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REPORT
110–281

TAX COLLECTION RESPONSIBILITY ACT OF 2007

JULY 31, 2007.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. RANGEL, from the Committee on Ways and Means, submitted the following

R E P O R T

together with

DISSENTING VIEWS

[To accompany H.R. 3056]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3056) to amend the Internal Revenue Code of 1986 to repeal the authority of the Internal Revenue Service to use private debt collection companies, to delay implementation of withholding taxes on government contractors, to revise the tax rules on expatriation, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE; AMENDMENT OF 1986 CODE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Tax Collection Responsibility Act of 2007".

(b) AMENDMENT OF 1986 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1986.

(c) TABLE OF CONTENTS.—The table of contents of this Act is as follows:

Sec. 1. Short title; amendment of 1986 Code; table of contents.
Sec. 2. Repeal of authority to enter into private debt collection contracts.
Sec. 3. Delay of application of withholding requirement on certain governmental payments for goods and services.
Sec. 4. Clarification of entitlement of Virgin Islands residents to protections of limitations on assessment and collection of tax.
Sec. 5. Revision of tax rules on expatriation.
Sec. 6. Repeal of suspension of certain penalties and interest.

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Sec. 7. Increase in information return penalties.
Sec. 8. Time for payment of corporate estimated taxes.

SEC. 2. REPEAL OF AUTHORITY TO ENTER INTO PRIVATE DEBT COLLECTION CONTRACTS.

(a) IN GENERAL.—Subchapter A of chapter 64 is amended by striking section 6306.

(b) CONFORMING AMENDMENTS.—

(1) Subchapter B of chapter 76 is amended by striking section 7433A.

(2) Section 7811 is amended by striking subsection (g).

(3) Section 1203 of the Internal Revenue Service Restructuring Act of 1998 is amended by striking subsection (e).

(4) The table of sections for subchapter A of chapter 64 is amended by striking the item relating to section 6306.

(5) The table of sections for subchapter B of chapter 76 is amended by striking the item relating to section 7433A.

(c) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as otherwise provided in this subsection, the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) EXCEPTION FOR EXISTING CONTRACTS, ETC.—The amendments made by this section shall not apply to any contract which was entered into before July 18, 2007, and is not renewed or extended on or after such date.

(3) UNAUTHORIZED CONTRACTS AND EXTENSIONS TREATED AS VOID.—Any qualified tax collection contract (as defined in section 6306 of the Internal Revenue Code of 1986, as in effect before its repeal) which is entered into on or after July 18, 2007, and any extension or renewal on or after such date of any qualified tax collection contract (as so defined) shall be void.

SEC. 3. DELAY OF APPLICATION OF WITHHOLDING REQUIREMENT ON CERTAIN GOVERNMENTAL PAYMENTS FOR GOODS AND SERVICES.

(a) IN GENERAL.—Subsection (b) of section 511 of the Tax Increase Prevention and Reconciliation Act of 2005 is amended by striking "December 31, 2010" and inserting "December 31, 2011".

(b) REPORT TO CONGRESS.—Not later than 6 months after the date of the enactment of this Act, the Secretary of the Treasury shall submit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate a report with respect to the withholding requirements of section 3402(t) of the Internal Revenue Code of 1986, including a detailed analysis of—

(1) the problems, if any, which are anticipated in administering and complying with such requirements,

(2) the burdens, if any, that such requirements will place on governments and businesses (taking into account such mechanisms as may be necessary to administer such requirements), and

(3) the application of such requirements to small expenditures for services and goods by governments.

SEC. 4. CLARIFICATION OF ENTITLEMENT OF VIRGIN ISLANDS RESIDENTS TO PROTECTIONS OF LIMITATIONS ON ASSESSMENT AND COLLECTION OF TAX.

(a) IN GENERAL.—Subsection (c) of section 932 (relating to treatment of Virgin Islands residents) is amended by adding at the end the following new paragraph:

"(5) TREATMENT OF INCOME TAX RETURN FILED WITH VIRGIN ISLANDS.—An income tax return filed with the Virgin Islands by an individual claiming to be described in paragraph (1) for the taxable year shall be treated for purposes of subtitle F in the same manner as if such return were an income tax return filed with the United States for such taxable year. The preceding sentence shall not apply where such return is false or fraudulent with the intent to avoid tax or otherwise is a willful attempt in any manner to defeat or evade tax.".

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to taxable years beginning after 1986.

SEC. 5. REVISION OF TAX RULES ON EXPATRIATION.

(a) IN GENERAL.—Subpart A of part II of subchapter N of chapter 1 is amended by inserting after section 877 the following new section:

"SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.

"(a) GENERAL RULES.—For purposes of this subtitle—

"(1) MARK TO MARKET.—All property of a covered expatriate shall be treated as sold on the day before the expatriation date for its fair market value.

"(2) RECOGNITION OF GAIN OR LOSS.—In the case of any sale under paragraph (1)—

"(A) notwithstanding any other provision of this title, any gain arising from such sale shall be taken into account for the taxable year of the sale, and

"(B) any loss arising from such sale shall be taken into account for the taxable year of the sale to the extent otherwise provided by this title, except that section 1091 shall not apply to any such loss.

Proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account under the preceding sentence, determined without regard to paragraph (3).

"(3) EXCLUSION FOR CERTAIN GAIN.—

"(A) IN GENERAL.—The amount which would (but for this paragraph) be includible in the gross income of any individual by reason of paragraph (1) shall be reduced (but not below zero) by $600,000.

"(B) ADJUSTMENT FOR INFLATION.—

"(i) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2008, the dollar amount in subparagraph (A) shall be increased by an amount equal to—

"(I) such dollar amount, multiplied by

"(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting 'calendar year 2007' for 'calendar year 1992' in subparagraph (B) thereof.

"(ii) ROUNDING.—If any amount as adjusted under clause (i) is not a multiple of $1,000, such amount shall be rounded to the nearest multiple of $1,000.

"(b) ELECTION TO DEFER TAX.—

"(1) IN GENERAL.—If the taxpayer elects the application of this subsection with respect to any property treated as sold by reason of subsection (a), the time for payment of the additional tax attributable to such property shall be extended until the due date of the return for the taxable year in which such property is disposed of (or, in the case of property disposed of in a transaction in which gain is not recognized in whole or in part, until such other date as the Secretary may prescribe).

"(2) DETERMINATION OF TAX WITH RESPECT TO PROPERTY.—For purposes of paragraph (1), the additional tax attributable to any property is an amount which bears the same ratio to the additional tax imposed by this chapter for the taxable year solely by reason of subsection (a) as the gain taken into account under subsection (a) with respect to such property bears to the total gain taken into account under subsection (a) with respect to all property to which subsection (a) applies.

"(3) TERMINATION OF EXTENSION.—The due date for payment of tax may not be extended under this subsection later than the due date for the return of tax imposed by this chapter for the taxable year which includes the date of death of the expatriate (or, if earlier, the time that the security provided with respect to the property fails to meet the requirements of paragraph (4), unless the taxpayer corrects such failure within the time specified by the Secretary).

"(4) SECURITY.—

"(A) IN GENERAL.—No election may be made under paragraph (1) with respect to any property unless adequate security is provided with respect to such property.

"(B) ADEQUATE SECURITY.—For purposes of subparagraph (A), security with respect to any property shall be treated as adequate security if—

"(i) it is a bond which is furnished to, and accepted by, the Secretary, which is conditioned on the payment of tax (and interest thereon), and which meets the requirements of section 6325, or

"(ii) it is another form of security for such payment (including letters of credit) that meets such requirements as the Secretary may prescribe.

"(5) WAIVER OF CERTAIN RIGHTS.—No election may be made under paragraph (1) unless the taxpayer makes an irrevocable waiver of any right under any treaty of the United States which would preclude assessment or collection of any tax imposed by reason of this section.

"(6) ELECTIONS.—An election under paragraph (1) shall only apply to property described in the election and, once made, is irrevocable.

"(7) INTEREST.—For purposes of section 6601, the last date for the payment of tax shall be determined without regard to the election under this subsection.

"(c) EXCEPTION FOR CERTAIN PROPERTY.—Subsection (a) shall not apply to—

"(1) any deferred compensation item (as defined in subsection (d)(4)),

"(2) any specified tax deferred account (as defined in subsection (e)(2)), and

"(3) any interest in a nongrantor trust (as defined in subsection (f)(3)).

"(d) TREATMENT OF DEFERRED COMPENSATION ITEMS.—

"(1) WITHHOLDING ON ELIGIBLE DEFERRED COMPENSATION ITEMS.—

"(A) IN GENERAL.—In the case of any eligible deferred compensation item, the payor shall deduct and withhold from any taxable payment to a covered expatriate with respect to such item a tax equal to 30 percent thereof.

"(B) TAXABLE PAYMENT.—For purposes of subparagraph (A), the term 'taxable payment' means with respect to a covered expatriate any payment to the extent it would be includible in the gross income of the covered expatriate if such expatriate continued to be subject to tax as a citizen or resident of the United States. A deferred compensation item shall be taken into account as a payment under the preceding sentence when such item would be so includible.

"(2) OTHER DEFERRED COMPENSATION ITEMS.—In the case of any deferred compensation item which is not an eligible deferred compensation item—

"(A)(i) with respect to any deferred compensation item to which clause (ii) does not apply, an amount equal to the present value of the covered expatriate's accrued benefit shall be treated as having been received by such individual on the day before the expatriation date as a distribution under the plan, and

"(ii) with respect to any deferred compensation item referred to in paragraph (4)(D), the rights of the covered expatriate to such item shall be treated as becoming transferable and not subject to a substantial risk of forfeiture on the day before the expatriation date,

"(B) no early distribution tax shall apply by reason of such treatment, and

"(C) appropriate adjustments shall be made to subsequent distributions from the plan to reflect such treatment.

"(3) ELIGIBLE DEFERRED COMPENSATION ITEMS.—For purposes of this subsection, the term 'eligible deferred compensation item' means any deferred compensation item with respect to which—

"(A) the payor of such item is—

"(i) a United States person, or

"(ii) a person who is not a United States person but who elects to be treated as a United States person for purposes of paragraph (1) and meets such requirements as the Secretary may provide to ensure that the payor will meet the requirements of paragraph (1), and

"(B) the covered expatriate—

"(i) notifies the payor of his status as a covered expatriate, and

"(ii) makes an irrevocable waiver of any right to claim any reduction under any treaty with the United States in withholding on such item.

"(4) DEFERRED COMPENSATION ITEM.—For purposes of this subsection, the term 'deferred compensation item' means—

"(A) any interest in a plan or arrangement described in section 219(g)(5),

"(B) any interest in a foreign pension plan or similar retirement arrangement or program,

"(C) any item of deferred compensation, and

"(D) any property, or right to property, which the individual is entitled to receive in connection with the performance of services to the extent not previously taken into account under section 83 or in accordance with section 83.

"(5) EXCEPTION.—Paragraphs (1) and (2) shall not apply to any deferred compensation item which is attributable to services performed outside the United States while the covered expatriate was not a citizen or resident of the United States.

"(6) SPECIAL RULES.—

"(A) APPLICATION OF WITHHOLDING RULES.—Rules similar to the rules of subchapter B of chapter 3 shall apply for purposes of this subsection.

"(B) APPLICATION OF TAX.—Any item subject to the withholding tax imposed under paragraph (1) shall be subject to tax under section 871.

"(C) COORDINATION WITH OTHER WITHHOLDING REQUIREMENTS.—Any item subject to withholding under paragraph (1) shall not be subject to withholding under section 1441 or chapter 24.

"(e) TREATMENT OF SPECIFIED TAX DEFERRED ACCOUNTS.—

"(1) ACCOUNT TREATED AS DISTRIBUTED.—In the case of any interest in a specified tax deferred account held by a covered expatriate on the day before the expatriation date—

"(A) the covered expatriate shall be treated as receiving a distribution of his entire interest in such account on the day before the expatriation date,

"(B) no early distribution tax shall apply by reason of such treatment, and

"(C) appropriate adjustments shall be made to subsequent distributions from the account to reflect such treatment.

"(2) SPECIFIED TAX DEFERRED ACCOUNT.—For purposes of paragraph (1), the term 'specified tax deferred account' means an individual retirement plan (as defined in section 7701(a)(37)) other than any arrangement described in subsection (k) or (p) of section 408, a qualified tuition program (as defined in section 529), a Coverdell education savings account (as defined in section 530), a health savings account (as defined in section 223), and an Archer MSA (as defined in section 220).

"(f) SPECIAL RULES FOR NONGRANTOR TRUSTS.—

"(1) IN GENERAL.—In the case of a distribution (directly or indirectly) of any property from a nongrantor trust to a covered expatriate—

"(A) the trustee shall deduct and withhold from such distribution an amount equal to 30 percent of the taxable portion of the distribution, and

"(B) if the fair market value of such property exceeds its adjusted basis in the hands of the trust, gain shall be recognized to the trust as if such property were sold to the expatriate at its fair market value.

"(2) TAXABLE PORTION.—For purposes of this subsection, the term 'taxable portion' means, with respect to any distribution, that portion of the distribution which would be includible in the gross income of the covered expatriate if such expatriate continued to be subject to tax as a citizen or resident of the United States.

"(3) NONGRANTOR TRUST.—For purposes of this subsection, the term 'nongrantor trust' means the portion of any trust that the individual is not considered the owner of under subpart E of part I of subchapter J. The determination under the preceding sentence shall be made immediately before the expatriation date.

"(4) SPECIAL RULES RELATING TO WITHHOLDING.—For purposes of this subsection—

"(A) rules similar to the rules of subsection (d)(6) shall apply, and

"(B) the covered expatriate shall be treated as having waived any right to claim any reduction under any treaty with the United States in withholding on any distribution to which paragraph (1)(A) applies.

"(g) DEFINITIONS AND SPECIAL RULES RELATING TO EXPATRIATION.—For purposes of this section—

"(1) COVERED EXPATRIATE.—

"(A) IN GENERAL.—The term 'covered expatriate' means an expatriate who meets the requirements of subparagraph (A), (B), or (C) of section 877(a)(2).

"(B) EXCEPTIONS.—An individual shall not be treated as meeting the requirements of subparagraph (A) or (B) of section 877(a)(2) if—

"(i) the individual—

"(I) became at birth a citizen of the United States and a citizen of another country and, as of the expatriation date, continues to be a citizen of, and is taxed as a resident of, such other country, and

"(II) has been a resident of the United States (as defined in section 7701(b)(1)(A)(ii)) for not more than 10 taxable years during the 15–taxable year period ending with the taxable year during which the expatriation date occurs, or

"(ii)(I) the individual's relinquishment of United States citizenship occurs before such individual attains age 18½, and

"(II) the individual has been a resident of the United States (as so defined) for not more than 10 taxable years before the date of relinquishment.

"(C) COVERED EXPATRIATES ALSO SUBJECT TO TAX AS CITIZENS OR RESIDENTS.—In the case of any covered expatriate who is subject to tax as a citizen or resident of the United States for any period beginning after the expatriation date, such individual shall not be treated as a covered expatriate during such period for purposes of subsections (d)(1) and (f) and section 2801.

"(2) EXPATRIATE.—The term 'expatriate' means—

"(A) any United States citizen who relinquishes his citizenship, and

"(B) any long-term resident of the United States who ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)).

"(3) EXPATRIATION DATE.—The term 'expatriation date' means—

"(A) the date an individual relinquishes United States citizenship, or

"(B) in the case of a long-term resident of the United States, the date on which the individual ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)).

"(4) RELINQUISHMENT OF CITIZENSHIP.—A citizen shall be treated as relinquishing his United States citizenship on the earliest of—

"(A) the date the individual renounces his United States nationality before a diplomatic or consular officer of the United States pursuant to paragraph (5) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(5)),

"(B) the date the individual furnishes to the United States Department of State a signed statement of voluntary relinquishment of United States nationality confirming the performance of an act of expatriation specified in paragraph (1), (2), (3), or (4) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(1)–(4)),

"(C) the date the United States Department of State issues to the individual a certificate of loss of nationality, or

"(D) the date a court of the United States cancels a naturalized citizen's certificate of naturalization.

Subparagraph (A) or (B) shall not apply to any individual unless the renunciation or voluntary relinquishment is subsequently approved by the issuance to the individual of a certificate of loss of nationality by the United States Department of State.

"(5) LONG-TERM RESIDENT.—The term 'long-term resident' has the meaning given to such term by section 877(e)(2).

"(6) EARLY DISTRIBUTION TAX.—The term 'early distribution tax' means any increase in tax imposed under section 72(t), 220(e)(4), 223(f)(4), 409A(a)(1)(B), 529(c)(6), or 530(d)(4).

"(h) OTHER RULES.—

"(1) TERMINATION OF DEFERRALS, ETC.—In the case of any covered expatriate, notwithstanding any other provision of this title—

"(A) any time period for acquiring property which would result in the reduction in the amount of gain recognized with respect to property disposed of by the taxpayer shall terminate on the day before the expatriation date, and

"(B) any extension of time for payment of tax shall cease to apply on the day before the expatriation date and the unpaid portion of such tax shall be due and payable at the time and in the manner prescribed by the Secretary.

"(2) STEP-UP IN BASIS.—Solely for purposes of determining any tax imposed by reason of subsection (a), property which was held by an individual on the date the individual first became a resident of the United States (within the meaning of section 7701(b)) shall be treated as having a basis on such date of not less than the fair market value of such property on such date. The preceding sentence shall not apply if the individual elects not to have such sentence apply. Such an election, once made, shall be irrevocable.

"(3) COORDINATION WITH SECTION 684.—If the expatriation of any individual would result in the recognition of gain under section 684, this section shall be applied after the application of section 684.

"(i) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.".

(b) TAX ON GIFTS AND BEQUESTS RECEIVED BY UNITED STATES CITIZENS AND RESIDENTS FROM EXPATRIATES.—

(1) IN GENERAL.—Subtitle B (relating to estate and gift taxes) is amended by inserting after chapter 14 the following new chapter:

"CHAPTER 15—GIFTS AND BEQUESTS FROM EXPATRIATES

"Sec. 2801. Imposition of tax

"SEC. 2801. IMPOSITION OF TAX.

"(a) IN GENERAL.—If, during any calendar year, any United States citizen or resident receives any covered gift or bequest, there is hereby imposed a tax equal to the product of—

"(1) the highest rate of tax specified in the table contained in section 2001(c) as in effect on the date of such receipt (or, if greater, the highest rate of tax specified in the table applicable under section 2502(a) as in effect on the date), and

"(2) the value of such covered gift or bequest.

"(b) TAX TO BE PAID BY RECIPIENT.—The tax imposed by subsection (a) on any covered gift or bequest shall be paid by the person receiving such gift or bequest.

"(c) EXCEPTION FOR CERTAIN GIFTS.—Subsection (a) shall apply only to the extent that the value of covered gifts and bequests received by any person during the calendar year exceeds $10,000.

"(d) TAX REDUCED BY FOREIGN GIFT OR ESTATE TAX.—The tax imposed by subsection (a) on any covered gift or bequest shall be reduced by the amount of any gift or estate tax paid to a foreign country with respect to such covered gift or bequest.

"(e) COVERED GIFT OR BEQUEST.—

"(1) IN GENERAL.—For purposes of this chapter, the term 'covered gift or bequest' means—

"(A) any property acquired by gift directly or indirectly from an individual who, at the time of such acquisition, is a covered expatriate, and

"(B) any property acquired directly or indirectly by reason of the death of an individual who, immediately before such death, was a covered expatriate.

"(2) EXCEPTIONS FOR TRANSFERS OTHERWISE SUBJECT TO ESTATE OR GIFT TAX.—Such term shall not include—

"(A) any property shown on a timely filed return of tax imposed by chapter 12 which is a taxable gift by the covered expatriate, and

"(B) any property included in the gross estate of the covered expatriate for purposes of chapter 11 and shown on a timely filed return of tax imposed by chapter 11 of the estate of the covered expatriate.

"(3) TRANSFERS IN TRUST.—

"(A) DOMESTIC TRUSTS.—In the case of a covered gift or bequest made to a domestic trust—

"(i) subsection (a) shall apply in the same manner as if such trust were a United States citizen, and

"(ii) the tax imposed by subsection (a) on such gift or bequest shall be paid by such trust.

"(B) FOREIGN TRUSTS.—

"(i) IN GENERAL.—In the case of a covered gift or bequest made to a foreign trust, subsection (a) shall apply to any distribution attributable to such gift or bequest from such trust (whether from income or corpus) to a United States citizen or resident in the same manner as if such distribution were a covered gift or bequest.

"(ii) DEDUCTION FOR TAX PAID BY RECIPIENT.—There shall be allowed as a deduction under section 164 the amount of tax imposed by this section which is paid or accrued by a United States citizen or resident by reason of a distribution from a foreign trust, but only to the extent such tax is imposed on the portion of such distribution which is included in the gross income of such citizen or resident.

"(iii) ELECTION TO BE TREATED AS DOMESTIC TRUST.—Solely for purposes of this section, a foreign trust may elect to be treated as a domestic trust. Such an election may be revoked with the consent of the Secretary.

"(f) COVERED EXPATRIATE.—For purposes of this section, the term 'covered expatriate' has the meaning given to such term by section 877A(g)(1).".

(2) CLERICAL AMENDMENT.—The table of chapters for subtitle B is amended by inserting after the item relating to chapter 14 the following new item:

"CHAPTER 15. GIFTS AND BEQUESTS FROM EXPATRIATES.".

(c) DEFINITION OF TERMINATION OF UNITED STATES CITIZENSHIP.—

(1) IN GENERAL.—Section 7701(a) is amended by adding at the end the following new paragraph:

"(50) TERMINATION OF UNITED STATES CITIZENSHIP.—

"(A) IN GENERAL.—An individual shall not cease to be treated as a United States citizen before the date on which the individual's citizenship is treated as relinquished under section 877A(g)(4).

"(B) DUAL CITIZENS.—Under regulations prescribed by the Secretary, subparagraph (A) shall not apply to an individual who became at birth a citizen of the United States and a citizen of another country.".

(2) CONFORMING AMENDMENTS.—

(A) Paragraph (1) of section 877(e) is amended to read as follows:

"(1) IN GENERAL.—Any long-term resident of the United States who ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)) shall be treated for purposes of this section and sections 2107, 2501, and 6039G in the same manner as if such resident were a citizen of the United States who lost United States citizenship on the date of such cessation or commencement.".

(B) Paragraph (6) of section 7701(b) is amended by adding at the end the following flush sentence:

"An individual shall cease to be treated as a lawful permanent resident of the United States if such individual commences to be treated as a resident of a foreign country under the provisions of a tax treaty between the United States and the foreign country, does not waive the benefits of such treaty applicable to residents of the foreign country, and notifies the Secretary of the commencement of such treatment.".

(C) Section 7701 is amended by striking subsection (n) and by redesignating subsections (o) and (p) as subsections (n) and (o), respectively.

(d) INFORMATION RETURNS.—Section 6039G is amended—

(1) by inserting "or 877A" after "section 877(b)" in subsection (a), and

(2) by inserting "or 877A" after "section 877(a)" in subsection (d).

(e) CLERICAL AMENDMENT.—The table of sections for subpart A of part II of subchapter N of chapter 1 is amended by inserting after the item relating to section 877 the following new item:

"Sec. 877A. Tax responsibilities of expatriation.".

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in this subsection, the amendments made by this section shall apply to expatriates (as defined in section 877A(g) of the Internal Revenue Code of 1986, as added by this section) whose expatriation date (as so defined) is on or after the date of the enactment of this Act.

(2) GIFTS AND BEQUESTS.—Chapter 15 of the Internal Revenue Code of 1986 (as added by subsection (b)) shall apply to covered gifts and bequests (as defined in section 2801 of such Code, as so added) received on or after the date of the enactment of this Act, regardless of when the transferor expatriated.

SEC. 6. REPEAL OF SUSPENSION OF CERTAIN PENALTIES AND INTEREST.

(a) IN GENERAL.—Section 6404 is amended by striking subsection (g) and by redesignating subsection (h) as subsection (g).

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to notices provided by the Secretary of the Treasury, or his delegate, after the date which is 6 months after the date of the enactment of the Small Business and Work Opportunity Tax Act of 2007.

SEC. 7. INCREASE IN INFORMATION RETURN PENALTIES.

(a) FAILURE TO FILE CORRECT INFORMATION RETURNS.—

(1) IN GENERAL.—Subsections (a)(1), (b)(1)(A), and (b)(2)(A) of section 6721 are each amended by striking "$50" and inserting "$100".

(2) AGGREGATE ANNUAL LIMITATION.—Subsections (a)(1), (d)(1)(A), and (e)(3)(A) of section 6721 are each amended by striking "$250,000" and inserting "$600,000".

(b) REDUCTION WHERE CORRECTION WITHIN 30 DAYS.—

(1) IN GENERAL.—Subparagraph (A) of section 6721(b)(1) is amended by striking "$15" and inserting "$25".

(2) AGGREGATE ANNUAL LIMITATION.—Subsections (b)(1)(B) and (d)(1)(B) of section 6721 are each amended by striking "$75,000" and inserting "$200,000".

(c) REDUCTION WHERE CORRECTION ON OR BEFORE AUGUST 1.—

(1) IN GENERAL.—Subparagraph (A) of section 6721(b)(2) is amended by striking "$30" and inserting "$60".

(2) AGGREGATE ANNUAL LIMITATION.—Subsections (b)(2)(B) and (d)(1)(C) of section 6721 are each amended by striking "$150,000" and inserting "$400,000".

(d) AGGREGATE ANNUAL LIMITATIONS FOR PERSONS WITH GROSS RECEIPTS OF NOT MORE THAN $5,000,000.—Paragraph (1) of section 6721(d) is amended—

(1) by striking "$100,000" in subparagraph (A) and inserting "$250,000",

(2) by striking "$25,000" in subparagraph (B) and inserting "$75,000", and

(3) by striking "$50,000" in subparagraph (C) and inserting "$150,000".

(e) PENALTY IN CASE OF INTENTIONAL DISREGARD.—Paragraph (2) of section 6721(e) is amended by striking "$100" and inserting "$250".

(f) FAILURE TO FURNISH CORRECT PAYEE STATEMENTS.—

(1) IN GENERAL.—Subsection (a) of section 6722 is amended by striking "$50" and inserting "$100".

(2) AGGREGATE ANNUAL LIMITATION.—Subsections (a) and (c)(2)(A) of section 6722 are each amended by striking "$100,000" and inserting "$600,000".

(3) PENALTY IN CASE OF INTENTIONAL DISREGARD.—Paragraph (1) of section 6722(c) is amended by striking "$100" and inserting "$250".

(g) FAILURE TO COMPLY WITH OTHER INFORMATION REPORTING REQUIREMENTS.—Section 6723 is amended—

(1) by striking "$50" and inserting "$100", and

(2) by striking "$100,000" and inserting "$600,000".

(h) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to information returns required to be filed on or after January 1, 2008.

SEC. 8. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.

Subparagraph (B) of section 401(1) of the Tax Increase Prevention and Reconciliation Act of 2005 is amended by striking "114.50 percent" and inserting "114.75 percent".

I. SUMMARY AND BACKGROUND

A. Purpose and Summary

PURPOSE

The bill, H.R. 3056 (the "Tax Collection Responsibility Act of 2007"), repeals the authority of the Internal Revenue Service ("IRS") to use private debt collection companies, delays implementation of withholding taxes on government payments, and revises rules on expatriation, among other purposes.

SUMMARY

The bill repeals the authority for the IRS to enter into, renew, or extend any private debt collection contract, except that existing contracts may continue through their current term without renewal. The bill delays until January 1, 2012 the effective date of section 511 of the Tax Increase Prevention and Reconciliation Act of 2005, which imposes withholding at the rate of three percent on certain government payments. Effective for taxable years beginning after December 31, 1986, the bill provides generally that an income tax return filed with the United States Virgin Islands by an individual claiming to be a bona fide resident of the United States Virgin Islands during the entire taxable year will be treated as if the return were an income tax return filed with the United States for that year. The bill subjects certain U.S. citizens who relinquish their U.S. citizenship and certain long-term U.S. residents who terminate their U.S. residence to tax on the net unrealized gain on their property as if the property had been sold for its fair market value on the day before the expatriation or residency termination. The bill repeals the provision requiring the IRS to suspend the accrual of interest and penalties on certain liabilities if the IRS fails to notify the taxpayer regarding the basis for such liability within a specified period. The bill generally increases the penalties for failing to file correct information returns, for failing to furnish correct payee statements, and for failing to comply with other information reporting requirements, effective for information returns required to be filed on or after January 1, 2008. Finally, the bill modifies the July, August, and September 2012 estimated tax payments requirements for corporations with assets of at least $1 billion.

B. Background and Need for Legislation

The collection of Federal income taxes is a core governmental function that should be restricted to IRS employees. The bill protects taxpayers and confidential tax information by repealing the authorization for the IRS to use private contractors to collect Federal income taxes. The bill delays withholding requirements regarding government payments to address concerns and difficulties in implementing such requirements. The bill imposes a tax on items of income and gain which are properly subject to United States taxation when a citizen or resident ceases to be subject to

U.S. taxation. The bill improves tax administration through reforms in the areas of interest and penalty suspension, information return penalties, the statute of limitations for persons claiming to be Virgin Islands residents, and corporate estimated taxes.

C. Legislative History

Background

H.R. 3056 was introduced in the House of Representatives on July 17, 2007, and was referred to the Committee on Ways and Means.

Committee action

In response to an announcement by Chairman Rangel on March 22, 2007, the Committee undertook an investigation into the IRS's use of private debt collection companies to collect Federal income tax debts. On May 23, 2007, the Committee on Ways and Means conducted a hearing on the matter and took testimony from the IRS Commissioner, the IRS Taxpayer Advocate, the Government Accountability Office, and a representative of a private debt collection company under contract with the IRS to collect income tax debts.

The Committee on Ways and Means marked up H.R. 3056 on July 18, 2007, and ordered the bill, as amended, favorably reported.

II. EXPLANATION OF THE BILL

A. Repeal of Private Tax Collection Contracts

(Sec. 2 of the bill and sec. 6306 of the Code)

PRESENT LAW

The Secretary has general authority to administer and enforce the tax laws. Present law also provides specific authority for the collection of taxes. Under present law, the IRS may use private debt collection companies to locate and contact taxpayers owing outstanding tax liabilities of any type and to arrange payment of those taxes by the taxpayers.[1]

Present law provides for payments to private debt collection companies to be made from the amount collected pursuant to a private debt collection contract, but not in excess of 25 percent of the amount collected. Present law also permits the IRS to retain an amount not in excess of 25 percent from the amount collected pursuant to a private debt collection contract for additional enforcement activities.

REASONS FOR CHANGE

Over 130 years ago, this Committee stated that "any system of farming the collection of any portion of the revenue of the Government is fundamentally wrong * * * No necessity for such laws exist * * * the Secretary of the Treasury and the head of the Internal Revenue Bureau are empowered by law to make all collections of taxes * * * The Internal Revenue Bureau is possessed of full

[1] Sec. 6306. Except where otherwise stated, all section references are to the Internal Revenue Code of 1986, as amended (the "Code").

knowledge of the laws relating to the collection of the revenue * * * and has all the machinery necessary for their full and complete enforcement."[2] The Committee believes these words remain true today.

The Committee believes that the collection of Federal income taxes is an inherently governmental function that should be restricted to IRS employees. The Committee believes that the use of private contractors to collect Federal tax debt violates the special and confidential relationship between taxpayers and the Federal government. The Committee believes that the use of private contractors jeopardizes the privacy of taxpayers and undermines long-term taxpayer compliance.

The IRS Commissioner has stated on numerous times before the Committee that IRS employees can collect Federal taxes more efficiently than private debt collection companies. IRS employees have access to a taxpayer's complete file and history, including the most recent information relating to tax filings and compliance data. Access to the taxpayer's complete file allows IRS employees to collect outstanding tax debt more efficiently and in a manner that ensures long-term compliance with the tax laws. The Committee believes that only IRS employees should be allowed to perform tax collection activities. It is the Committee's view that the IRS take immediate and appropriate action to ensure that IRS employees being laid-off at IRS processing centers be provided training and employment opportunities at IRS Automated Collection System (ACS) sites, including out-bound call collection activities, and that the IRS expand ACS activities as appropriate to ensure proper levels of collection activities.

EXPLANATION OF PROVISION

The provision repeals the authority for the IRS to enter into, renew, or extend any private debt collection contract.

EFFECTIVE DATE

The provision generally is effective on the date of enactment, except for any contract which was entered into before July 18, 2007, and is not renewed or extended after such date. The provision also provides that any private debt collection contract which is entered into on or after July 18, 2007, and any extension or renewal on or after such date of any private debt collection contract shall be void.

B. DELAYED IMPLEMENTATION OF GOVERNMENT WITHHOLDING

(Sec. 3 of the bill and sec. 3402(t) of the Code)

PRESENT LAW

For payments made after December 31, 2010, the Code requires withholding at a three-percent rate on certain payments to persons providing property or services made by the Government of the United States, every State, every political subdivision thereof, and every instrumentality of the foregoing (including multi-State agencies). The withholding requirement applies regardless of whether the government entity making such payment is the recipient of the

[2] H.R. Rep. No. 43–559, 1st Sess. (1874).

property or services. Political subdivisions of States (or any instrumentality thereof) with less than $100 million of annual expenditures for property or services that would otherwise be subject to withholding under this provision are exempt from the withholding requirement.

Payments subject to the three-percent withholding include any payment made in connection with a government voucher or certificate program which functions as a payment for property or services. For example, payments to a commodity producer under a government commodity support program are subject to the withholding requirement. The provision imposes information reporting requirements on payments subject to withholding under the provision.

The three-percent withholding requirement does not apply to any payments made through a Federal, State, or local government public assistance or public welfare program for which eligibility is determined by a needs or income test. The three-percent withholding requirement also does not apply to payments of wages or to any other payment with respect to which mandatory (e.g., U.S.-source income of foreign taxpayers) or voluntary (e.g., unemployment benefits) withholding applies under present law. The provision does not exclude payments that are potentially subject to backup withholding under section 3406. If, however, payments are actually being withheld under backup withholding, the three-percent withholding requirement does not apply.

The three-percent withholding requirement also does not apply to the following: payments of interest; payments for real property; payments to tax-exempt entities or foreign governments; intra-governmental payments; payments made pursuant to a classified or confidential contract (as defined in section 6050M(e)(3)); and payments to a government employee that are not otherwise excludable from the new withholding provision with respect to the employee's services as an employee.

REASONS FOR CHANGE

The Committee understands that the three-percent withholding requirement presents a number of challenges for the government entities and taxpayers subject to the requirement. The Committee believes the Treasury should conduct a study of the issues confronting both businesses and governments in complying with the three-percent requirement, as well as the issues confronting Treasury and the IRS in administering such requirement. Thus, the Committee believes it is appropriate to delay the effective date of the three-percent withholding requirement by one year to allow the Secretary further time to study issues associated with the requirement and to provide Congress with time to review and respond to the results of such study.

EXPLANATION OF PROVISION

The provision delays the effective date for the three-percent withholding requirement. Under the provision, the requirement applies to payments made after December 31, 2011.

The provision directs the Secretary to study issues associated with the three-percent withholding requirement, including (1) the problems, if any, which are anticipated in administering and com-

plying with such requirement, (2) the burdens, if any, that such requirements will place on small businesses (taking into account such mechanisms as may be necessary to administer such requirements), and (3) the application of such requirements to small expenditures for services and goods by governments.

The Secretary is to submit his report to the House Committee on Ways and Means and the Senate Committee on Finance no later than six months after the date of enactment.

EFFECTIVE DATE

The provision is effective on the date of enactment.

C. Application of Statute of Limitations Rules to Persons Claiming U.S. Virgin Islands Residency

(Sec. 4 of the bill and sec. 932 of the Code)

PRESENT LAW

Return filing rules for Virgin Islands residents

An individual who is a bona fide resident of the U.S. Virgin Islands ("USVI") during the entire taxable year or who files a joint return for the taxable year with a person who is a bona fide USVI resident during that entire year must file an income tax return for the taxable year with the USVI.[3]

For an individual (1) who is a bona fide resident of the USVI during the entire taxable year, (2) who, on the income tax return filed with the USVI, reports income from all sources and identifies the source of each item shown on the return, and (3) who fully pays the tax liability resulting from the income shown on the return, for purposes of calculating income tax liability to the United States, gross income does not include any amount included in gross income on the USVI return, and allocable deductions and credits are not taken into account.[4] Accordingly, an individual who is a bona fide USVI resident generally may satisfy the individual's U.S. return-filing and income tax payment obligations by filing an income tax return with the USVI and paying income tax to the USVI.

Statute of limitations

The IRS generally must assess tax within three years after the due date for the return to which the assessment relates.[5]

In certain circumstances, the three-year statute of limitations does not apply, and the IRS may assess tax at any time. These circumstances include the filing of a false or fraudulent return with the intent to evade tax; a willful attempt to defeat or evade tax; and the failure to file a return.

Statute of limitations for USVI residents

In guidance published in 1999, the IRS concluded that when a U.S. citizen who was a bona fide resident of the USVI timely filed a USVI income tax return but failed to report on that return a U.S.-source dividend, the three-year statute of limitations period began to run with the filing of the USVI return and the IRS was

[3] Sec. 932(c)(1), (2).
[4] Sec.932(c)(4).
[5] Sec. 6501(a), (b)(1).

precluded from assessing tax after expiration of the three-year period.[6] In 2006 guidance, the IRS concluded that when a U.S. citizen who timely files a USVI income tax return fails to satisfy a requirement of section 932(c)(4) (because, for example, the individual is not a bona fide USVI resident or does not report all income on the USVI return), the three-year statute of limitations period does not begin to run until the individual also files a return with the IRS.[7]

In 2007 guidance, the IRS provided rules for the application of the three-year statute of limitations period and the section 932(c) return filing requirements to a U.S. citizen or resident who claims status as a bona fide USVI resident.[8] As a result of this guidance, for taxable years ending on or after December 31, 2006, the three-year statute of limitations period for every U.S. citizen or resident claiming to be a bona fide USVI resident generally begins when the individual files an income tax return with the USVI.

The rules in the 2007 guidance for an individual who claims bona fide USVI residence for a taxable year ending before December 31, 2006 differ based on whether the individual is a "covered person" or a non-covered person. A covered person is a U.S. citizen or resident alien who takes the position that he or she is a bona fide USVI resident, files a USVI income tax return, and has less than $75,000 of gross income for the taxable year. A covered person generally may claim application of the three-year statute of limitations period for a taxable year ending before December 31, 2006 based on that person's filing of a USVI income tax return for that year. A non-covered person may start the running of the three-year limitations period for a taxable year ending before December 31, 2006 by filing an income tax return for that year with the IRS and reporting on that return no gross income and no taxable income. The three-year limitations period starts with the filing of the return with the IRS.

REASONS FOR CHANGE

The Committee believes it is unfair to apply different statute of limitations rules to U.S. citizens who claim to be bona fide USVI residents and who file USVI income tax returns than to other U.S. citizens who file income tax returns with the IRS. The 1986 Tax Reform Act provided that residents of the USVI are required to file income tax returns only with the USVI. The Committee believes that the guidance issued by the IRS in 2006 and 2007 represents a misapplication of present Iaw. In particular, the Committee objects to the retroactive denial of statute of limitations protections caused by the 2006 IRS guidance. The IRS notices issued in 2007 ameliorate but do not eliminate this retroactive effect because, for taxable years ending before December 31, 2006, the notices differentiate among taxpayers based on income.

EXPLANATION OF PROVISION

The provision provides generally that an income tax return filed with the USVI by an individual claiming to be a bona fide USVI resident during the entire taxable year (or to be a person filing a

[6] Field Service Advice Memorandum 199906031 (Feb. 12, 1999).
[7] Chief Counsel Advice Memorandum 200624002 (June 16, 2006).
[8] Notice 2007–19, 2007–11 I.R.B. 689 (Mar. 12, 2007); Notice 2007–31, 2007–16 I.R.B. 971 (Apr. 16, 2007).

joint return for the taxable year with an individual who is a bona fide USVI resident during the entire year) will be treated for purposes of subtitle F of the Code (Procedure and Administration) in the same manner as if the return were an income tax return filed with the United States for that year. Consequently, under the provision the filing of a USVI income tax return by any individual claiming status as a bona fide USVI resident generally starts the three-year limitations period. This rule does not, however, apply if the return filed with the USVI is false or fraudulent with the intent to avoid tax or otherwise is a willful attempt in any manner to defeat or evade tax.

EFFECTIVE DATE

The provision applies to taxable years beginning after 1986.

D. Revision of Tax Rules on Expatriation of Individuals

(Sec. 5 of the bill and new secs. 877A and 2801 of the Code)

PRESENT LAW

In general

Income tax

U.S. citizens and residents generally are subject to U.S income taxation on their worldwide income. The U.S. tax may be reduced or offset by a credit allowed for foreign income taxes paid with respect to foreign source income. Nonresident aliens are taxed at a flat rate of 30 percent (or a lower treaty rate) on certain types of passive income derived from U.S. sources, and at regular graduated rates on net profits derived from a U.S. trade or business.

Certain special rules (sections 671–679) apply to certain trust interests deemed to be owned by the grantor or other person (a "grantor trust"). In that case, the deemed owner must include in income the items of income and deduction (and credits against tax) of the portion of such trust deemed to be owned by such person.

Except to the extent a trust is a grantor trust, a transfer of property by a U.S. person to a foreign estate or trust is treated (under section 684) by the transferor as if the property had been sold to such estate or trust. The same rule applies if a domestic trust becomes a foreign trust.

Estate tax

The estates of U.S. citizens and residents are subject to estate tax on all property, wherever located. The estates of nonresident aliens generally are subject to estate tax on U.S.-situated property (e.g., real estate and tangible property located within the United States and stock in a U.S. corporation).

Gift tax

U.S. citizens and residents generally are subject to gift tax on transfers by gift of any property, wherever situated. Nonresident aliens generally are subject to gift tax on transfers by gift of U.S.-situated property (e.g., real estate and tangible property located within the United States), but excluding intangibles, such as stock, regardless of where they are located.

Income tax rules with respect to expatriates

For the 10 taxable years after an individual relinquishes his or her U.S. citizenship or terminates his or her U.S. long-term residency, unless certain conditions are met, the individual is subject to an alternative method of income taxation than that generally applicable to nonresident aliens (the "alternative tax regime"). Generally, the individual is subject to income tax for the 10-year period at the rates applicable to U.S. citizens, but only on U.S.-source income.[9]

A "long-tern resident" is a noncitizen who is a Lawful permanent resident of the United States for at least eight taxable years during the period of 15 taxable years ending with the taxable year during which the individual either ceases to be a lawful permanent resident of the United States or commences to be treated as a resident of a foreign country under a tax treaty between such foreign country and the United States (and does not waive such benefits).

A former citizen or former long-term resident is subject to the alternative tax regime for a 10-year period following citizenship relinquishment or residency termination, unless the former citizen or former long-term resident: (1) establishes that his or her average annual net income tax liability for the five preceding years does not exceed $124,000 (adjusted for inflation after 2004) and his or her net worth is less than $2 million, or alternatively satisfies limited, objective exceptions for certain dual citizens and minors who have had no substantial contacts with the United States; and (2) certifies under penalties of perjury that he or she has complied with all U.S. Federal tax obligations for the preceding five years and provides such evidence of compliance as the Secretary may require.

Anti-abuse rules are provided to prevent the circumvention of the alternative tax regime.

Estate tax rules with respect to expatriates

Special estate tax rules apply to individuals who die during a taxable year in which they are subject to the alternative tax regime. Under these special rules, certain closely-held foreign stock owned by the former citizen or former long-term resident is includible in his or her gross estate to the extent that the foreign corporation owns U.S.-situated assets. The special rules apply if, at the time of death, the former citizen or former long-term resident: (1) owns, directly or indirectly, 10 percent or more of the total combined voting power of all classes of stock of the foreign corporation entitled to vote; and (2) is considered to own, directly or indirectly, more than 50 percent of (a) the total combined voting power of all classes of stock of the foreign corporation entitled to vote, or (b) the total value of the stock of such corporation. If this stock ownership test is met, then the gross estate of the former citizen or former long-term resident includes that proportion of the fair market value of the foreign stock owned by the individual at the time of death, which the fair market value of any assets owned by such foreign corporation and situated in the United States (at the time of death) bears to the total fair market value of all assets owned by such foreign corporation (at the time of death).

[9] For this purpose, however, U.S.-source income has a broader scope than it does typically in the Code.

Gift tax rules with respect to expatriates

Special gift tax rules apply to individuals who make gifts during a taxable year in which they are subject to the alternative tax regime. The individual is subject to gift tax on gifts of U.S.-situated intangibles made during the 10 years following citizenship relinquishment or residency termination. In addition, gifts of stock of certain closely-held foreign corporations by a former citizen or former long-term resident are subject to gift tax, if the gift is made during the time that such person is subject to the alternative tax regime. The operative rules with respect to these gifts of closely-held foreign stock are the same as described above relating to the estate tax, except that the relevant testing and valuation date is the date of gift rather than the date of death.

Termination of U.S. citizenship or long-term resident status for U.S. Federal income tax purposes

An individual continues to be treated as a U.S. citizen or long-term resident for U.S. Federal tax purposes, including for purposes of section 7701(b)(10), until the individual: (1) gives notice of an expatriating act or termination of residency (with the requisite intent to relinquish citizenship or terminate residency) to the Secretary of State or the Secretary of Homeland Security, respectively; and (2) provides a statement to the Secretary of the Treasury in accordance with section 6039G.

Sanction for individuals subject to the individual tax regime who return to the United States for extended periods

The alternative tax regime does not apply to any individual for any taxable year during the 10-year period following citizenship relinquishment or residency termination if such individual is present in the United States for more than 30 days in the calendar year ending in such taxable year. Such individual is treated as a U.S. citizen or resident for such taxable year and, therefore, is taxed on his or her worldwide income.

Similarly, if an individual subject to the alternative tax regime is present in the United States for more than 30 days in any calendar year ending during the 10-year period following citizenship relinquishment or residency termination, and the individual dies during that year, he or she is treated as a U.S. resident, and the individual's worldwide estate is subject to U.S. estate tax. Likewise, if an individual subject to the alternative tax regime is present in the United States for more than 30 days in any year during the 10-year period following citizenship relinquishment or residency termination, the individual is subject to U.S. gift tax on any transfer of his or her worldwide assets by gift during that taxable year.

For purposes of these rules, an individual is treated as present in the United States on any day if such individual is physically present in the United States at any time during that day. The present-law exceptions to the U.S. presence rules for residency purposes[10] generally do not apply. However, for individuals with cer-

[10] Secs. 7701(b)(3)(D), 7701(b)(5), and 7701(b)(7)(B)–(D).

tain ties to countries other than the United States[11] and individuals with minimal prior physical presence in the United States,[12] a day of physical presence in the United States is disregarded if the individual is performing services in the United States on such day for an unrelated employer (within the meaning of sections 267 and 707(b)), that meets such requirements as the Secretary may prescribe in regulations. No more than 30 days may be disregarded during any calendar year under this rule.

Annual return

Former citizens and former long-term residents are required to file an annual return for each year in which they are subject to the alternative tax regime. The annual return is required even if no U.S. Federal income tax is due. The annual return requires certain information, including information on the permanent home of the individual, the individual's country of residence, the number of days the individual was present in the United States for the year, and detailed information about the individual's income and assets that are subject to the alternative tax regime. This requirement includes information relating to foreign stock potentially subject to the. special estate and gift tax rules.

If the individual fails to file the statement in a timely manner or fails correctly to include all the required information, the individual is required to pay a penalty of $10,000. The $10,000 penalty does not apply if it is shown that the failure is due to reasonable cause and not to willful neglect.

REASONS FOR CHANGE

The Committee is aware that each year some individuals relinquish their U.S. citizenship or terminate their long-term U.S. residency for the purpose of avoiding U.S. income, estate, and gift taxes. By so doing, such individuals may reduce their annual U.S. income tax liability and may reduce or eliminate their future U.S. estate or gift tax liability.

The Committee recognizes that citizens and long-term residents of the United States have a right not only to physically leave the United States to live elsewhere, but also to relinquish their citizenship or terminate their residency. The Committee does not believe that the Internal Revenue Code should be used to stop U.S. citizens and long-term residents from relinquishing citizenship or terminating residency; however, the Committee also does not believe that the Code should provide a tax incentive for doing so. In other words, to the extent possible, an individual's decision to relinquish citizenship or terminate long-term residency should be tax-neutral.

The Committee recognizes that the American Jobs Creation Act of 2004 altered prior law regarding expatriation in a number of respects, including replacing the subjective "principal purpose of tax

[11] An individual has such a relationship to a foreign country if (1) the individual becomes a citizen or resident of the country in which the individual was born, such individual's spouse was born, or either of the individual's parents was born, and (2) the individual becomes fully liable for income tax in such country.

[12] An individual has a minimal prior physical presence in the United States if the individual was physically present for no more than 30 days during each year in the ten-year period ending on the date of loss of United States citizenship or termination of residency. However, for purposes of this test, an individual is not treated as being present in the United States on a day if the individual remained in the United States because of a medical condition that arose while the individual was in the United States. Sec. 7701(b)(3)(D)(ii).

avoidance test" with objective rules. Notwithstanding these changes, the Committee remains concerned that the present-law expatriation tax rules (as modified in 2004) could be made more effective. In addition, the Committee is concerned that the alternative method of taxation under section 877 can be avoided by postponing the realization of U.S.-source income for 10 years.

Consequently, the Committee believes that the present-law expatriation tax rules should be augmented by a new tax regime applicable to former citizens and long-term residents. Because U.S. citizens and residents who retain their citizenship or residency generally are subject to income tax on accrued appreciation when they dispose of their assets, as well as estate tax on the full value of assets that are held until death, the Committee believes it fair to tax individuals on the appreciation in their assets when they relinquish their citizenship or terminate their long-term residency. The Committee believes that an exception from such a tax should be provided for individuals with a relatively modest amount of income and net worth, or appreciated assets. The Committee also believes that, where U.S. estate or gift taxes are avoided with respect to a transfer of property to a U.S. person by reason of the expatriation of the donor, it is appropriate for the recipient to be subject to a transfer tax similar to the avoided transfer taxes.

EXPLANATION OF PROVISION

In general

In general, the provision imposes tax on certain U.S. citizens who relinquish their U.S. citizenship and certain long-term U.S. residents who terminate their U.S. residency. Such individuals are subject to income tax on the net unrealized gain in their property as if the property had been sold for its fair market value on the day before the expatriation or residency termination ("mark-to-market tax"). Gain from the deemed sale is taken into account at that time without regard to other Code provisions. Any loss from the deemed sale generally is taken into account to the extent otherwise provided in the Code, except that the wash sale rules of section 1091 do not apply. Any net gain on the deemed sale is recognized to the extent it exceeds $600,000. The $600,000 amount is increased by a cost of living adjustment factor for calendar years after 2008. Any gains or losses subsequently realized are to be adjusted for gains and losses taken into account under the deemed sale rules, without regard to the $600,000 exemption.

The mark-to-market tax described above applies to most types of property interests held by the individual on the date of relinquishment of citizenship or termination of residency, with certain exceptions. Deferred compensation items, interests in nongrantor trusts, and specified tax deferred accounts are excepted from the mark-to-market tax but are subject to the special rules described below.

In addition, the provision imposes a transfer tax on certain transfers to U.S. persons from certain U.S. citizens who relinquished their U.S. citizenship and certain long-term U.S. residents who terminated their U.S. residency, or from their estates.

Individuals covered

The provision applies to any U.S. citizen who relinquishes citizenship and any long-term resident who terminates U.S. residency, if such individual ("covered expatriate") (1) has an average annual net income tax liability for the five preceding years ending before the date of the loss of U.S. citizenship or residency termination that exceeds $124,000 (as adjusted for inflation after 2004—$136,000 in 2007 [13]); (2) has a net worth of $2 million or more on such date; or (3) fails to certify under penalties of perjury that he or she has complied with all U.S. Federal tax obligations for the preceding five years or fails to submit such evidence of compliance as the Secretary may require.

Exceptions to an individual's classification as a covered expatriate due to (1) or (2) above (but not (3)) are provided in two situations. The first exception applies to an individual who was born with citizenship both in the United States and in another country; provided that (1) as of the expatriation date the individual continues to be a citizen of, and is taxed as a resident of, such other country, and (2) the individual has been a resident of the United States (under the substantial presence test of section 7701(b)(1)(A)(ii)) for not more than 10 taxable years during the 15-year taxable year period ending with the taxable year of expatriation. The second exception applies to a U.S. citizen who relinquishes U.S. citizenship before reaching age 18½ provided that the individual was a resident of the United States (under the substantial presence test of section 7701(b)(1)(A)(ii)) for no more than 10 taxable years before such relinquishment.

The definition of "long-term resident" under the provision is generally the same as that under present law. As under present law, an individual is considered to terminate long-term U.S. residency when the individual ceases to be a lawful permanent resident of the United States (i.e., loses his or her green card status through revocation or has been administratively or judicially determined to have abandoned such status). Under the provision, however, an individual ceases to be treated as a lawful permanent resident of the United States for all tax purposes (including for purposes of section 877) if such individual commences to be treated as a resident of a foreign country under a tax treaty between the United States and such foreign country, does not waive the benefits of the treaty applicable to residents of such foreign country, and notifies the Secretary of the commencement of such treatment.

The provision provides that, for all tax purposes (including for purposes of section 877), a U.S. citizen continues to be treated as a U.S. citizen for tax purposes until that individual's citizenship is treated as relinquished under the rules of the immediately preceding paragraph. However, under Treasury regulations, relinquishment may occur earlier with respect to an individual who became at birth a citizen of the United States and of another country. For purposes of the provision, an individual is treated as having relinquished U.S. citizenship on the earliest of four possible dates: (1) the date that the individual renounces U.S. nationality before a diplomatic or consular officer of the United States (provided that the voluntary relinquishment is later confirmed by the issuance of

[13] Rev. Proc. 2006–53, sec. 3.29, 2006–48 I.R.B. 996.

a certificate of loss of nationality); (2) the date that the individual furnishes to the State Department a signed statement of voluntary relinquishment of U.S. nationality confirming the performance of an expatriating act (again, provided that the voluntary relinquishment is later confirmed by the issuance of a certificate of loss of nationality); (3) the date that the State Department issues a certificate of loss of nationality; or (4) the date that a U.S. court cancels a naturalized citizen's certificate of naturalization.

In the case of a long-term resident, the date that long-term residency is terminated is the "expatriation date." In the case of a citizen, the date that the individual relinquishes citizenship is the "expatriation date."

The foregoing rules replace the present-law rules that provide that an individual continues to be treated as a U.S. citizen or long-term resident for U.S. Federal tax purposes until the individual gives notice of an expatriating act or termination of residency.

If an individual who is a covered expatriate becomes subject to tax as a citizen or resident of the United States for any period beginning after the expatriation date, the individual is not treated as a covered expatriate during that period for purposes of applying the withholding rules relating to deferred compensation items, the rules relating to interests in nongrantor trusts, and the rules relating to gifts and bequests from covered expatriates. If the individual again relinquishes citizenship or terminates long-term residency (after meeting anew the requirements to become a long-term resident), the mark-to-market tax and other provisions are re-triggered with the new expatriation date.

Deferral of payment of mark-to-market tax

Under the provision, an individual may elect to defer payment of the mark-to-market tax imposed on the deemed sale of property. Interest is charged for the period the tax is deferred at the rate normally applicable to individual underpayments. The election is irrevocable and is made on a property-by-property basis. Under the election, the deferred tax attributable to a particular property is due when the return is due for the taxable year in which the property is disposed (or, if the property is disposed of in a transaction in which gain is not recognized in whole or in part, at such other time as the Secretary may prescribe). The deferred tax attributable to a particular property is an amount which bears the same ratio to the total mark-to-market tax as the gain taken into account with respect to such property bears to the total gain taken into account for the mark-to-market tax. The deferral of the mark-to-market tax may not be extended beyond the due date of the return for the taxable year which includes the individual's death.

In order to elect deferral of the mark-to-market tax, the individual is required to furnish a bond to the Secretary. The bond must be conditioned upon payment of the amount of tax due, plus interest thereon, and must be in accordance with such requirements relating to terms, conditions, form of the bond, and sureties, as may be specified by regulations. The bond must be accepted by the Secretary. Other security mechanisms, including letters of credit, are permitted provided that they meet such requirements as the Secretary may prescribe. In the event that the security provided with respect to a particular property subsequently fails to meet the

requirements of these rules and the individual fails to correct such failure, the deferred tax and the interest with respect to such property will become due. As a further condition to making the election, the individual is required to consent to the waiver of any treaty rights that would preclude the assessment or collection of the tax.

Deferred compensation items

The provision contains special rules for interests in deferred compensation items. For purposes of the provision, a "deferred compensation item" means any interest in a plan or arrangement described in section 219(g)(5), any interest in a foreign pension plan or similar retirement arrangement or program, any item of deferred compensation, and any property, or right to property, which the individual is entitled to receive in connection with the performance of services to the extent not previously taken into account under section 83 or in accordance with section 83.

The plans and arrangements described in section 219(g)(5) are (i) a plan described in section 401(a), which includes a trust exempt from tax under section 501(a); (ii) an annuity plan described in section 403(a); (iii) a plan established for its employees by the United States, by a State or political subdivision thereof, or by an agency or instrumentality of any of the foregoing, but excluding an eligible deferred compensation plan (within the meaning of section 457(b)); (iv) an annuity contract described in section 403(b); (v) a simplified employee pension (within the meaning of section 408(k)); (vi) a simplified retirement account (within the meaning of section 408(p)); and (vii) a trust described in section 501(c)(18).

If a deferred compensation item is an eligible deferred compensation item, the payor must deduct and withhold from a "taxable payment" to the covered expatriate a tax equal to 30 percent of such taxable payment. This withholding requirement is in lieu of any withholding requirement under present law. A taxable payment is subject to withholding to the extent it would be included in gross income of the covered expatriate if such person were subject to tax as a citizen or resident of the United States. A deferred compensation item is taken into account as a payment when such item would be so includible. A deferred compensation item that is subject to the 30 percent withholding requirement is subject to tax under section 871.

If a deferred compensation item is not an eligible deferred compensation item, an amount equal to the present value of the covered expatriate's deferred compensation item is treated as having been received on the day before the expatriation date. In the case of a deferred compensation item that is subject to section 83, the item is treated as becoming transferable and no longer subject to a substantial risk of forfeiture on the day before the expatriation date. Appropriate adjustments shall be made to subsequent distributions to take into account the foregoing treatment. In addition, these deemed distributions are not subject to early distribution tax. For this purpose, "early distribution tax" means any increase in tax imposed under section 72(t), 220(e)(4), 223(f)(4), 409A(a)(1)(B), 529(c)(6), or 530(d)(4).

An "eligible deferred compensation item" means any deferred compensation item with respect to which (i) the payor is either a U.S. person or a non-U.S. person who elects to be treated as a U.S.

person for purposes of withholding and who meet the requirements prescribed by the Secretary to ensure compliance with the withholding requirements, and (ii) the covered expatriate notifies the payor of his status as a covered expatriate and irrevocably waives any claim of withholding reduction under any treaty with the United States.

The foregoing taxing rules regarding eligible deferred compensation items and items that are not eligible deferred compensation items do not apply to deferred compensation items that are attributable to services performed outside the United States while the covered expatriate was not a citizen or resident of the United States.

Specified tax deferred accounts

There are special rules for interests in specified tax deferred accounts. If a covered expatriate holds any interest in a specified tax deferred account on the day before the expatriation date, such covered expatriate is treated as receiving a distribution of his entire interest in such account on the day before the expatriation date. Appropriate adjustments are made for subsequent distributions to take into account this treatment. As with deferred compensation items, these deemed distributions are not subject to early distribution tax.

The term "specified tax deferred account" means an individual retirement plan (as defined in section 7701(a)(37)), a qualified tuition plan (as defined in section 529), a Coverdell education savings account (as defined in section 530), a health savings account (as defined in section 223), and an Archer MSA (as defined in section 220). However, simplified employee pensions (within the meaning of section 408(k)) and simplified retirement accounts (within the meaning of section 408(p)) of a covered expatriate are treated as deferred compensation items and not as specified tax deferred accounts.

Interests in trusts

Grantor trusts

In the case of the portion of any trust for which the covered expatriate is treated as the owner under the grantor trust provisions of the Code, as determined immediately before the expatriation date, the assets held by that portion of the trust are subject to the mark-to-market tax. If a trust that is a grantor trust immediately before the expatriation date subsequently becomes a nongrantor trust, such trust remains a grantor trust for purposes of the provision.

Nongrantor trusts

Special rules apply to interests in trusts that are not grantor trusts ("nongrantor trusts"). The mark-to-market tax does not apply with respect to the portion of any trust not treated (under the grantor trust provisions of the Code) as owned by a covered expatriate immediately before the expatriation date. Instead, in the case of any direct or indirect distribution from such a portion of a trust to a covered expatriate, the trustee must deduct and withhold from the distribution an amount equal to 30 percent of the portion of the distribution which would be includible in the gross income

of the covered expatriate if the covered expatriate continued to be subject to tax as a citizen or resident of the United States. Such portion of such distribution (that is subject to the 30 percent withholding requirement) is subject to tax under section 871. The covered expatriate is treated as having waived any right to claim any reduction in withholding under any treaty with the United States.

In addition, if the nongrantor trust distributes appreciated property to a covered expatriate, the trust must recognize gain as if the property were sold to the covered expatriate at its fair market value.

If a trust that is a nongrantor trust immediately before the expatriation date subsequently becomes a grantor trust of which a covered expatriate is treated as the owner, directly or indirectly, such conversion is treated under the provision as a distribution to such covered expatriate to the extent of the portion of the trust of which the covered expatriate is treated as the owner.

Special rules

Notwithstanding any other provision of the Code, any period for acquiring property which results in the reduction of gain recognized with respect to property disposed of by the taxpayer terminates on the day before the expatriation date. This rule applies to certain incomplete transactions such as deferred like-kind exchanges and involuntary conversions. In addition, notwithstanding any other provision of the Code, any extension of time for payment of tax ceases to apply on the day before relinquishment of citizenship or termination of residency, and the unpaid portion of such tax becomes due and payable at the time and in the manner prescribed by the Secretary.

For purposes of determining the tax imposed under the mark-to-market tax, property that was held by an individual on the date that such individual first became a resident of the United States (within the meaning of section 7701(b)) is treated as having a basis on such date of not less than the fair market value of such property on such date. An individual may make an irrevocable election not to have this rule apply.

In the case of a domestic trust that becomes a foreign trust due to the expatriation of an individual, the general income tax rules pertaining to transfers by U.S. persons to foreign trusts (i.e., section 684) apply before the rules of the provision.

Regulatory authority

The provision authorizes the Secretary to prescribe such regulations as may be necessary or appropriate to carry out the purposes of the income tax rules of the provision.

Treatment of gifts and bequests from a former citizen or former long-term resident

Under the provision, a special transfer tax applies to certain "covered gifts or bequests" received by a U.S. citizen or resident. A covered gift or bequest is any property acquired (i) by gift directly or indirectly from an individual who is a covered expatriate at the time of such acquisition, or (ii) directly or indirectly by reason of the death of an individual who was a covered expatriate. A covered gift or bequest, however, does not include (i) any property

shown as a taxable gift on a timely filed gift tax return by the covered expatriate, and (ii) any property included in the gross estate of the covered expatriate for estate tax purposes and shown on a timely filed estate tax return of the estate of the covered expatriate.

The tax is calculated as the product of (i) the highest marginal rate of tax specified in the table applicable to estate tax (i.e., section 2001(c)) or, if greater, the highest marginal rate of tax specified in the table applicable to gift tax (i.e., section 2502(a)), both as in effect on the date of receipt of the covered gift or bequest; and (ii) the value of the covered gift or bequest.

The tax is imposed upon the recipient of the covered gift or bequest and is imposed on a calendar-year basis. The tax applies to a recipient of a covered gift or bequest only to the extent that the total value of covered gifts and bequests received by such recipient during a calendar year exceeds $10,000. The tax on covered gifts and bequests is reduced by the amount of any gift or estate tax paid to a foreign country with respect to such covered gift or bequest.

Special rules apply to the tax on covered gifts or bequests made to domestic or foreign trusts. In the case of a covered gift or bequest made to a domestic trust, the tax applies as if the trust is a U.S. citizen, and the trust is required to pay the tax. In the case of a covered gift or bequest made to a foreign trust, the tax applies to any distribution from such trust (whether from income or corpus) attributable to such covered gift or bequest to a recipient that is a U.S. citizen or resident, in the same manner as if such distribution were a covered gift or bequest. Such a recipient is entitled to deduct the amount of such tax for income tax purposes to the extent such tax is imposed on the portion of such distribution that is included in the gross income of the recipient. For purposes of these rules, a foreign trust may elect to be treated as a domestic trust. The election may not be revoked without the Secretary's consent.

Coordination with present-law alternative tax regime

Under the provision, the present-law expatriation income tax rules under section 877 generally continue to apply to a covered expatriate whose expatriation or residency termination occurs before, on, or after the date of enactment.

Information reporting

Certain information reporting requirements under the law presently applicable to former citizens and former long-term residents (sec. 6039G) also apply for purposes of the provision.

EFFECTIVE DATE

The provision generally is effective for U.S. citizens who relinquish citizenship or long-term residents who terminate their residency on or after the date of enactment. However, the portion of the provision relating to covered gifts and bequests is effective for gifts and bequests received from former citizens or former long-term residents (or their estates) on or after the date of enactment, regardless of when the transferor expatriated.

E. Repeal of Provision Regarding Suspension of Interest and Penalties

(Sec. 6 of the bill and sec. 6404(g) of the Code)

PRESENT LAW

In general, interest and penalties accrue during periods for which taxes were unpaid without regard to whether the taxpayer was aware that there was tax due. Prior to amendment by the Small Business and Work Opportunity Tax Act of 2007, the accrual of certain penalties and interest is suspended starting 18 months after the filing of the tax return if the IRS has not sent the taxpayer a notice specifically stating the taxpayer's liability and the basis for the liability within the specified period. If a tax return is filed before the due date, for purposes of interest suspension it is considered to have been filed on the due date. Interest and penalties resume 21 days after the IRS sends the required notice to the taxpayer. The provision is applied separately with respect to each item or adjustment. The provision does not apply where a taxpayer has self-assessed the tax. The suspension only applies to individuals who file a timely tax return. The provision does not apply to the following: the penalty for failing to pay; any interest, penalty, addition to tax, or additional amount in a case involving fraud; any interest, penalty, addition to tax, or additional amount with respect to any gross misstatement; and any criminal penalty. Generally, the suspension of interest also does not apply to interest accruing with respect to underpayments resulting from listed transactions or undisclosed reportable transactions.

For IRS notices issued after November 25, 2007, the Small Business and Work Opportunity Tax Act of 2007 provides that the accrual of penalties and interest is suspended starting 36 months after the filing of the tax return.[14] Because the general statute of limitations on assessment of tax is 36 months after the filing of a tax return, the effect of the provision in the Small Business and Work Opportunity Tax Act of 2007 is that interest suspension only applies to tax liabilities eligible for suspension which may be assessed more than three years after the filing of the tax return to which the liability relates.

REASONS FOR CHANGE

As a result of the provision in the Small Business and Work Opportunity Tax Act of 2007, interest suspension only applies in the small number of cases in which the IRS may assess an additional tax more than three years after the filing of the tax return to which such additional tax liability relates. The Committee believes that the rules regarding the accrual of interest on underpayments of tax should be applied, to the extent possible, in a consistent manner. Thus, the Committee believes the suspension of interest and penalties provision should be repealed. The Committee believes this change is appropriate for effective administration of the tax system.

[14] Pub. L. No. 110–28, sec. 7542 (2007).

EXPLANATION OF PROVISION

The proposal repeals the suspension of interest and certain penalties provision. The Small Business and Work Opportunity Tax Act of 2007 provides that the accrual of penalties and interest is suspended starting 36 months after the filing of a tax return. Thus, the effect of the proposal is to eliminate interest suspension for liabilities which may be assessed more than three years after the filing of a tax return.

EFFECTIVE DATE

The provision is effective for IRS notices issued after the date which is 6 months after the date of the enactment of the Small Business and Work Opportunity Tax Act of 2007 (November 25, 2007).

F. Increase in Information Return Penalties

(Sec. 7 of the bill and secs. 6721, 6722, and 6723 of the Code)

PRESENT LAW

Present law imposes information reporting requirements on participants in certain transactions. Under section 6721 of the Code, any person required to file a correct information return who fails to do so on or before the prescribed filing date is subject to a penalty that varies based on when, if at all, the correct information return is filed. If a person files a correct information return after the prescribed filing date but on or before the date that is 30 days after the prescribed filing date, the amount of the penalty is $15 per return (the "first-tier penalty"), with a maximum penalty of $75,000 per calendar year. If a person files a correct information return more than 30 days after the prescribed filing date but on or before August 1, the amount of the penalty is $30 per return (the "second-tier penalty"), with a maximum penalty of $150,000 per calendar year. If a correct information return is not filed on or before August 1, of any year, the amount of the penalty is $50 per return (the "third-tier penalty"), with a maximum penalty of $250,000 per calendar year.

Special lower maximum levels for this penalty apply to small businesses. Small businesses are defined as firms having average annual gross receipts for the most recent three taxable years that do not exceed $5 million. The maximum penalties for small businesses are: $25,000 (instead of $75,000) if the failures are corrected on or before 30 days after the prescribed filing date; $50,000 (instead of $150,000) if the failures are corrected on or before August 1; and $100,000 (instead of $250,000) if the failures are not corrected on or before August 1.

Section 6722 of the Code also imposes penalties for failing to furnish correct payee statements to taxpayers. In addition, section 6723 imposes a penalty for failing to comply with other information reporting requirements. Under both section 6722 and section 6723, the penalty amount is $50 for each failure, up to a maximum of $100,000.

If the failure to file a correct information return is due to intentional disregard, the penalty is $100 per information return or, if

greater, 10 percent[15] of the amount required to be shown on the information return, with no limitation on the maximum penalty per calendar year. Similar rules apply in the case of a failure to furnish correct payee statements.[16]

REASONS FOR CHANGE

The Committee believes the present law penalties for failing to file accurate information returns do not adequately discourage noncompliance. The Committee notes that these penalties have not been increased in many years. The Committee believes that increasing the information return penalties will encourage the filing of timely and accurate information returns which, in turn, will improve overall tax administration.[17]

EXPLANATION OF PROVISION

The provision increases the penalties for failing to file correct information returns, for failing to furnish correct payee statements, and for failing to comply with other information reporting requirements. Specifically, the provision increases the penalties for failing to file correct information returns as follows: the first-tier penalty would be increased from $15 to $25, with a maximum penalty of $200,000 per calendar year; the second-tier penalty would be increased from $30 to $60, with a maximum penalty of $400,000 per calendar year; and the third-tier penalty would be increased from $50 to $100, with a maximum penalty of $600,000 per calendar year. The maximum penalties for small businesses would be: $75,000 if the failures are corrected on or before 30 days after the prescribed filing date; $150,000 if the failures are corrected on or before August 1; and $250,000 if the failures are not corrected on or before August 1.

The provision increases both the penalty for failing to furnish correct payee statements to taxpayers and the penalty for failing to comply with other information reporting requirements penalties to $100 for each such failure, up to a maximum of $600,000 in a calendar year.

The provision also increases the minimum penalty for intentional disregard of the information reporting requirements to $250 per return.

EFFECTIVE DATE

The provision is effective with respect to information returns required to be filed on or after January 1, 2008.

G. Modifications to Corporate Estimated Tax Payments

(Sec. 8 of the bill)

PRESENT LAW

In general, corporations are required to make quarterly estimated tax payments of their income tax liability. For a corporation whose taxable year is a calendar year, these estimated tax pay-

[15] Different rules are specified for certain types of payments. For example, with respect to gross proceeds information reports, the percentage is five percent instead of 10 percent.

[16] Sec. 6722.

[17] A similar proposal was included in the President's fiscal year 2008 budget proposal.

ments must be made by April 15, June 15, September 15, and December 15. Fiscal year taxpayers make quarterly payments on corresponding dates.

Under present law, in the case of a corporation with assets of at least $1 billion, the payments due in July, August, and September, 2012, (for fiscal and calendar year taxpayers, respectively) shall be increased to 114.50 percent of the payment otherwise due and the next required payment shall be reduced accordingly.

REASONS FOR CHANGE

The Committee believes it is appropriate to adjust the corporate estimated tax payments.

EXPLANATION OF PROVISION

For corporate estimated tax payments due in July, August, and September, 2012, the provision increases the percentage from 114.50 percent to 114.75 percent. As under present law, the next payment is reduced accordingly.

EFFECTIVE DATE

The provision is effective on the date of enactment.

III. VOTES OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statements are made concerning the vote of the Committee on Ways and Means in its consideration of H.R. 3056, the "Tax Collection Responsibility Act of 2007."

MOTION TO REPORT RECOMMENDATIONS

The Chairman's Amendment in the Nature of a Substitute, as amended, was ordered favorably reported by a roll call vote of 23 yeas to 18 nays (with a quorum being present). The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. RANGEL.....	X			Mr. MCCRERY.....		X	
Mr. STARK.....	X			Mr. HERGER.....		X	
Mr. LEVIN.....	X			Mr. CAMP.....		X	
Mr. MCDERMOTT...	X			Mr. RAMSTAD.....		X	
Mr. LEWIS (GA)...	X			Mr. JOHNSON.....		X	
Mr. NEAL.....	X			Mr. ENGLISH.....		X	
Mr. MCNULTY.....	X			Mr. WELLER.....		X	
Mr. TANNER.....		X		Mr. HULSHOF.....		X	
Mr. BECERRA.....	X			Mr. LEWIS (KY)...		X	
Mr. DOGGETT.....	X			Mr. BRADY.....		X	
Mr. POMEROY.....	X			Mr. REYNOLDS....		X	
Ms. TUBBS JONES...	X			Mr. RYAN.....		X	
Mr. THOMPSON.....	X			Mr. CANTOR.....		X	
Mr. LARSON.....	X			Mr. LINDER.....		X	
Mr. EMANUEL.....	X			Mr. NUNES.....		X	
Mr. BLUMENAUER.	X			Mr. TIBERI.....		X	
Mr. KIND.....	X			Mr. PORTER.....		X	
Mr. PASCRELL.....	X						
Ms. BERKLEY.....	X						
Mr. CROWLEY.....	X						
Mr. VAN HOLLEN...	X						
Mr. MEEK.....	X						
Ms. SCHWARTZ.....	X						
Mr. DAVIS.....	X						

VOTES ON AMENDMENTS

A roll call vote was conducted on the following amendments to the Chairman's Amendment in the Nature of a Substitute.

An amendment by Mr. Herger, which would strike private debt collector and 3% withholding language and replace it with full repeal of 3% withholding, was defeated by a roll call vote of 17 yeas to 23 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. RANGEL.....		X		Mr. MCCRERY.....	X		
Mr. STARK.....		X		Mr. HERGER.....	X		
Mr. LEVIN.....		X		Mr. CAMP.....	X		
Mr. MCDERMOTT...		X		Mr. RAMSTAD.....	X		
Mr. LEWIS (GA)...		X		Mr. JOHNSON.....	X		
Mr. NEAL.....		X		Mr. ENGLISH.....	X		
Mr. MCNULTY.....		X		Mr. WELLER.....	X		
Mr. TANNER.....		X		Mr. HULSHOF.....	X		
Mr. BECERRA.....		X		Mr. LEWIS (KY)...	X		
Mr. DOGGETT.....		X		Mr. BRADY.....	X		
Mr. POMEROY.....		X		Mr. REYNOLDS....	X		
Ms. TUBBS JONES...		X		Mr. RYAN.....	X		
Mr. THOMPSON.....		X		Mr. CANTOR.....	X		
Mr. LARSON.....		X		Mr. LINDER.....	X		
Mr. EMANUEL.....		X		Mr. NUNES.....	X		
Mr. BLUMENAUER.				Mr. TIBERI.....	X		
Mr. KIND.....		X		Mr. PORTER.....	X		
Mr. PASCRELL.....		X					
Ms. BERKLEY.....		X					
Mr. CROWLEY.....		X					
Mr. VAN HOLLEN...		X					
Mr. MEEK.....		X					
Ms. SCHWARTZ.....		X					
Mr. DAVIS.....		X					

An amendment by Mr. Herger, which would strike private debt collector and delay implementation of 3% withholding provision to 2016, was defeated by a roll call vote of 17 yeas to 23 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. RANGEL.....		X		Mr. MCCRERY.....	X		
Mr. STARK.....		X		Mr. HERGER.....	X		
Mr. LEVIN.....		X		Mr. CAMP.....	X		
Mr. MCDERMOTT...		X		Mr. RAMSTAD.....	X		
Mr. LEWIS (GA)...		X		Mr. JOHNSON.....	X		
Mr. NEAL.....		X		Mr. ENGLISH.....	X		
Mr. MCNULTY.....		X		Mr. WELLER.....	X		
Mr. TANNER.....		X		Mr. HULSHOF.....	X		
Mr. BECERRA.....		X		Mr. LEWIS (KY)...	X		
Mr. DOGGETT.....		X		Mr. BRADY.....	X		
Mr. POMEROY.....		X		Mr. REYNOLDS....	X		
Ms. TUBBS JONES...		X		Mr. RYAN.....	X		
Mr. THOMPSON.....		X		Mr. CANTOR.....	X		
Mr. LARSON.....		X		Mr. LINDER.....	X		
Mr. EMANUEL.....		X		Mr. NUNES.....	X		
Mr. BLUMENAUER.				Mr. TIBERI.....	X		
Mr. KIND.....		X		Mr. PORTER.....	X		
Mr. PASCRELL.....		X					
Ms. BERKLEY.....		X					
Mr. CROWLEY.....		X					
Mr. VAN HOLLEN...		X					
Mr. MEEK.....		X					
Ms. SCHWARTZ.....		X					
Mr. DAVIS.....		X					

An amendment by Mr. English, which would exempt a taxpayer from penalties, as well as interest related to penalties resulting from failure to make sufficient quarterly tax payments resulting from new or increased liability as a result of the Alternative Minimum Tax in the year 2007, was defeated by a roll call vote of 17 yeas to 23 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. RANGEL.....		X		Mr. MCCRERY.....	X		
Mr. STARK.....		X		Mr. HERGER.....	X		
Mr. LEVIN.....		X		Mr. CAMP.....	X		
Mr. MCDERMOTT...		X		Mr. RAMSTAD.....	X		
Mr. LEWIS (GA)...		X		Mr. JOHNSON.....	X		
Mr. NEAL.....		X		Mr. ENGLISH.....	X		
Mr. MCNULTY.....		X		Mr. WELLER.....	X		
Mr. TANNER.....		X		Mr. HULSHOF.....	X		
Mr. BECERRA.....		X		Mr. LEWIS (KY)...	X		
Mr. DOGGETT.....		X		Mr. BRADY.....	X		
Mr. POMEROY.....		X		Mr. REYNOLDS....	X		
Ms. TUBBS JONES...		X		Mr. RYAN.....	X		
Mr. THOMPSON.....		X		Mr. CANTOR.....	X		
Mr. LARSON.....		X		Mr. LINDER.....	X		
Mr. EMANUEL.....		X		Mr. NUNES.....	X		
Mr. BLUMENAUER.				Mr. TIBERI.....	X		
Mr. KIND.....		X		Mr. PORTER.....	X		
Mr. PASCRELL.....		X					
Ms. BERKLEY.....		X					
Mr. CROWLEY.....		X					
Mr. VAN HOLLEN...		X					
Mr. MEEK.....		X					
Ms. SCHWARTZ.....		X					
Mr. DAVIS.....		X					

An amendment by Mr. Weller, which would make marriage tax relief enacted in 2001 and 2003 permanent, was defeated by a roll call vote of 17 yeas to 23 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. RANGEL.....		X		Mr. MCCRERY.....	X		
Mr. STARK.....		X		Mr. HERGER.....	X		
Mr. LEVIN.....		X		Mr. CAMP.....	X		
Mr. MCDERMOTT...		X		Mr. RAMSTAD.....	X		
Mr. LEWIS (GA)...		X		Mr. JOHNSON.....	X		
Mr. NEAL.....		X		Mr. ENGLISH.....	X		
Mr. MCNULTY.....		X		Mr. WELLER.....	X		
Mr. TANNER.....		X		Mr. HULSHOF.....	X		
Mr. BECERRA.....		X		Mr. LEWIS (KY)...	X		
Mr. DOGGETT.....		X		Mr. BRADY.....	X		
Mr. POMEROY.....		X		Mr. REYNOLDS....	X		
Ms. TUBBS JONES...		X		Mr. RYAN.....	X		
Mr. THOMPSON.....		X		Mr. CANTOR.....	X		
Mr. LARSON.....		X		Mr. LINDER.....	X		
Mr. EMANUEL.....		X		Mr. NUNES.....	X		
Mr. BLUMENAUER.				Mr. TIBERI.....	X		
Mr. KIND.....		X		Mr. PORTER.....	X		
Mr. PASCRELL.....		X					
Ms. BERKLEY.....		X					
Mr. CROWLEY.....		X					
Mr. VAN HOLLEN...		X					
Mr. MEEK.....		X					
Ms. SCHWARTZ.....		X					
Mr. DAVIS.....		X					

An amendment by Mr. Hulshof and Mr. Cantor, which would permanently extend the "death tax" repeal beyond 2010, was defeated by a roll call vote of 18 yeas to 23 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. RANGEL.....		X		Mr. MCCRERY.....	X		
Mr. STARK.....		X		Mr. HERGER.....	X		
Mr. LEVIN.....		X		Mr. CAMP.....	X		
Mr. MCDERMOTT...		X		Mr. RAMSTAD.....	X		
Mr. LEWIS (GA)...		X		Mr. JOHNSON.....	X		
Mr. NEAL.....		X		Mr. ENGLISH.....	X		
Mr. MCNULTY.....		X		Mr. WELLER.....	X		
Mr. TANNER.....		X		Mr. HULSHOF.....	X		
Mr. BECERRA.....		X		Mr. LEWIS (KY)...	X		
Mr. DOGGETT.....		X		Mr. BRADY.....	X		
Mr. POMEROY.....		X		Mr. REYNOLDS....	X		
Ms. TUBBS JONES...		X		Mr. RYAN.....	X		
Mr. THOMPSON.....		X		Mr. CANTOR.....	X		
Mr. LARSON.....		X		Mr. LINDER.....	X		
Mr. EMANUEL.....		X		Mr. NUNES.....	X		
Mr. BLUMENAUER.		X		Mr. TIBERI.....	X		
Mr. KIND.....		X		Mr. PORTER.....	X		
Mr. PASCRELL.....		X					
Ms. BERKLEY.....	X						
Mr. CROWLEY.....		X					
Mr. VAN HOLLEN...		X					
Mr. MEEK.....		X					
Ms. SCHWARTZ.....		X					
Mr. DAVIS.....		X					

An amendment by Mr. Brady, which would strike Section 2 of H.R. 3056, was defeated by a roll call vote of 18 yeas to 23 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. RANGEL.....		X		Mr. MCCRERY.....	X		
Mr. STARK.....		X		Mr. HERGER.....	X		
Mr. LEVIN.....		X		Mr. CAMP.....	X		
Mr. MCDERMOTT...		X		Mr. RAMSTAD.....	X		
Mr. LEWIS (GA)...		X		Mr. JOHNSON.....	X		
Mr. NEAL.....		X		Mr. ENGLISH.....	X		
Mr. MCNULTY.....		X		Mr. WELLER.....	X		
Mr. TANNER.....	X			Mr. HULSHOF.....	X		
Mr. BECERRA.....		X		Mr. LEWIS (KY)...	X		
Mr. DOGGETT.....		X		Mr. BRADY.....	X		
Mr. POMEROY.....		X		Mr. REYNOLDS....	X		
Ms. TUBBS JONES...		X		Mr. RYAN.....	X		
Mr. THOMPSON.....		X		Mr. CANTOR.....	X		
Mr. LARSON.....		X		Mr. LINDER.....	X		
Mr. EMANUEL.....		X		Mr. NUNES.....	X		
Mr. BLUMENAUER.		X		Mr. TIBERI.....	X		
Mr. KIND.....		X		Mr. PORTER.....	X		
Mr. PASCRELL.....		X					
Ms. BERKLEY.....		X					
Mr. CROWLEY.....		X					
Mr. VAN HOLLEN...		X					
Mr. MEEK.....		X					
Ms. SCHWARTZ.....		X					
Mr. DAVIS.....		X					

An amendment by Mr. Reynolds, which would double civil damages and criminal penalties for unauthorized inspection or disclosure of returns and return information, was defeated by a roll call vote of 17 yeas to 24 nays. The vote was as follows:

Representatives	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. RANGEL.....		X		Mr. MCCRERY.....	X		
Mr. STARK.....		X		Mr. HERGER.....	X		
Mr. LEVIN.....		X		Mr. CAMP.....	X		
Mr. MCDERMOTT...		X		Mr. RAMSTAD.....	X		
Mr. LEWIS (GA)...		X		Mr. JOHNSON.....	X		
Mr. NEAL.....		X		Mr. ENGLISH.....	X		
Mr. MCNULTY.....		X		Mr. WELLER.....	X		
Mr. TANNER.....		X		Mr. HULSHOF.....	X		
Mr. BECERRA.....		X		Mr. LEWIS (KY)...	X		
Mr. DOGGETT.....		X		Mr. BRADY.....	X		
Mr. POMEROY.....		X		Mr. REYNOLDS....	X		
Ms. TUBBS JONES...		X		Mr. RYAN.....	X		
Mr. THOMPSON.....		X		Mr. CANTOR.....	X		
Mr. LARSON.....		X		Mr. LINDER.....	X		
Mr. EMANUEL.....		X		Mr. NUNES.....	X		
Mr. BLUMENAUER.		X		Mr. TIBERI.....	X		
Mr. KIND.....		X		Mr. PORTER.....	X		
Mr. PASCRELL.....		X					
Ms. BERKLEY.....		X					
Mr. CROWLEY.....		X					
Mr. VAN HOLLEN...		X					
Mr. MEEK.....		X					
Ms. SCHWARTZ.....		X					
Mr. DAVIS.....		X					

IV. BUDGET EFFECTS OF THE BILL

A. Committee Estimate of Budgetary Effects

In compliance with clause 3(d)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 3056 as reported.

The bill is estimated to have the following effects on Federal budget receipts for fiscal years 2008–2017:

ESTIMATED REVENUE EFFECTS OF H.R. 3056,
THE "TAX COLLECTION RESPONSIBILITY ACT OF 2007,"
AS REPORTED BY THE COMMITTEE ON WAYS AND MEANS

Fiscal Years 2008 - 2017

[Millions of Dollars]

Provision	Effective	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-12	2008-17
A. Repeal of Private Debt Collection Contract Authority	[1]	-35	-101	-106	-116	-116	-116	-116	-116	-116	-116	-474	-1,054
B. Delayed Implementation of Government Withholding	DOE	---	---	---	-6,079	6,057	-11	-6	-3	-1	---	-23	-44
C. Application of Statute of Limitations Rules to Persons Claiming U.S. Virgin Islands Residency	tyba 1986	[2]	-1	-3	-5	-10	-10	-5	-3	-1	[2]	-19	-38
D. Revision of Tax Rules on Expatriation of Individuals - Impose Mark-to-Market and 10-Year Income Inclusion Rule on Individuals Who Expatriate	generally eo/a DOE	74	78	74	75	75	76	77	78	78	79	376	764
E. Repeal Suspension of Certain Interest and Penalties Where IRS Fails to Contact Taxpayer	[3]	9	13	13	13	13	13	13	13	13	14	61	128
F. Increase in Information Return Penalties	irrtbfo/a 1/1/08	---	---	12	35	36	37	38	39	41	42	83	280
G. Increase the Required Corporate Estimated Tax Payments Due in July, August, and September 2012 from 114.50 to 114.75 Percent of the Payment Otherwise Due for Corporations With Assets of at Least $1 Billion	DOE	---	---	---	---	155	-155	---	---	---	---	155	---
NET TOTAL		**49**	**-11**	**-10**	**-6,077**	**6,210**	**-166**	**1**	**8**	**14**	**19**	**160**	**37**

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding. The date of enactment is assumed to be October 1, 2007.

Legend for "Effective" column:
DOE = date of enactment
eo/a = expatriations on or after
irrtbfo/a = information returns required to be filed on or after
tyba = taxable years beginning after

[1] The provision is generally effective on the date of enactment, except for any contract which was entered into before July 18, 2007, and is not renewed or extended after such date. The provision also provides that any private debt collection contract which is entered into on or after July 18, 2007, and any extension or renewal on or after such date of any private debt collection contract shall be void.
[2] Loss of less than $500,000.
[3] Effective for IRS notices issued to taxpayers after November 25, 2007.

B. Statement Regarding New Budget Authority and Tax Expenditures Budget Authority

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority. The Committee further states that the revenue-reducing tax provisions involve increased tax expenditures. (See amounts in table in Part IV.A., above.)

C. Cost Estimate Prepared by the Congressional Budget Office

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the CBO, the following statement by CBO is provided:

U.S. Congress,
Congressional Budget Office,
Washington, DC, July 24, 2007.

Hon. Charles B. Rangel,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

Dear Mr. Chairman: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3056, the Tax Collection Responsibility Act of 2007.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Emily Schlect.

Sincerely,

Peter R. Orszag,
Director.

Enclosure.

H.R. 3056—Tax Collection Responsibility Act of 2007

Summary: H.R. 3056 would make several changes to tax law. Some would reduce revenue and others would raise revenue. The legislation would reduce revenue by repealing the private debt collection program and making other changes in tax rules. It would increase revenue by altering tax rules for expatriates and making other tax-related changes.

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

JCT has determined that the tax provisions of the bill contain no private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has reviewed the nontax provisions of H.R. 3056 (sections 2 and 3) and has determined that they contain no private-sector or intergovernmental mandates as defined in QMRA.

Estimated cost to the Federal Government: The estimated budgetary impact of the bill over the 2008–2017 period is shown in the following table.

	By fiscal year, in millions of dollars—											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008–2012	2008–2017
CHANGES IN REVENUES												
Repeal of Private Debt Collection Contract Authority	−49	−129	−135	−147	−147	−147	−147	−141	−147	−147	−607	−1,342
Delayed Implementation of Government Withholding	0	0	0	−6,079	−6,057	−11	−6	−3	−1	0	−23	−44
U.S. Virgin Islands Residency Tax Rules	*	−1	−3	−5	−10	−10	−5	−93	−1	*	−19	−38
Tax Rules for Expatriates	74	78	74	75	75	76	77	78	78	79	376	764
Repeal Suspension of Interest and Penalties	9	13	13	13	13	13	13	13	13	14	61	128
Increase Information Return Penalties	0	0	12	35	36	37	38	39	41	42	83	280
Increase the Corporate Estimated Tax Payments	0	0	0	0	155	−155	0	0	0	0	155	0
Total Changes in Revenues	34	−39	−39	−6,108	6,179	−197	−30	−23	−17	−12	26	−252
CHANGES IN DIRECT SPENDING												
IRS Contracting for Debt Collection:												
Estimated Budget Authority	−25	−65	−68	−74	−74	−74	−74	−74	−74	−74	−306	−676
Estimated Outlays	−25	−65	−68	−74	−74	−74	−74	−74	−74	−74	−306	−676

Notes.—Numbers may not add to totals due to rounding. * = Loss of less than $500,000.
Sources: Congressional Budget Office and Joint Committee on Taxation.

Basis of estimate: JCT and CBO assume that the bill will be enacted by October 1, 2007.

Revenues

The legislation would reduce and raise revenues through multiple tax provisions. All in all, JCT and CBO estimate that the bill would increase revenues by $26 million over the 2008–2012 period and decrease revenues by $252 million over the 2008–2017 period.

Revenue Reductions. Several provisions would reduce revenues over the 2008–2012 and 2008–2017 periods. First, the bill would repeal the Internal Revenue Service's (IRS's) authority to enter into qualified tax collection contracts with private collection agencies to collect delinquent tax liabilities. The repeal would not apply to contracts entered into before July 18, 2007. JCT estimates that this change would reduce revenues by $49 million in 2008, by $607 million over the 2008–2012 period, and by $1.3 billion over the 2008–2017 period. (JCT has indicated that CBO should reduce the estimated revenue loss that JCT initially estimated for the provision by $39 million in 2008 to reflect the exclusion of certain existing contracts.) The provision also would affect direct spending (see "Direct Spending" section).

Second, the bill would delay implementation of certain withholding requirements. Under current law, federal, state, and local governments must withhold taxes at a 3 percent rate on any payments for goods or services made after December 31, 2010. This bill would make the requirement applicable instead to payments made after December 31, 2011. JCT estimates that this provision would decrease revenues by $23 million over the 2008–2012 period and by $44 million over the 2008–2017 period.

Third, the bill would apply a statute of limitations on the collection of taxes from residents of the U.S. Virgin Islands (USVI). Residents must file income tax returns with the USVI, and certain residents do not also need to file returns with the U.S. government. In general, the IRS must levy taxes within three years after a return's due date. For certain residents of the USVI, this three-year period currently begins upon filing a return with the USVI. For others, it begins upon filing a return with the IRS. This bill would start the limitations period for all USVI residents when they file their returns with the USVI. JCT estimates that this provision would reduce revenues by less than $500,000 in 2008, by $19 million over the 2008–2012 period, and by $38 million over the 2008–2017 period.

Revenue Increases. Three other provisions would increase revenues. First, the bill would change tax rules related to U.S. expatriates. Under the bill, for tax purposes, expatriates' property would be treated as sold for its market value on the day before the expatriation. It would also subject expatriates to tax immediately rather than treating them as U.S. citizens or long-term residents until they give certain notice of expatriation. JCT estimates that this provision would increase revenues by $74 million in. 2008, by $376 million over the 2008–2012 period, and by $764 million over the 2008–2017 period.

Second, the bill would change the rules for accrual of interest and penalties on unpaid taxes. Currently, individuals must pay interest and penalties for unpaid taxes, but their accrual is sus-

pended starting 36 months after filing the tax return for those tax liabilities that may be assessed after that time. This bill would repeal that suspension. JCT estimates that this change would increase revenues by $9 million in 2008, by $61 million over the 2008–2012 period and by $128 million over the 2008–2017 period.

Third, under current law, certain individuals and businesses are penalized for filing incorrect information returns. For returns filed after January 1, 2008, H.R. 3056 would increase those penalties. JCT estimates that this provision would increase revenues by $83 million over the 2010–2012 period and by $280 million over the 2010–2017 period.

Other Revenue Effects. One provision would shift revenues between 2012 and 2013. For corporations with at least $1 billion in assets in 2012, the bill would increase the portion of corporate estimated tax payments due in July through September of that year. This change would increase revenues by $155 million in 2012 and decrease revenues by $155 million in 2013. This provision was also passed by the House of Representatives as part of H.J. Res 44 on July 23, 2007. If that legislation is enacted, this provision of H.R. 3056 would no longer have any budgetary effect.

Direct spending

As discussed above (under "Revenues"), section 2 would repeal the authority for the IRS to enter into any new or extended contracts for private debt collection after July 18, 2007. All current contracts would continue until they expire in March 2008. Under current law, the IRS enters into contracts with private collection agencies to collect delinquent tax liabilities owed to the government. Under those contracts, the IRS may allow those agencies to retain up to 25 percent of the amounts they collect. Another 25 percent of amounts collected is available to the IRS to spend on collection enforcement activities. Based on revenue estimates from JCT and using information from the IRS, CBO estimates that repealing the private debt collection authority and allowing the current contracts to expire would reduce direct spending by $25 million in 2008, $306 million over the 2008–2012 period, and $676 million over the 2008–2017 period.

Intergovernmental and private-sector impact: JCT has determined that the tax provisions of the bill contain no private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has reviewed the non-tax provisions of H.R. 3056 (sections 2 and 3) and has determined that they contain no private-sector or intergovernmental mandates as defined in UMRA. Enactment of section 3 would benefit state and local governments by delaying for one year the application of a requirement to withhold taxes on certain payments for goods and services.

Estimate prepared by: Federal Revenues: Emily Schlect; Federal Spending: Matthew Pickford; Impact on State, Local, and Tribal Governments: Teri Gullo; Impact on the Private Sector: Paige Piper/Bach.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis; Robert A. Sunshine, Assistant Director for Budget Analysis.

D. Macroeconomic Impact Analysis

In compliance with clause 3(h)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made by the Joint Committee on Taxation with respect to the provisions of the bill amending the Internal Revenue Code of 1986: the effects of the bill on economic activity are so small as to be incalculable within the context of a model of the aggregate economy.

E. PAY-GO Rule

In compliance with clause 10 of rule XXI of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the revenue provisions of the bill, H.R. 3056, as reported: the provisions of the bill affecting revenues have the net effect of not increasing the deficit or reducing the surplus for either: (1) the period comprising the current fiscal year and the five fiscal years beginning with the fiscal year that ends in the following calendar year; and (2) the period comprising the current fiscal year and the ten fiscal years beginning with the fiscal year that ends in the following calendar year.

V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

A. Committee Oversight Findings and Recommendations

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it is appropriate and timely to enact the revenue provisions included in the bill as reported.

B. Statement of General Performance Goals and Objectives

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that the bill contains no measure that authorizes funding, so no statement of general performance goals and objectives for which any measure authorizes funding is required.

C. Constitutional Authority Statement

With respect to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises * * * "), and from the 16th Amendment to the Constitution.

D. Information Relating to Unfunded Mandates

This information is provided in accordance with section 423 of the Unfunded Mandates Act of 1995 (Pub. L. No. 104–4).

The Committee has determined that the revenue provisions of the bill contain no Federal private sector mandates or Federal intergovernmental mandates on State, local, or tribal governments.

E. Applicability of House Rule XXI 5(b)

Clause 5 of rule XXI of the Rules of the House of Representatives provides, in part, that "A bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase may not be considered as passed or agreed to unless so determined by a vote of not less than three-fifths of the Members voting, a quorum being present." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increases within the meaning of the rule.

F. Tax Complexity Analysis

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 (the "IRS Reform Act") requires the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Department of the Treasury) to provide a tax complexity analysis. The complexity analysis is required for all legislation reported by the Senate Committee on Finance, the House Committee on Ways and Means, or any committee of conference if the legislation includes a provision that directly or indirectly amends the Internal Revenue Code and has widespread applicability to individuals or small businesses.

The staff of the Joint Committee on Taxation has determined that a complexity analysis is not required under section 4022(b) of the IRS Reform Act because the bill contains no provisions that amend the Code and that have "widespread applicability" to individuals or small businesses.

G. Limited Tax Benefits

Pursuant to clause 9 of rule XXI of the Rules of the House of Representatives, the Ways and Means Committee has determined that the bill as reported contains no congressional earmarks, limited tax benefits, or limited tariff benefits within the meaning of that rule.

VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

INTERNAL REVENUE CODE ACT OF 1986

* * * * * * *

Subtitle A—Income Taxes

* * * * * * *

CHAPTER 1—NORMAL TAXES AND SURTAXES

* * * * * * *

Subchapter N—Tax Based on Income From Sources Within or Without the United States

* * * * * * *

PART II—NONRESIDENT ALIENS AND FOREIGN CORPORATIONS

* * * * * * *

Subpart A—Nonresident Alien Individuals

Sec. 871. Tax on nonresident alien individuals.

* * * * * * *

Sec. 877A. Tax responsibilities of expatriation.

* * * * * * *

SEC. 877. EXPATRIATION TO AVOID TAX.

(a) * * *

* * * * * * *

(e) COMPARABLE TREATMENT OF LAWFUL PERMANENT RESIDENTS WHO CEASE TO BE TAXED AS RESIDENTS.—

[(1) IN GENERAL.—Any long-term resident of the United States who—

[(A) ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)), or

[(B) commences to be treated as a resident of a foreign country under the provisions of a tax treaty between the United States and the foreign country and who does not waive the benefits of such treaty applicable to residents of the foreign country,shall be treated for purposes of this section and sections 2107, 2501, and 6039G in the same manner as if such resident were a citizen of the United States who lost United States citizenship on the date of such cessation or commencement.]

(1) IN GENERAL.—Any long-term resident of the United States who ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)) shall be treated for purposes of this section and sections 2107, 2501, and 6039G in the same manner as if such resident were a citizen of the United States who lost United States citizenship on the date of such cessation or commencement.

* * * * * * *

SEC. 877A. TAX RESPONSIBILITIES OF EXPATRIATION.

(a) GENERAL RULES.—For purposes of this subtitle—

(1) MARK TO MARKET.—All property of a covered expatriate shall be treated as sold on the day before the expatriation date for its fair market value.

(2) RECOGNITION OF GAIN OR LOSS.—In the case of any sale under paragraph (1)—

(A) notwithstanding any other provision of this title, any gain arising from such sale shall be taken into account for the taxable year of the sale, and

(B) any loss arising from such sale shall be taken into account for the taxable year of the sale to the extent otherwise provided by this title, except that section 1091 shall not apply to any such loss.

Proper adjustment shall be made in the amount of any gain or loss subsequently realized for gain or loss taken into account under the preceding sentence, determined without regard to paragraph (3).

(3) EXCLUSION FOR CERTAIN GAIN.—

(A) IN GENERAL.—The amount which would (but for this paragraph) be includible in the gross income of any individual by reason of paragraph (1) shall be reduced (but not below zero) by $600,000.

(B) ADJUSTMENT FOR INFLATION.—

(i) IN GENERAL.—In the case of any taxable year beginning in a calendar year after 2008, the dollar amount in subparagraph (A) shall be increased by an amount equal to—

(I) such dollar amount, multiplied by

(II) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting "calendar year 2007" for "calendar year 1992" in subparagraph (B) thereof.

(ii) ROUNDING.—If any amount as adjusted under clause (i) is not a multiple of $1,000, such amount shall be rounded to the nearest multiple of $1,000.

(b) ELECTION TO DEFER TAX.—

(1) IN GENERAL.—If the taxpayer elects the application of this subsection with respect to any property treated as sold by reason of subsection (a), the time for payment of the additional tax attributable to such property shall be extended until the due date of the return for the taxable year in which such property is disposed of (or, in the case of property disposed of in a transaction in which gain is not recognized in whole or in part, until such other date as the Secretary may prescribe).

(2) DETERMINATION OF TAX WITH RESPECT TO PROPERTY.—For purposes of paragraph (1), the additional tax attributable to any property is an amount which bears the same ratio to the additional tax imposed by this chapter for the taxable year solely by reason of subsection (a) as the gain taken into account under subsection (a) with respect to such property bears to the total gain taken into account under subsection (a) with respect to all property to which subsection (a) applies.

(3) TERMINATION OF EXTENSION.—The due date for payment of tax may not be extended under this subsection later than the due date for the return of tax imposed by this chapter for the taxable year which includes the date of death of the expatriate (or, if earlier, the time that the security provided with respect to the property fails to meet the requirements of paragraph (4), unless the taxpayer corrects such failure within the time specified by the Secretary).

(4) SECURITY.—

(A) IN GENERAL.—No election may be made under paragraph (1) with respect to any property unless adequate security is provided with respect to such property.

(B) ADEQUATE SECURITY.—For purposes of subparagraph (A), security with respect to any property shall be treated as adequate security if—

(i) it is a bond which is furnished to, and accepted by, the Secretary, which is conditioned on the payment of tax (and interest thereon), and which meets the requirements of section 6325, or

(ii) it is another form of security for such payment (including letters of credit) that meets such requirements as the Secretary may prescribe.

(5) WAIVER OF CERTAIN RIGHTS.—No election may be made under paragraph (1) unless the taxpayer makes an irrevocable waiver of any right under any treaty of the United States which would preclude assessment or collection of any tax imposed by reason of this section.

(6) ELECTIONS.—An election under paragraph (1) shall only apply to property described in the election and, once made, is irrevocable.

(7) INTEREST.—For purposes of section 6601, the last date for the payment of tax shall be determined without regard to the election under this subsection.

(c) EXCEPTION FOR CERTAIN PROPERTY.—Subsection (a) shall not apply to—

(1) any deferred compensation item (as defined in subsection (d)(4)),

(2) any specified tax deferred account (as defined in subsection (e)(2)), and

(3) any interest in a nongrantor trust (as defined in subsection (f)(3)).

(d) TREATMENT OF DEFERRED COMPENSATION ITEMS.—

(1) WITHHOLDING ON ELIGIBLE DEFERRED COMPENSATION ITEMS.—

(A) IN GENERAL.—In the case of any eligible deferred compensation item, the payor shall deduct and withhold from any taxable payment to a covered expatriate with respect to such item a tax equal to 30 percent thereof.

(B) TAXABLE PAYMENT.—For purposes of subparagraph (A), the term "taxable payment" means with respect to a covered expatriate any payment to the extent it would be includible in the gross income of the covered expatriate if such expatriate continued to be subject to tax as a citizen or resident of the United States. A deferred compensation item shall be taken into account as a payment under the preceding sentence when such item would be so includible.

(2) OTHER DEFERRED COMPENSATION ITEMS.—In the case of any deferred compensation item which is not an eligible deferred compensation item—

(A)(i) with respect to any deferred compensation item to which clause (ii) does not apply, an amount equal to the present value of the covered expatriate's accrued benefit shall be treated as having been received by such individual

on the day before the expatriation date as a distribution under the plan, and

(ii) with respect to any deferred compensation item referred to in paragraph (4)(D), the rights of the covered expatriate to such item shall be treated as becoming transferable and not subject to a substantial risk of forfeiture on the day before the expatriation date,

(B) no early distribution tax shall apply by reason of such treatment, and

(C) appropriate adjustments shall be made to subsequent distributions from the plan to reflect such treatment.

(3) ELIGIBLE DEFERRED COMPENSATION ITEMS.—For purposes of this subsection, the term "eligible deferred compensation item" means any deferred compensation item with respect to which—

(A) the payor of such item is—

(i) a United States person, or

(ii) a person who is not a United States person but who elects to be treated as a United States person for purposes of paragraph (1) and meets such requirements as the Secretary may provide to ensure that the payor will meet the requirements of paragraph (1), and

(B) the covered expatriate—

(i) notifies the payor of his status as a covered expatriate, and

(ii) makes an irrevocable waiver of any right to claim any reduction under any treaty with the United States in withholding on such item.

(4) DEFERRED COMPENSATION ITEM.—For purposes of this subsection, the term "deferred compensation item" means—

(A) any interest in a plan or arrangement described in section 219(g)(5),

(B) any interest in a foreign pension plan or similar retirement arrangement or program,

(C) any item of deferred compensation, and

(D) any property, or right to property, which the individual is entitled to receive in connection with the performance of services to the extent not previously taken into account under section 83 or in accordance with section 83.

(5) EXCEPTION.—Paragraphs (1) and (2) shall not apply to any deferred compensation item which is attributable to services performed outside the United States while the covered expatriate was not a citizen or resident of the United States.

(6) SPECIAL RULES.—

(A) APPLICATION OF WITHHOLDING RULES.—Rules similar to the rules of subchapter B of chapter 3 shall apply for purposes of this subsection.

(B) APPLICATION OF TAX.—Any item subject to the withholding tax imposed under paragraph (1) shall be subject to tax under section 871.

(C) COORDINATION WITH OTHER WITHHOLDING REQUIREMENTS.—Any item subject to withholding under paragraph (1) shall not be subject to withholding under section 1441 or chapter 24.

(e) TREATMENT OF SPECIFIED TAX DEFERRED ACCOUNTS.—

(1) ACCOUNT TREATED AS DISTRIBUTED.—In the case of any interest in a specified tax deferred account held by a covered expatriate on the day before the expatriation date—

(A) the covered expatriate shall be treated as receiving a distribution of his entire interest in such account on the day before the expatriation date,

(B) no early distribution tax shall apply by reason of such treatment, and

(C) appropriate adjustments shall be made to subsequent distributions from the account to reflect such treatment.

(2) SPECIFIED TAX DEFERRED ACCOUNT.—For purposes of paragraph (1), the term "specified tax deferred account" means an individual retirement plan (as defined in section 7701(a)(37)) other than any arrangement described in subsection (k) or (p) of section 408, a qualified tuition program (as defined in section 529), a Coverdell education savings account (as defined in section 530), a health savings account (as defined in section 223), and an Archer MSA (as defined in section 220).

(f) SPECIAL RULES FOR NONGRANTOR TRUSTS.—

(1) IN GENERAL.—In the case of a distribution (directly or indirectly) of any property from a nongrantor trust to a covered expatriate—

(A) the trustee shall deduct and withhold from such distribution an amount equal to 30 percent of the taxable portion of the distribution, and

(B) if the fair market value of such property exceeds its adjusted basis in the hands of the trust, gain shall be recognized to the trust as if such property were sold to the expatriate at its fair market value.

(2) TAXABLE PORTION.—For purposes of this subsection, the term "taxable portion" means, with respect to any distribution, that portion of the distribution which would be includible in the gross income of the covered expatriate if such expatriate continued to be subject to tax as a citizen or resident of the United States.

(3) NONGRANTOR TRUST.—For purposes of this subsection, the term "nongrantor trust" means the portion of any trust that the individual is not considered the owner of under subpart E of part I of subchapter J. The determination under the preceding sentence shall be made immediately before the expatriation date.

(4) SPECIAL RULES RELATING TO WITHHOLDING.—For purposes of this subsection—

(A) rules similar to the rules of subsection (d)(6) shall apply, and

(B) the covered expatriate shall be treated as having waived any right to claim any reduction under any treaty with the United States in withholding on any distribution to which paragraph (1)(A) applies.

(g) DEFINITIONS AND SPECIAL RULES RELATING TO EXPATRIATION.—For purposes of this section—

(1) COVERED EXPATRIATE.—

(A) IN GENERAL.—The term "covered expatriate" means an expatriate who meets the requirements of subparagraph (A), (B), or (C) of section 877(a)(2).

(B) EXCEPTIONS.—An individual shall not be treated as meeting the requirements of subparagraph (A) or (B) of section 877(a)(2) if—

(i) the individual—

(I) became at birth a citizen of the United States and a citizen of another country and, as of the expatriation date, continues to be a citizen of, and is taxed as a resident of, such other country, and

(II) has been a resident of the United States (as defined in section 7701(b)(1)(A)(ii)) for not more than 10 taxable years during the 15-taxable year period ending with the taxable year during which the expatriation date occurs, or

(ii)(I) the individual's relinquishment of United States citizenship occurs before such individual attains age 18½, and

(II) the individual has been a resident of the United States (as so defined) for not more than 10 taxable years before the date of relinquishment.

(C) COVERED EXPATRIATES ALSO SUBJECT TO TAX AS CITIZENS OR RESIDENTS.—In the case of any covered expatriate who is subject to tax as a citizen or resident of the United States for any period beginning after the expatriation date, such individual shall not be treated as a covered expatriate during such period for purposes of subsections (d)(1) and (f) and section 2801.

(2) EXPATRIATE.—The term "expatriate" means—

(A) any United States citizen who relinquishes his citizenship, and

(B) any long-term resident of the United States who ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)).

(3) EXPATRIATION DATE.—The term "expatriation date" means—

(A) the date an individual relinquishes United States citizenship, or

(B) in the case of a long-term resident of the United States, the date on which the individual ceases to be a lawful permanent resident of the United States (within the meaning of section 7701(b)(6)).

(4) RELINQUISHMENT OF CITIZENSHIP.—A citizen shall be treated as relinquishing his United States citizenship on the earliest of—

(A) the date the individual renounces his United States nationality before a diplomatic or consular officer of the United States pursuant to paragraph (5) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(5)),

(B) the date the individual furnishes to the United States Department of State a signed statement of voluntary relinquishment of United States nationality confirming the performance of an act of expatriation specified in paragraph (1), (2), (3), or (4) of section 349(a) of the Immigration and Nationality Act (8 U.S.C. 1481(a)(1)–(4)),

(C) the date the United States Department of State issues to the individual a certificate of loss of nationality, or

(D) the date a court of the United States cancels a naturalized citizen's certificate of naturalization.

Subparagraph (A) or (B) shall not apply to any individual unless the renunciation or voluntary relinquishment is subsequently approved by the issuance to the individual of a certificate of loss of nationality by the United States Department of State.

(5) LONG-TERM RESIDENT.—The term "long-term resident" has the meaning given to such term by section 877(e)(2).

(6) EARLY DISTRIBUTION TAX.—The term "early distribution tax" means any increase in tax imposed under section 72(t), 220(e)(4), 223(f)(4), 409A(a)(1)(B), 529(c)(6), or 530(d)(4).

(h) OTHER RULES.—

(1) TERMINATION OF DEFERRALS, ETC.—In the case of any covered expatriate, notwithstanding any other provision of this title—

(A) any time period for acquiring property which would result in the reduction in the amount of gain recognized with respect to property disposed of by the taxpayer shall terminate on the day before the expatriation date, and

(B) any extension of time for payment of tax shall cease to apply on the day before the expatriation date and the unpaid portion of such tax shall be due and payable at the time and in the manner prescribed by the Secretary.

(2) STEP-UP IN BASIS.—Solely for purposes of determining any tax imposed by reason of subsection (a), property which was held by an individual on the date the individual first became a resident of the United States (within the meaning of section 7701(b)) shall be treated as having a basis on such date of not less than the fair market value of such property on such date. The preceding sentence shall not apply if the individual elects not to have such sentence apply. Such an election, once made, shall be irrevocable.

(3) COORDINATION WITH SECTION 684.—If the expatriation of any individual would result in the recognition of gain under section 684, this section shall be applied after the application of section 684.

(i) REGULATIONS.—The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the purposes of this section.

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PART III—INCOME FROM SOURCES WITHOUT THE UNITED STATES

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Subpart D—Possessions of the United States

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SEC. 932. COORDINATION OF UNITED STATES AND VIRGIN ISLANDS INCOME TAXES.

(a) * * *

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(c) TREATMENT OF VIRGIN ISLANDS RESIDENTS.—

(1) * * *

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(5) TREATMENT OF INCOME TAX RETURN FILED WITH VIRGIN ISLANDS.—An income tax return filed with the Virgin Islands by an individual claiming to be described in paragraph (1) for the taxable year shall be treated for purposes of subtitle F in the same manner as if such return were an income tax return filed with the United States for such taxable year. The preceding sentence shall not apply where such return is false or fraudulent with the intent to avoid tax or otherwise is a willful attempt in any manner to defeat or evade tax.

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Subtitle B—Estate and Gift Taxes

CHAPTER 11. ESTATE TAX.

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CHAPTER 15. GIFTS AND BEQUESTS FROM EXPATRIATES.

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CHAPTER 15—GIFTS AND BEQUESTS FROM EXPATRIATES

Sec. 2801. Imposition of tax.

SEC. 2801. IMPOSITION OF TAX.

(a) IN GENERAL.—If, during any calendar year, any United States citizen or resident receives any covered gift or bequest, there is hereby imposed a tax equal to the product of—

(1) the highest rate of tax specified in the table contained in section 2001(c) as in effect on the date of such receipt (or, if greater, the highest rate of tax specified in the table applicable under section 2502(a) as in effect on the date), and

(2) the value of such covered gift or bequest.

(b) TAX TO BE PAID BY RECIPIENT.—The tax imposed by subsection (a) on any covered gift or bequest shall be paid by the person receiving such gift or bequest.

(c) EXCEPTION FOR CERTAIN GIFTS.—Subsection (a) shall apply only to the extent that the value of covered gifts and bequests received by any person during the calendar year exceeds $10,000.

(d) TAX REDUCED BY FOREIGN GIFT OR ESTATE TAX.—The tax imposed by subsection (a) on any covered gift or bequest shall be reduced by the amount of any gift or estate tax paid to a foreign country with respect to such covered gift or bequest.

(e) COVERED GIFT OR BEQUEST.—

(1) IN GENERAL.—For purposes of this chapter, the term "covered gift or bequest" means—

(A) any property acquired by gift directly or indirectly from an individual who, at the time of such acquisition, is a covered expatriate, and

(B) any property acquired directly or indirectly by reason of the death of an individual who, immediately before such death, was a covered expatriate.

(2) EXCEPTIONS FOR TRANSFERS OTHERWISE SUBJECT TO ESTATE OR GIFT TAX.—Such term shall not include—

(A) any property shown on a timely filed return of tax imposed by chapter 12 which is a taxable gift by the covered expatriate, and

(B) any property included in the gross estate of the covered expatriate for purposes of chapter 11 and shown on a timely filed return of tax imposed by chapter 11 of the estate of the covered expatriate.

(3) TRANSFERS IN TRUST.—

(A) DOMESTIC TRUSTS.—In the case of a covered gift or bequest made to a domestic trust—

(i) subsection (a) shall apply in the same manner as if such trust were a United States citizen, and

(ii) the tax imposed by subsection (a) on such gift or bequest shall be paid by such trust.

(B) FOREIGN TRUSTS.—

(i) IN GENERAL.—In the case of a covered gift or bequest made to a foreign trust, subsection (a) shall apply to any distribution attributable to such gift or bequest from such trust (whether from income or corpus) to a United States citizen or resident in the same manner as if such distribution were a covered gift or bequest.

(ii) DEDUCTION FOR TAX PAID BY RECIPIENT.—There shall be allowed as a deduction under section 164 the amount of tax imposed by this section which is paid or accrued by a United States citizen or resident by reason of a distribution from a foreign trust, but only to the extent such tax is imposed on the portion of such distribution which is included in the gross income of such citizen or resident.

(iii) ELECTION TO BE TREATED AS DOMESTIC TRUST.—Solely for purposes of this section, a foreign trust may elect to be treated as a domestic trust. Such an election may be revoked with the consent of the Secretary.

(f) COVERED EXPATRIATE.—For purposes of this section, the term "covered expatriate" has the meaning given to such term by section 877A(g)(1).

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Subtitle F—Procedure and Administration

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CHAPTER 61—INFORMATION AND RETURNS

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Subchapter A—Returns and Records

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PART III—INFORMATION RETURNS

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Subpart A—Information Concerning Persons Subject to Special Provisions

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SEC. 6039G. INFORMATION ON INDIVIDUALS LOSING UNITED STATES CITIZENSHIP.

(a) IN GENERAL.—Notwithstanding any other provision of law, any individual to whom section 877(b) *or 877A* applies for any taxable year shall provide a statement for such taxable year which includes the information described in subsection (b).

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(d) INFORMATION TO BE PROVIDED TO SECRETARY.—Notwithstanding any other provision of law—

(1) * * *

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Notwithstanding any other provision of law, not later than 30 days after the close of each calendar quarter, the Secretary shall publish in the Federal Register the name of each individual losing United States citizenship (within the meaning of section 877(a) *or 877A*) with respect to whom the Secretary receives information under the preceding sentence during such quarter.

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CHAPTER 64—COLLECTION

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Subchapter A—General Provisions

Sec. 6301. Collection authority.

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[Sec. 6306. Qualified tax collection contracts.]

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[SEC. 6306. QUALIFIED TAX COLLECTION CONTRACTS.

[(a) IN GENERAL.—Nothing in any provision of law shall be construed to prevent the Secretary from entering into a qualified tax collection contract.

[(b) QUALIFIED TAX COLLECTION CONTRACT.—For purposes of this section, the term "qualified tax collection contract" means any contract which—

[(1) is for the services of any person (other than an officer or employee of the Treasury Department)—

[(A) to locate and contact any taxpayer specified by the Secretary,

[(B) to request full payment from such taxpayer of an amount of Federal tax specified by the Secretary and, if such request cannot be met by the taxpayer, to offer the taxpayer an installment agreement providing for full payment of such amount during a period not to exceed 5 years, and

[(C) to obtain financial information specified by the Secretary with respect to such taxpayer,

[(2) prohibits each person providing such services under such contract from committing any act or omission which employees of the Internal Revenue Service are prohibited from committing in the performance of similar services,

[(3) prohibits subcontractors from—

[(A) having contacts with taxpayers,

[(B) providing quality assurance services, and

[(C) composing debt collection notices, and

[(4) permits subcontractors to perform other services only with the approval of the Secretary.

[(c) FEES.—The Secretary may retain and use—

[(1) an amount not in excess of 25 percent of the amount collected under any qualified tax collection contract for the costs of services performed under such contract, and

[(2) an amount not in excess of 25 percent of such amount collected for collection enforcement activities of the Internal Revenue Service.

The Secretary shall keep adequate records regarding amounts so retained and used. The amount credited as paid by any taxpayer shall be determined without regard to this subsection.

[(d) NO FEDERAL LIABILITY.—The United States shall not be liable for any act or omission of any person performing services under a qualified tax collection contract.

[(e) APPLICATION OF FAIR DEBT COLLECTION PRACTICES ACT.—The provisions of the Fair Debt Collection Practices Act (15 U.S.C. 1692 et seq.) shall apply to any qualified tax collection contract, except to the extent superseded by section 6304, section 7602(c), or by any other provision of this title.

[(f) CROSS REFERENCES.—

[(1) For damages for certain unauthorized collection actions by persons performing services under a qualified tax collection contract, see section 7433A.

[(2) For application of Taxpayer Assistance Orders to persons performing services under a qualified tax collection contract, see section 7811(g).]

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CHAPTER 65—ABATEMENTS, CREDITS, AND REFUNDS

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Subchapter A—Procedure in General

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SEC. 6404. ABATEMENTS.

(a) * * *

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[(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 36-month period 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. If, after the return for a taxable year is filed, the taxpayer provides to the Secretary 1 or more signed written documents showing that the taxpayer owes an additional amount of tax for the taxable year, clause (i) shall be applied by substituting the date the last of the documents was provided for the date on which the return is filed.

[(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;

[(D) any interest, penalty, addition to tax, or additional amount with respect to any gross misstatement;

[(E) any interest, penalty, addition to tax, or additional amount with respect to any reportable transaction with respect to which the requirement of section 6664(d)(2)(A) is not met and any listed transaction (as defined in 6707A(c)); or

[(F) 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 36-month period 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.]

[(h)] *(g)* REVIEW OF DENIAL OF REQUEST FOR ABATEMENT OF INTEREST.—

(1) * * *

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CHAPTER 68—ADDITIONS TO THE TAX, ADDITIONAL AMOUNTS, AND ASSESSABLE PENALTIES

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Subchapter B—Assessable Penalties

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PART II—FAILURE TO COMPLY WITH CERTAIN INFORMATION REPORTING REQUIREMENTS

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SEC. 6721. FAILURE TO FILE CORRECT INFORMATION RETURNS/

(a) IMPOSITION OF PENALTY.—

(1) IN GENERAL.—In the case of a failure described in paragraph (2) by any person with respect to an information return, such person shall pay a penalty of **[**$50**]** *$100* for each return with respect to which such a failure occurs, but the total amount imposed on such person for all such failures during any calendar year shall not exceed **[**$250,000**]** *$600,000*.

* * * * * * *

(b) REDUCTION WHERE CORRECTION IN SPECIFIED PERIOD.—

(1) CORRECTION WITHIN 30 DAYS.—If any failure described in subsection (a)(2) is corrected on or before the day 30 days after the required filing date—

(A) the penalty imposed by subsection (a) shall be **[**$15**]** *$25* in lieu of **[**$50**]** *$100*, and

(B) the total amount imposed on the person for all such failures during any calendar year which are so corrected shall not exceed **[**$75,000**]** *$200,000*.

(2) FAILURES CORRECTED ON OR BEFORE AUGUST 1.—If any failure described in subsection (a)(2) is corrected after the 30th day referred to in paragraph (1) but on or before August 1 of the calendar year in which the required filing date occurs—

(A) the penalty imposed by subsection (a) shall be **[**$30**]** *$60* in lieu of **[**$50**]** *$100*, and

(B) the total amount imposed on the person for all such failures during the calendar year which are so corrected shall not exceed **[**$150,000**]** *$400,000*.

* * * * * * *

(d) LOWER LIMITATIONS FOR PERSONS WITH GROSS RECEIPTS OF NOT MORE THAN $5,000,000.—

(1) IN GENERAL.—If any person meets the gross receipts test of paragraph (2) with respect to any calendar year, with respect to failures during such taxable year—

(A) subsection (a)(1) shall be applied by substituting "**[**$100,000**]** *$250,000*" for "**[**$250,000**]** *$600,000*",

(B) subsection (b)(1)(B) shall be applied by substituting "**[**$25,000**]** *$75,000*" for "**[**$75,000**]** *$200,000*", and

(C) subsection (b)(2)(B) shall be applied by substituting "**[**$50,000**]** *$150,000*" for "**[**$150,000**]** *$400,000*".

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(e) PENALTY IN CASE OF INTENTIONAL DISREGARD.—If 1 or more failures described in subsection (a)(2) are due to intentional disregard of the filing requirement (or the correct information reporting requirement), then, with respect to each such failure—

(1) * * *

(2) the penalty imposed under subsection (a) shall be **[**$100**]** *$250*, or, if greater—

(A) * * *

* * * * * * *

(3) in the case of any penalty determined under paragraph (2)—

(A) the **[**$250,000**]** *$600,000* limitation under subsection (a) shall not apply, and

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SEC. 6722. FAILURE TO FURNISH CORRECT PAYEE STATEMENTS.

(a) GENERAL RULE.—In the case of each failure described in subsection (b) by any person with respect to a payee statement, such person shall pay a penalty of **[**$50**]** *$100* for each statement with respect to which such a failure occurs, but the total amount imposed on such person for all such failures during any calendar year shall not exceed **[**$100,000**]** *$600,000*.

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(c) PENALTY IN CASE OF INTENTIONAL DISREGARD.—If 1 or more failures to which subsection (a) applies are due to intentional disregard of the requirement to furnish a payee statement (or the correct information reporting requirement), then, with respect to each failure—

(1) the penalty imposed under subsection (a) shall be **[**$100**]** *$250*, or, if greater—

(A) * * *

* * * * * * *

(2) in the case of any penalty determined under paragraph (1)—

(A) the **[**$100,000**]** *$600,000* limitation under subsection (a) shall not apply, and

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SEC. 6723. FAILURE TO COMPLY WITH OTHER INFORMATION REPORTING REQUIREMENTS.

In the case of a failure by any person to comply with a specified information reporting requirement on or before the time prescribed therefor, such person shall pay a penalty of **[**$50**]** *$100* for each such failure, but the total amount imposed on such person for all such failures during any calendar year shall not exceed **[**$100,000**]** *$600,000*.

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CHAPTER 76—JUDICIAL PROCEEDINGS

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Subchapter B—Proceedings by Taxpayers and Third Parties

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Sec. 7421. Prohibition of suits to restrain assessment or collection.

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[Sec. 7433A. Civil damages for certain unauthorized collection actions by persons performing services under qualified tax collection contracts.]

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[SEC. 7433A. CIVIL DAMAGES FOR CERTAIN UNAUTHORIZED COLLECTION ACTIONS BY PERSONS PERFORMING SERVICES UNDER QUALIFIED TAX COLLECTION CONTRACTS.

[(a) IN GENERAL.—Subject to the modifications provided by subsection (b), section 7433 shall apply to the acts and omissions of any person performing services under a qualified tax collection contract (as defined in section 6306(b)) to the same extent and in the same manner as if such person were an employee of the Internal Revenue Service.

[(b) MODIFICATIONS.—For purposes of subsection (a):

[(1) Any civil action brought under section 7433 by reason of this section shall be brought against the person who entered into the qualified tax collection contract with the Secretary and shall not be brought against the United States.

[(2) Such person and not the United States shall be liable for any damages and costs determined in such civil action.

[(3) Such civil action shall not be an exclusive remedy with respect to such person.

[(4) subsections (c), (d)(1), and (e) of section 7433 shall not apply.]

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CHAPTER 79—DEFINITIONS

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SEC. 7701. DEFINITIONS.

(a) When used in this title, where not otherwise distinctly expressed or manifestly incompatible with the intent thereof—

(1) * * *

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(50) TERMINATION OF UNITED STATES CITIZENSHIP.—

(A) IN GENERAL.—An individual shall not cease to be treated as a United States citizen before the date on which the individual's citizenship is treated as relinquished under section 877A(g)(4).

(B) DUAL CITIZENS.—Under regulations prescribed by the Secretary, subparagraph (A) shall not apply to an individual who became at birth a citizen of the United States and a citizen of another country.

(b) DEFINITION OF RESIDENT ALIEN AND NONRESIDENT ALIEN.—

(1) * * *

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(6) LAWFUL PERMANENT RESIDENT.—For purposes of this subsection, an individual is a lawful permanent resident of the United States at any time if—

(A) * * *

* * * * * * *

An individual shall cease to be treated as a lawful permanent resident of the United States if such individual commences to be treated as a resident of a foreign country under the provisions of a tax treaty between the United States and the foreign country, does not waive the benefits of such treaty applicable to residents of the foreign country, and notifies the Secretary of the commencement of such treatment.

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[(n) SPECIAL RULES FOR DETERMINING WHEN AN INDIVIDUAL IS NO LONGER A UNITED STATES CITIZEN OR LONG-TERM RESIDENT.—For purposes of this chapter—

[(1) UNITED STATES CITIZENS.—An individual who would (but for this paragraph) cease to be treated as a citizen of the United States shall continue to be treated as a citizen of the United States until such individual—

[(A) gives notice of an expatriating act (with the requisite intent to relinquish citizenship) to the Secretary of State, and

[(B) provides a statement in accordance with section 6039G (if such a statement is otherwise required).

[(2) LONG-TERM RESIDENTS.—A long-term resident (as defined in section 877(e)(2)) who would (but for this paragraph) be described in section 877(e)(1) shall be treated as a lawful permanent resident of the United States and as not described in section 877(e)(1) until such individual—

[(A) gives notice of termination of residency (with the requisite intent to terminate residency) to the Secretary of Homeland Security, and

[(B) provides a statement in accordance with section 6039G (if such a statement is otherwise required).]

[(o)] *(n)* CONVENTION OR ASSOCIATION OF CHURCHES.—For purposes of this title, any organization which is otherwise a convention or association of churches shall not fail to so qualify merely because the membership of such organization includes individuals as well as churches or because individuals have voting rights in such organization.

[(p)] *(o)* CROSS REFERENCES.—

(1) * * *

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CHAPTER 80—GENERAL RULES

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Subchapter A—Application of Internal Revenue Laws

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SEC. 7811. TAXPAYER ASSISTANCE ORDERS.

(a) * * *

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[(g) APPLICATION TO PERSONS PERFORMING SERVICES UNDER A QUALIFIED TAX COLLECTION CONTRACT.—Any order issued or action taken by the National Taxpayer Advocate pursuant to this section shall apply to persons performing services under a qualified tax collection contract (as defined in section 6306(b)) to the same extent and in the same manner as such order or action applies to the Secretary.]

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SECTION 1203 INTERNAL REVENUE SERVICE RESTRUCTING ACT OF 1998

SEC. 1203. TERMINATION OF EMPLOYMENT FOR MISCONDUCT.

(a) * * *

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[(e) INDIVIDUALS PERFORMING SERVICES UNDER A QUALIFIED TAX COLLECTION CONTRACT.—An individual shall cease to be permitted to perform any services under any qualified tax collection contract (as defined in section 6306(b) of the Internal Revenue Code of 1986) if there is a final determination by the Secretary of the Treasury under such contract that such individual committed any act or omission described under subsection (b) in connection with the performance of such services.]

TAX INCREASE PREVENTION AND RECONCILIATION ACT OF 2005

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TITLE IV—CORPORATE ESTIMATED TAX PROVISIONS

SEC. 401. TIME FOR PAYMENT OF CORPORATE ESTIMATED TAXES.

Notwithstanding section 6655 of the Internal Revenue Code of 1986—

(1) in the case of a corporation with assets of not less than $1,000,000,000 (determined as of the end of the preceding taxable year)—

(A) * * *

(B) the amount of any required installment of corporate estimated tax which is otherwise due in July, August, or

September of 2012 shall be [114.50] *114.75* percent of such amount,

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TITLE V—REVENUE OFFSET PROVISIONS

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SEC. 511. IMPOSITION OF WITHHOLDING ON CERTAIN PAYMENTS MADE BY GOVERNMENT ENTITIES.

(a) * * *

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to payments made after December 31, [2010] *2011*.

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VII. DISSENTING VIEWS

On Wednesday, May 23, 2007, the Ways and Means Committee held a hearing on the Internal Revenue Service's use of private collection agencies (PCAs) to collect Federal income taxes. During the hearing we heard repeated assurances from the IRS that the tax liabilities assigned to PCAs for collection would otherwise go uncollected even if the IRS had a greater enforcement budget. Turning a deaf ear, the Democrats have put forth H.R. 3056 with repeal of the IRS's authority to use PCAs as the bill's centerpiece. This bill raises revenue from the wrong places while reducing tax receipts in some ways that are questionable at best. We oppose passage of this bill.

PRIVATE TAX COLLECTION

We strongly oppose the provision killing the private collection agency program. The hearing we held earlier this year showed the skill and patience PCA employees employ to avoid disclosing any confidential taxpayer information. Even though the PCAs lack many of the enforcement-enhancing tools of the IRS, such as lien and levy, they are successfully collecting millions of dollars in unpaid taxes that the IRS would not otherwise pursue.

These are liabilities which are not in dispute. The taxpayer simply chose not to pay-even after the IRS sent multiple notices reminding the affected taxpayers of their unpaid obligation. During consideration of the bill, Members of the Majority spoke of the "special relationship" between taxpayers and the IRS. Most taxpayers we talk to would hardly consider that relationship special. And for those who have ignored the IRS's multiple notices about the delinquent liabilities, it is even harder to characterize the relationship that way.

The Majority attempted to argue the cost to taxpayers would be even less if the IRS went after these obligations. This is not true. The IRS is presently ill-equipped to engage in the massive outbound call operations the PCAs use to collect these obligations. The Majority cited poorly designed estimates that compared the efficiency of the IRS with PCAs on an apples-to-oranges basis which fail to account for the large costs the IRS would have to incur to tackle these cases and other factors. In fact, a GAO report (GAO–04–492) did an apples-to-apples analysis " * * * under which the IRS would hire additional staff to work on the same volume for selected types of cases on which the PCAs would work. According to the analysis, PCAs would generate $4.6 in revenue for every dollar in cost and IRS employees would generate $4.1."

As of June 30, 2007, 77,400 cases have been placed with the PCAs. Full payment has been received in 5,381 of these cases. In addition, 1,855 taxpayers have entered into installment agreements. The PCAs have already collected $24 million in gross rev-

enue that would not have been collected otherwise, making this a tax-gap closing program with a proven track record.

According to the Joint Committee on Taxation, killing the program will reduce Federal budget receipts by $1.1 billion during the 2007 to 2017 period. The Majority is willing to raise taxes to pay for killing this tax gap closing program.

ADDITIONAL TAX ON INDIVIDUALS WHO EXPATRIATE

One such offset in the bill imposes a new tax on individuals who attempt to renounce their U.S. citizenship or terminate long-term residency. In addition to the present rules—which subject them to most U.S. taxes for 10 years after they expatriate—the bill imposes an exit tax on the expatriate's assets, essentially requiring these individuals to pay the amount of tax that would be due if those assets were sold at the time of expatriation.

This seems like a substantial change in policy and is something the Committee ought to explore fully before acting. As part of an investigation into the issue, perhaps the Committee can also explore the relationship between our high tax rates that provide for the underlying incentive for individuals and corporations to move overseas and our declining competitiveness in the global marketplace.

PENALTIES AND INTEREST

H.R. 3056 would substantially increase penalties on businesses for failing to file information returns, such as 1099s on a timely basis. We certainly recognize that such third-party information reporting contributes to substantially higher compliance rates.

In this case, however, increasing penalties on those who fail to file timely information returns does not induce better compliance by third parties whose information is being reported.

Rather, the added revenue comes from assessing fees on businesses that may be fully compliant with respect to their own tax obligations but for some reason are late in filing 1099 returns about the income of others.

That is not a way to close the tax gap; it is a way to collect more money from already compliant taxpayers. Why stop at penalties of $50 or $100 per violation? If the Majority sets the fees for late filing high enough, perhaps they can eliminate the deficit without "raising taxes" on anyone.

INACTION ON BROADER ISSUES

The Majority's interest in protecting tax deadbeats and in raising penalties can be put into perspective by examining their inaction on extending relief from the Alternative Minimum Tax (AMT). Since the Republicans initiated such relief in 2001, an extension was always done in a timely fashion. The Democrats have not extended this relief yet and are permitting 19 million more taxpayers to fall prey to the AMT for tax year 2007. Since it is unlikely the majority of these taxpayers have adjusted their withholdings and estimated payments to account for this tax-increase surprise, the Majority will be raising additional revenue through interest and

penalties on taxpayers with insufficient withholdings and estimated payments due to this AMT surprise.

In response, we voted for an amendment offered by Mr. English to exempt taxpayers from interest and penalties, resulting from failures to make sufficient withholding and estimated tax payments to account for increased tax liabilities as a result the Majority's inaction on AMT. In the end, the Majority voted down the amendment. It seems protecting tax deadbeats is more important to the Majority than shielding unsuspecting taxpayers from interest and penalties resulting from Congressional inaction on the AMT.

Similarly, Mr. Herger offered an amendment that would have restored the PCA program and used some of the revenues it will generate over the next decade to add an additional delay in implementing the 3-percent withholding rules for government contractors. This amendment would have improved the bill substantially, but it was rejected on a similar party-line vote.

CONCLUSION

The tax gap, estimated at nearly $300 billion per year, can't be closed by waving a magic wand. Rather, ensuring that all taxes owed are actually paid requires many small steps to target facets of the problem. By terminating a proven method of ensuring all Americans pay their fair share, H.R. 3056 takes a giant step in the opposite direction. We urge our colleagues to vote against it.

JIM MCCRERY.
WALLY HERGER.
DAVE CAMP.
JIM RAMSTAD.
SAM JOHNSON.
PHIL ENGLISH.
JERRY WELLER.
KENNY HULSHOF.
RON LEWIS.
KEVIN BRADY.
THOMAS M. REYNOLDS.
PAUL RYAN.
ERIC CANTOR.
JOHN LINDER.
DEVIN NUNES.
PAT TIBERI.
JON C. PORTER.

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