer complaints of misconduct by Internal

Revenue Service employees on an individual employee basis.

SEC. 3702. ARCHIVE OF RECORDS OF INTERNAL REVENUE

SERVICE.

(a) IN GENERAL.—Subsection (l) of section 6103 (relating to confidentiality and disclosure of returns and return information) is amended by adding at the end the following new paragraph:

“(17) DISCLOSURE TO NATIONAL ARCHIVES AND RECORDS ADMINISTRATION.—The Secretary shall, upon written request from the Archivist of the United States, disclose or authorize the disclosure of returns and return information to officers and employees of the National Archives and Records Administration for purposes of, and only to the extent necessary in, the appraisal of records for destruction or retention. No such officer or employee shall, except to the extent authorized by subsections (f), (i)(7), or (p), disclose any return or return information disclosed under the preceding sentence to any person other than to the Secretary, or to another officer or employee of the National Archives and Records Administration whose official duties require such disclosure for purposes of such appraisal.”

(b) *CONFORMING AMENDMENTS.*—Section 6103(p) is amended—

(1) in paragraph (3)(A), by striking “or (16)” and inserting “(16), or (17)”,

(2) in paragraph (4), by striking “or (14)” and inserting “, (14), or (17)” in the matter preceding subparagraph (A), and

(3) in paragraph (4)(F)(ii), by striking “or (15)” and inserting “, (15), or (17)”.

(c) *EFFECTIVE DATE.*—The amendments made by this section shall apply to requests made by the Archivist of the United States after the date of the enactment of this Act.

SEC. 3703. PAYMENT OF TAXES.

The Secretary of the Treasury or the Secretary’s delegate shall establish such rules, regulations, and procedures as are necessary to allow payment of taxes by check or money order made payable to the United States Treasury.

SEC. 3704. CLARIFICATION OF AUTHORITY OF SECRETARY RELATING TO THE MAKING OF ELECTIONS.

Subsection (d) of section 7805 is amended by striking “by regulations or forms”.

SEC. 3705. IRS EMPLOYEE CONTACTS.

(a) *NOTICE.*—The Secretary of the Treasury or the Secretary’s delegate shall provide that—

(1) *any manually generated correspondence received by a taxpayer from the Internal Revenue Service shall include in a prominent manner the name, telephone number, and unique identifying number of an Internal Revenue Service employee the taxpayer may contact with respect to the correspondence,*

(2) *any other correspondence or notice received by a taxpayer from the Internal Revenue Service shall include in a prominent manner a telephone number that the taxpayer may contact, and*

(3) *an Internal Revenue Service employee shall give a taxpayer during a telephone or personal contact the employee's name and unique identifying number.*

(b) *SINGLE CONTACT.*—*The Secretary of the Treasury or the Secretary's delegate shall develop a procedure under which, to the extent practicable and if advantageous to the taxpayer, one Internal Revenue Service employee shall be assigned to handle a taxpayer's matter until it is resolved.*

(c) *TELEPHONE HELPLINE IN SPANISH.*—*The Secretary of the Treasury or the Secretary's delegate shall provide, in appropriate circumstances, that taxpayer questions on telephone helplines of the Internal Revenue Service are answered in Spanish.*

(d) *OTHER TELEPHONE HELPLINE OPTIONS.*—The Secretary of the Treasury or the Secretary's delegate shall provide, in appropriate circumstances, on telephone helplines of the Internal Revenue Service an option for any taxpayer to talk to an Internal Revenue Service employee during normal business hours. The person shall direct phone questions of the taxpayer to other Internal Revenue Service personnel who can provide assistance to the taxpayer.

(e) *EFFECTIVE DATES.*—

(1) *IN GENERAL.*—Except as otherwise provided in this subsection, this section shall take effect 60 days after the date of the enactment of this Act.

(2) *SUBSECTION (c).*—Subsection (c) shall take effect on January 1, 2000.

(3) *SUBSECTION (d).*—Subsection (d) shall take effect on January 1, 2000.

(4) *UNIQUE IDENTIFYING NUMBER.*—Any requirement under this section to provide a unique identifying number shall take effect 6 months after the date of the enactment of this Act.

SEC. 3706. USE OF PSEUDONYMS BY IRS EMPLOYEES.

(a) *IN GENERAL.*—Any employee of the Internal Revenue Service may use a pseudonym only if—

(1) *adequate justification for the use of a pseudonym is provided by the employee, including protection of personal safety, and*

(2) *such use is approved by the employee's supervisor before the pseudonym is used.*

(b) *EFFECTIVE DATE.*—*Subsection (a) shall apply to requests made after the date of the enactment of this Act.*

SEC. 3707. ILLEGAL TAX PROTESTER DESIGNATION.

(a) *PROHIBITION.*—*The officers and employees of the Internal Revenue Service—*

(1) *shall not designate taxpayers as illegal tax protesters (or any similar designation), and*

(2) *in the case of any such designation made on or before the date of the enactment of this Act—*

(A) *shall remove such designation from the individual master file, and*

(B) *shall disregard any such designation not located in the individual master file.*

(b) *DESIGNATION OF NONFILERS ALLOWED.*—*An officer or employee of the Internal Revenue Service may designate any appropriate taxpayer as a nonfiler, but shall remove such designation once the taxpayer has filed income tax returns for 2 consecutive taxable years and paid all taxes shown on such returns.*

(c) *EFFECTIVE DATE.*—The provisions of this section shall take effect on the date of the enactment of this Act, except that the removal of any designation under subsection (a)(2)(A) shall not be required to begin before January 1, 1999.

SEC. 3708. PROVISION OF CONFIDENTIAL INFORMATION TO CONGRESS BY WHISTLEBLOWERS.

(a) *IN GENERAL.*—Section 6103(f) (relating to disclosure to committees of Congress) is amended by adding at the end the following new paragraph:

“(5) *DISCLOSURE BY WHISTLEBLOWER.*—Any person who otherwise has or had access to any return or return information under this section may disclose such return or return information to a committee referred to in paragraph (1) or any individual authorized to receive or inspect information under paragraph (4)(A) if such person believes such return or return information may relate to possible misconduct, maladministration, or taxpayer abuse.”

(b) *EFFECTIVE DATE.*—The amendment made by this section shall take effect on the date of the enactment of this Act.

**SEC. 3709. LISTING OF LOCAL IRS TELEPHONE NUMBERS
AND ADDRESSES.**

The Secretary of the Treasury or the Secretary's delegate shall, as soon as practicable, provide that the local telephone numbers and addresses of Internal Revenue Service offices located in any particular area be listed in a telephone book for that area.

SEC. 3710. IDENTIFICATION OF RETURN PREPARERS.

(a) IN GENERAL.—The last sentence of section 6109(a) (relating to identifying numbers) is amended by striking “For purposes of this subsection” and inserting “For purposes of paragraphs (1), (2), and (3)”.

(b) EFFECTIVE DATE.—The amendment made by this section shall take effect on the date of the enactment of this Act.

**SEC. 3711. OFFSET OF PAST-DUE, LEGALLY ENFORCEABLE
STATE INCOME TAX OBLIGATIONS AGAINST
OVERPAYMENTS.**

(a) IN GENERAL.—Section 6402 (relating to authority to make credits or refunds), as amended by section 3505, is amended by redesignating subsections (e) through (j) as subsections (f) through (k), respectively, and by inserting after subsection (d) the following new subsection:

“(e) COLLECTION OF PAST-DUE, LEGALLY ENFORCEABLE STATE INCOME TAX OBLIGATIONS.—

“(1) IN GENERAL.—Upon receiving notice from any State that a named person owes a past-due, legally enforceable State income tax obligation to such State, the Secretary shall, under such conditions as may be prescribed by the Secretary—

“(A) reduce the amount of any overpayment payable to such person by the amount of such State income tax obligation;

“(B) pay the amount by which such overpayment is reduced under subparagraph (A) to such State and notify such State of such person’s name, taxpayer identification number, address, and the amount collected; and

“(C) notify the person making such overpayment that the overpayment has been reduced by an amount necessary to satisfy a past-due, legally enforceable State income tax obligation.

If an offset is made pursuant to a joint return, the notice under subparagraph (B) shall include the names, taxpayer identification numbers, and addresses of each person filing such return.

“(2) OFFSET PERMITTED ONLY AGAINST RESIDENTS OF STATE SEEKING OFFSET.—Paragraph (1) shall apply to an overpayment by any person for a taxable year only if the address shown on the Federal

return for such taxable year of the overpayment is an address within the State seeking the offset.

“(3) PRIORITIES FOR OFFSET.—Any overpayment by a person shall be reduced pursuant to this subsection—

“(A) after such overpayment is reduced pursuant to—

“(i) subsection (a) with respect to any liability for any internal revenue tax on the part of the person who made the overpayment,

“(ii) subsection (c) with respect to past-due support, and

“(iii) subsection (d) with respect to any past-due, legally enforceable debt owed to a Federal agency, and

“(B) before such overpayment is credited to the future liability for any Federal internal revenue tax of such person pursuant to subsection (b).

If the Secretary receives notice from 1 or more agencies of the State of more than 1 debt subject to paragraph (1) that is owed by such person to such an agency, any overpayment by such person shall be ap-

plied against such debts in the order in which such debts accrued.

“(4) NOTICE; CONSIDERATION OF EVIDENCE.—No State may take action under this subsection until such State—

“(A) notifies by certified mail with return receipt the person owing the past-due State income tax liability that the State proposes to take action pursuant to this section,

“(B) gives such person at least 60 days to present evidence that all or part of such liability is not past-due or not legally enforceable,

“(C) considers any evidence presented by such person and determines that an amount of such debt is past-due and legally enforceable, and

“(D) satisfies such other conditions as the Secretary may prescribe to ensure that the determination made under subparagraph (C) is valid and that the State has made reasonable efforts to obtain payment of such State income tax obligation.

“(5) PAST-DUE, LEGALLY ENFORCEABLE STATE INCOME TAX OBLIGATION.—For purposes of this subsection, the term ‘past-due, legally enforceable State income tax obligation’ means a debt—

“(A)(i) which resulted from—

“(I) a judgment rendered by a court of competent jurisdiction which has determined an amount of State income tax to be due, or

“(II) a determination after an administrative hearing which has determined an amount of State income tax to be due, and

“(ii) which is no longer subject to judicial review, or

“(B) which resulted from a State income tax which has been assessed but not collected, the time for redetermination of which has expired, and which has not been delinquent for more than 10 years.

For purposes of this paragraph, the term ‘State income tax’ includes any local income tax administered by the chief tax administration agency of the State.

“(6) REGULATIONS.—The Secretary shall issue regulations prescribing the time and manner in which States must submit notices of past-due, legally enforceable State income tax obligations and the necessary information that must be contained in or accompany such notices. The regulations shall specify the types of State income taxes and the minimum

amount of debt to which the reduction procedure established by paragraph (1) may be applied. The regulations may require States to pay a fee to reimburse the Secretary for the cost of applying such procedure. Any fee paid to the Secretary pursuant to the preceding sentence shall be used to reimburse appropriations which bore all or part of the cost of applying such procedure.

“(7) ERRONEOUS PAYMENT TO STATE.—Any State receiving notice from the Secretary that an erroneous payment has been made to such State under paragraph (1) shall pay promptly to the Secretary, in accordance with such regulations as the Secretary may prescribe, an amount equal to the amount of such erroneous payment (without regard to whether any other amounts payable to such State under such paragraph have been paid to such State).”

(b) DISCLOSURE OF CERTAIN INFORMATION TO STATES REQUESTING REFUND OFFSETS FOR PAST-DUE, LEGALLY ENFORCEABLE STATE INCOME TAX OBLIGATIONS.—

(1) Paragraph (10) of section 6103(l) is amended by striking “(c) or (d)” each place it appears and inserting “(c), (d), or (e)”.

(2) *The paragraph heading for such paragraph (10) is amended by striking “SECTION 6402(c) OR 6402(d)” and inserting “SUBSECTION (c), (d), OR (e) OF SECTION 6402”.*

(c) *CONFORMING AMENDMENTS.—*

(1) *Subsection (a) of section 6402 is amended by striking “(c) and (d)” and inserting “(c), (d), and (e)”.*

(2) *Paragraph (2) of section 6402(d) is amended by striking “and before such overpayment” and inserting “and before such overpayment is reduced pursuant to subsection (e) and before such overpayment”.*

(3) *Subsection (f) of section 6402, as redesignated by subsection (a), is amended—*

(A) by striking “(c) or (d)” and inserting “(c), (d), or (e)”, and

(B) by striking “Federal agency” and inserting “Federal agency or State”.

(4) *Subsection (h) of section 6402, as redesignated by subsection (a), is amended by striking “subsection (c)” and inserting “subsection (c) or (e)”.*

(d) *EFFECTIVE DATE.—The amendments made by this section (other than subsection (d)) shall apply to refunds payable under section 6402 of the Internal Revenue Code of 1986 after December 31, 1999.*

**SEC. 3712. REPORTING REQUIREMENTS IN CONNECTION
WITH EDUCATION TAX CREDIT.**

(a) *AMOUNTS TO BE REPORTED.*—Subparagraph (C) of section 6050S(b)(2) is amended—

(1) *by redesignating clauses (ii) and (iii) as clauses (iii) and (iv), respectively, and by inserting after clause (i) the following new clause:*

“(ii) the amount of any grant received by such individual for payment of costs of attendance and processed by the person making such return during such calendar year,”

(2) *in clause (iii) (as so redesignated), by inserting “by the person making such return” after “year”, and*

(3) *in clause (iv) (as so redesignated), by inserting “and” at the end.*

(b) *CONFORMING AMENDMENTS.*—

(1) *Paragraph (2) of section 6050S(d) is amended by striking “aggregate”.*

(2) *Subsection (e) of section 6050S is amended by inserting “(without regard to subsection (g)(2) thereof)” after “section 25A”.*

(c) *EFFECTIVE DATE.*—*The amendments made by this section shall apply to returns required to be filed with*

respect to taxable years beginning after December 31, 1998.

Subtitle I—Studies

SEC. 3801. ADMINISTRATION OF PENALTIES AND INTEREST.

The Joint Committee on Taxation and the Secretary of the Treasury shall each conduct a separate study—

(1) reviewing the administration and implementation by the Internal Revenue Service of the interest and penalty provisions of the Internal Revenue Code of 1986 (including the penalty reform provisions of the Omnibus Budget Reconciliation Act of 1989), and

(2) making any legislative and administrative recommendations the Committee or the Secretary deems appropriate to simplify penalty or interest administration and reduce taxpayer burden.

Such studies shall be submitted to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate not later than 1 year after the date of the enactment of this Act.

SEC. 3802. CONFIDENTIALITY OF TAX RETURN INFORMATION.

The Joint Committee on Taxation and the Secretary of the Treasury shall each conduct a separate study of the scope and use of provisions regarding taxpayer confidentiality, and shall report the findings of such study, to—

gether with such recommendations as the Committee or the Secretary deems appropriate, to the Congress not later than 18 months after the date of the enactment of this Act.

Such study shall examine—

(1) the present protections for taxpayer privacy,
(2) any need for third parties to use tax return information,

(3) whether greater levels of voluntary compliance may be achieved by allowing the public to know who is legally required to file tax returns, but does not file tax returns,

(4) the interrelationship of the taxpayer confidentiality provisions in the Internal Revenue Code of 1986 with such provisions in other Federal law, including section 552a of title 5, United States Code (commonly known as the “Freedom of Information Act”),

(5) the impact on taxpayer privacy of the sharing of income tax return information for purposes of enforcement of State and local tax laws other than income tax laws, and including the impact on the taxpayer privacy intended to be protected at the Federal, State, and local levels under Public Law 105–35, the Taxpayer Browsing Protection Act of 1997, and

(6) *whether the public interest would be served by greater disclosure of information relating to tax exempt organizations described in section 501 of the Internal Revenue Code of 1986.*

SEC. 3803. STUDY OF NONCOMPLIANCE WITH INTERNAL REVENUE LAWS BY TAXPAYERS.

Not later than 1 year after the date of the enactment of this Act, the Secretary of the Treasury and the Commissioner of Internal Revenue shall conduct jointly a study, in consultation with the Joint Committee on Taxation, of the noncompliance with internal revenue laws by taxpayers (including willful noncompliance and noncompliance due to tax law complexity or other factors) and report the findings of such study to Congress.

SEC. 3804. STUDY OF PAYMENTS MADE FOR DETECTION OF UNDERPAYMENTS AND FRAUD.

Not later than 1 year after the date of the enactment of this Act, the Secretary of the Treasury shall conduct a study and report to Congress on the use of section 7623 of the Internal Revenue Code of 1986 including—

- (1) an analysis of the present use of such section and the results of such use, and*
- (2) any legislative or administrative recommendations regarding the provisions of such section and its application.*