

Public Law 104-168  
104th Congress

An Act

July 30, 1996  
[H.R. 2337]

To amend the Internal Revenue Code of 1986 to provide for increased taxpayer protections.

Taxpayer Bill of Rights 2.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

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

26 USC 1 note.

(a) **SHORT TITLE.**—This Act may be cited as the “Taxpayer Bill of Rights 2”.

(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.**—

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**TITLE I—TAXPAYER ADVOCATE****SEC. 101. ESTABLISHMENT OF POSITION OF TAXPAYER ADVOCATE WITHIN INTERNAL REVENUE SERVICE.**

- (a) **GENERAL RULE.**—Section 7802 (relating to Commissioner of Internal Revenue; Assistant Commissioner (Employee Plans and

Exempt Organizations)) is amended by adding at the end the following new subsection:

Establishment.  
Government  
organization.

“(d) OFFICE OF TAXPAYER ADVOCATE.—

“(1) IN GENERAL.—There is established in the Internal Revenue Service an office to be known as the ‘Office of the Taxpayer Advocate’. Such office shall be under the supervision and direction of an official to be known as the ‘Taxpayer Advocate’ who shall be appointed by and report directly to the Commissioner of Internal Revenue. The Taxpayer Advocate shall be entitled to compensation at the same rate as the highest level official reporting directly to the Deputy Commissioner of the Internal Revenue Service.

“(2) FUNCTIONS OF OFFICE.—

“(A) IN GENERAL.—It shall be the function of the Office of Taxpayer Advocate to—

“(i) assist taxpayers in resolving problems with the Internal Revenue Service,

“(ii) identify areas in which taxpayers have problems in dealings with the Internal Revenue Service,

“(iii) to the extent possible, propose changes in the administrative practices of the Internal Revenue Service to mitigate problems identified under clause (ii), and

“(iv) identify potential legislative changes which may be appropriate to mitigate such problems.

“(B) ANNUAL REPORTS.—

“(i) OBJECTIVES.—Not later than June 30 of each calendar year after 1995, the Taxpayer Advocate shall report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the objectives of the Taxpayer Advocate for the fiscal year beginning in such calendar year. Any such report shall contain full and substantive analysis, in addition to statistical information.

“(ii) ACTIVITIES.—Not later than December 31 of each calendar year after 1995, the Taxpayer Advocate shall report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the activities of the Taxpayer Advocate during the fiscal year ending during such calendar year. Any such report shall contain full and substantive analysis, in addition to statistical information, and shall—

“(I) identify the initiatives the Taxpayer Advocate has taken on improving taxpayer services and Internal Revenue Service responsiveness,

“(II) contain recommendations received from individuals with the authority to issue Taxpayer Assistance Orders under section 7811,

“(III) contain a summary of at least 20 of the most serious problems encountered by taxpayers, including a description of the nature of such problems,

“(IV) contain an inventory of the items described in subclauses (I), (II), and (III) for which action has been taken and the result of such action,

“(V) contain an inventory of the items described in subclauses (I), (II), and (III) for which action remains to be completed and the period during which each item has remained on such inventory,

“(VI) contain an inventory of the items described in subclauses (II) and (III) for which no action has been taken, the period during which each item has remained on such inventory, the reasons for the inaction, and identify any Internal Revenue Service official who is responsible for such inaction,

“(VII) identify any Taxpayer Assistance Order which was not honored by the Internal Revenue Service in a timely manner, as specified under section 7811(b),

“(VIII) contain recommendations for such administrative and legislative action as may be appropriate to resolve problems encountered by taxpayers,

“(IX) describe the extent to which regional problem resolution officers participate in the selection and evaluation of local problem resolution officers, and

“(X) include such other information as the Taxpayer Advocate may deem advisable.

“(iii) REPORT TO BE SUBMITTED DIRECTLY.—Each report required under this subparagraph shall be provided directly to the Committees referred to in clauses (i) and (ii) without any prior review or comment from the Commissioner, the Secretary of the Treasury, any other officer or employee of the Department of the Treasury, or the Office of Management and Budget.

“(3) RESPONSIBILITIES OF COMMISSIONER.—The Commissioner of Internal Revenue shall establish procedures requiring a formal response to all recommendations submitted to the Commissioner by the Taxpayer Advocate within 3 months after submission to the Commissioner.”.

(b) CONFORMING AMENDMENTS.—

(1) Section 7811 (relating to Taxpayer Assistance Orders) is amended—

(A) by striking “the Office of Ombudsman” in subsection (a) and inserting “the Office of the Taxpayer Advocate”, and

(B) by striking “Ombudsman” each place it appears (including in the headings of subsections (e) and (f)) and inserting “Taxpayer Advocate”.

(2) The heading for section 7802 is amended to read as follows:

**“SEC. 7802. COMMISSIONER OF INTERNAL REVENUE; ASSISTANT COMMISSIONERS; TAXPAYER ADVOCATE.”.**

(3) The table of sections for subchapter A of chapter 80 is amended by striking the item relating to section 7802 and inserting the following new item:

“Sec. 7802. Commissioner of Internal Revenue; Assistant Commissioners; Taxpayer Advocate.”.

26 USC 7802  
note.

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

**SEC. 102. EXPANSION OF AUTHORITY TO ISSUE TAXPAYER ASSISTANCE ORDERS.**

(a) **TERMS OF ORDERS.**—Subsection (b) of section 7811 (relating to terms of Taxpayer Assistance Orders) is amended—

(1) by inserting “within a specified time period” after “the Secretary”, and

(2) by inserting “take any action as permitted by law,” after “cease any action.”.

(b) **LIMITATION ON AUTHORITY TO MODIFY OR RESCIND.**—Section 7811(c) (relating to authority to modify or rescind) is amended to read as follows:

“(c) **AUTHORITY TO MODIFY OR RESCIND.**—Any Taxpayer Assistance Order issued by the Taxpayer Advocate under this section may be modified or rescinded—

“(1) only by the Taxpayer Advocate, the Commissioner of Internal Revenue, or the Deputy Commissioner of Internal Revenue, and

“(2) only if a written explanation of the reasons for the modification or rescission is provided to the Taxpayer Advocate.”.

26 USC 7811  
note.

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

**TITLE II—MODIFICATIONS TO INSTALLMENT AGREEMENT PROVISIONS****SEC. 201. NOTIFICATION OF REASONS FOR TERMINATION OF INSTALLMENT AGREEMENTS.**

(a) **TERMINATIONS.**—Subsection (b) of section 6159 (relating to extent to which agreements remain in effect) is amended by adding at the end the following new paragraph:

“(5) **NOTICE REQUIREMENTS.**—The Secretary may not take any action under paragraph (2), (3), or (4) unless—

“(A) a notice of such action is provided to the taxpayer not later than the day 30 days before the date of such action, and

“(B) such notice includes an explanation why the Secretary intends to take such action.

The preceding sentence shall not apply in any case in which the Secretary believes that collection of any tax to which an agreement under this section relates is in jeopardy.”.

(b) **CONFORMING AMENDMENT.**—Paragraph (3) of section 6159(b) is amended to read as follows:

“(3) **SUBSEQUENT CHANGE IN FINANCIAL CONDITIONS.**—If the Secretary makes a determination that the financial condition

of a taxpayer with whom the Secretary has entered into an agreement under subsection (a) has significantly changed, the Secretary may alter, modify, or terminate such agreement.”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall take effect on the date 6 months after the date of the enactment of this Act.

26 USC 6159  
note.

**SEC. 202. ADMINISTRATIVE REVIEW OF TERMINATION OF INSTALLMENT AGREEMENT.**

(a) **GENERAL RULE.**—Section 6159 (relating to agreements for payment of tax liability in installments) is amended by adding at the end the following new subsection:

“(c) **ADMINISTRATIVE REVIEW.**—The Secretary shall establish procedures for an independent administrative review of terminations of installment agreements under this section for taxpayers who request such a review.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall take effect on January 1, 1997.

26 USC 6159  
note.

**TITLE III—ABATEMENT OF INTEREST AND PENALTIES**

**SEC. 301. EXPANSION OF AUTHORITY TO ABATE INTEREST.**

(a) **GENERAL RULE.**—Paragraph (1) of section 6404(e) (relating to abatement of interest in certain cases) is amended—

(1) by inserting “unreasonable” before “error” each place it appears in subparagraphs (A) and (B), and

(2) by striking “in performing a ministerial act” each place it appears and inserting “in performing a ministerial or managerial act”.

(b) **CLERICAL AMENDMENT.**—The subsection heading for subsection (e) of section 6404 is amended—

(1) by striking “ASSESSMENTS” and inserting “ABATEMENT”, and

(2) by inserting “UNREASONABLE” before “ERRORS”.

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to interest accruing with respect to deficiencies or payments for taxable years beginning after the date of the enactment of this Act.

26 USC 6404  
note.

**SEC. 302. REVIEW OF IRS FAILURE TO ABATE INTEREST.**

(a) **IN GENERAL.**—Section 6404 is amended by adding at the end the following new subsection:

“(g) **REVIEW OF DENIAL OF REQUEST FOR ABATEMENT OF INTEREST.**—

“(1) **IN GENERAL.**—The Tax Court shall have jurisdiction over any action brought by a taxpayer who meets the requirements referred to in section 7430(c)(4)(A)(iii) to determine whether the Secretary’s failure to abate interest under this section was an abuse of discretion, and may order an abatement, if such action is brought within 180 days after the date of the mailing of the Secretary’s final determination not to abate such interest.

Courts.

“(2) **SPECIAL RULES.**—

Applicability.

“(A) DATE OF MAILING.—Rules similar to the rules of section 6213 shall apply for purposes of determining the date of the mailing referred to in paragraph (1).

“(B) RELIEF.—Rules similar to the rules of section 6512(b) shall apply for purposes of this subsection.

“(C) REVIEW.—An order of the Tax Court under this subsection shall be reviewable in the same manner as a decision of the Tax Court, but only with respect to the matters determined in such order.”.

26 USC 6404  
note.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply to requests for abatement after the date of the enactment of this Act.

**SEC. 303. EXTENSION OF INTEREST-FREE PERIOD FOR PAYMENT OF TAX AFTER NOTICE AND DEMAND.**

(a) GENERAL RULE.—Paragraph (3) of section 6601(e) (relating to payments made within 10 days after notice and demand) is amended to read as follows:

“(3) PAYMENTS MADE WITHIN SPECIFIED PERIOD AFTER NOTICE AND DEMAND.—If notice and demand is made for payment of any amount and if such amount is paid within 21 calendar days (10 business days if the amount for which such notice and demand is made equals or exceeds \$100,000) after the date of such notice and demand, interest under this section on the amount so paid shall not be imposed for the period after the date of such notice and demand.”.

(b) CONFORMING AMENDMENTS.—

(1) Subparagraph (A) of section 6601(e)(2) is amended by striking “10 days from the date of notice and demand therefor” and inserting “21 calendar days from the date of notice and demand therefor (10 business days if the amount for which such notice and demand is made equals or exceeds \$100,000)”.

(2) Paragraph (3) of section 6651(a) is amended by striking “10 days of the date of the notice and demand therefor” and inserting “21 calendar days from the date of notice and demand therefor (10 business days if the amount for which such notice and demand is made equals or exceeds \$100,000)”.

26 USC 6601  
note.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply in the case of any notice and demand given after December 31, 1996.

**SEC. 304. ABATEMENT OF PENALTY FOR FAILURE TO MAKE REQUIRED DEPOSITS OF PAYROLL TAXES IN CERTAIN CASES.**

(a) IN GENERAL.—Section 6656 (relating to failure to make deposit of taxes) is amended by adding at the end the following new subsections:

“(c) EXCEPTION FOR FIRST-TIME DEPOSITORS OF EMPLOYMENT TAXES.—The Secretary may waive the penalty imposed by subsection (a) on a person’s inadvertent failure to deposit any employment tax if—

“(1) such person meets the requirements referred to in section 7430(c)(4)(A)(iii),

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

“(3) the return of such tax was filed on or before the due date.

For purposes of this subsection, the term ‘employment taxes’ means the taxes imposed by subtitle C.

“(d) **AUTHORITY TO ABATE PENALTY WHERE DEPOSIT SENT TO SECRETARY.**—The Secretary may abate the penalty imposed by subsection (a) with respect to the first time a depositor is required to make a deposit if the amount required to be deposited is inadvertently sent to the Secretary instead of to the appropriate government depository.”

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to deposits required to be made after the date of the enactment of this Act.

26 USC 6656  
note.

## TITLE IV—JOINT RETURNS

### SEC. 401. STUDIES OF JOINT RETURN-RELATED ISSUES.

The Secretary of the Treasury or his delegate and the Comptroller General of the United States shall each conduct separate studies of—

(1) the effects of changing the liability for tax on a joint return from being joint and several to being proportionate to the tax attributable to each spouse,

(2) the effects of providing that, if a divorce decree allocates liability for tax on a joint return filed before the divorce, the Secretary may collect such liability only in accordance with the decree,

(3) whether those provisions of the Internal Revenue Code of 1986 intended to provide relief to innocent spouses provide meaningful relief in all cases where such relief is appropriate, and

(4) the effect of providing that community income (as defined in section 66(d) of such Code) which, in accordance with the rules contained in section 879(a) of such Code, would be treated as the income of one spouse is exempt from a levy for failure to pay any tax imposed by subtitle A by the other spouse for a taxable year ending before their marriage.

The reports of such studies shall be submitted to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate within 6 months after the date of the enactment of this Act.

Reports.

### SEC. 402. JOINT RETURN MAY BE MADE AFTER SEPARATE RETURNS WITHOUT FULL PAYMENT OF TAX.

(a) **GENERAL RULE.**—Paragraph (2) of section 6013(b) (relating to limitations on filing of joint return after filing separate returns) is amended by striking subparagraph (A) and redesignating the following subparagraphs accordingly.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to taxable years beginning after the date of the enactment of this Act.

26 USC 6013  
note.

### SEC. 403. DISCLOSURE OF COLLECTION ACTIVITIES.

(a) **IN GENERAL.**—Subsection (e) of section 6103 (relating to disclosure to persons having material interest) is amended by adding at the end the following new paragraph:

“(8) **DISCLOSURE OF COLLECTION ACTIVITIES WITH RESPECT TO JOINT RETURN.**—If any deficiency of tax with respect to a joint return is assessed and the individuals filing such return are no longer married or no longer reside in the same household, upon request in writing by either of such individuals,

the Secretary shall disclose in writing to the individual making the request whether the Secretary has attempted to collect such deficiency from such other individual, the general nature of such collection activities, and the amount collected. The preceding sentence shall not apply to any deficiency which may not be collected by reason of section 6502.”

26 USC 6103  
note.

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

## TITLE V—COLLECTION ACTIVITIES

### SEC. 501. MODIFICATIONS TO LIEN AND LEVY PROVISIONS.

(a) WITHDRAWAL OF CERTAIN NOTICES.—Section 6323 (relating to validity and priority against certain persons) is amended by adding at the end the following new subsection:

“(j) WITHDRAWAL OF NOTICE IN CERTAIN CIRCUMSTANCES.—  
“(1) IN GENERAL.—The Secretary may withdraw a notice of a lien filed under this section and this chapter shall be applied as if the withdrawn notice had not been filed, if the Secretary determines that—

“(A) the filing of such notice was premature or otherwise not in accordance with administrative procedures of the Secretary,

“(B) the taxpayer has entered into an agreement under section 6159 to satisfy the tax liability for which the lien was imposed by means of installment payments, unless such agreement provides otherwise,

“(C) the withdrawal of such notice will facilitate the collection of the tax liability, or

“(D) with the consent of the taxpayer or the Taxpayer Advocate, the withdrawal of such notice would be in the best interests of the taxpayer (as determined by the Taxpayer Advocate) and the United States.

Any such withdrawal shall be made by filing notice at the same office as the withdrawn notice. A copy of such notice of withdrawal shall be provided to the taxpayer.

“(2) NOTICE TO CREDIT AGENCIES, ETC.—Upon written request by the taxpayer with respect to whom a notice of a lien was withdrawn under paragraph (1), the Secretary shall promptly make reasonable efforts to notify credit reporting agencies, and any financial institution or creditor whose name and address is specified in such request, of the withdrawal of such notice. Any such request shall be in such form as the Secretary may prescribe.”

(b) RETURN OF LEVIED PROPERTY IN CERTAIN CASES.—Section 6343 (relating to authority to release levy and return property) is amended by adding at the end the following new subsection:

“(d) RETURN OF PROPERTY IN CERTAIN CASES.—If—

“(1) any property has been levied upon, and

“(2) the Secretary determines that—

“(A) the levy on such property was premature or otherwise not in accordance with administrative procedures of the Secretary,

“(B) the taxpayer has entered into an agreement under section 6159 to satisfy the tax liability for which the levy

was imposed by means of installment payments, unless such agreement provides otherwise,

“(C) the return of such property will facilitate the collection of the tax liability, or

“(D) with the consent of the taxpayer or the Taxpayer Advocate, the return of such property would be in the best interests of the taxpayer (as determined by the Taxpayer Advocate) and the United States,

the provisions of subsection (b) shall apply in the same manner as if such property had been wrongly levied upon, except that no interest shall be allowed under subsection (c).”

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

26 USC 6323  
note.

#### SEC. 502. MODIFICATIONS TO CERTAIN LEVY EXEMPTION AMOUNTS.

(a) **FUEL, ETC.**—Paragraph (2) of section 6334(a) (relating to fuel, provisions, furniture, and personal effects exempt from levy) is amended—

(1) by striking “If the taxpayer is the head of a family, so” and inserting “So”,

(2) by striking “his household” and inserting “the taxpayer’s household”, and

(3) by striking “\$1,650 (\$1,550 in the case of levies issued during 1989)” and inserting “\$2,500”.

(b) **BOOKS, ETC.**—Paragraph (3) of section 6334(a) (relating to books and tools of a trade, business, or profession) is amended by striking “\$1,100 (\$1,050 in the case of levies issued during 1989)” and inserting “\$1,250”.

(c) **INFLATION ADJUSTMENT.**—Section 6334 (relating to property exempt from levy) is amended by adding at the end the following new subsection:

“(f) **INFLATION ADJUSTMENT.**—

“(1) **IN GENERAL.**—In the case of any calendar year beginning after 1997, each dollar amount referred to in paragraphs (2) and (3) of subsection (a) shall be increased by an amount equal to—

“(A) such dollar amount, multiplied by

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

“(2) **ROUNDING.**—If any dollar amount after being increased under paragraph (1) is not a multiple of \$10, such dollar amount shall be rounded to the nearest multiple of \$10.”

(d) **EFFECTIVE DATE.**—The amendments made by this section shall take effect with respect to levies issued after December 31, 1996.

26 USC 6334  
note.

#### SEC. 503. OFFERS-IN-COMPROMISE.

(a) **REVIEW REQUIREMENTS.**—Subsection (b) of section 7122 (relating to records) is amended by striking “\$500.” and inserting “\$50,000. However, such compromise shall be subject to continuing quality review by the Secretary.”

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

26 USC 7122  
note.

## TITLE VI—INFORMATION RETURNS

### SEC. 601. CIVIL DAMAGES FOR FRAUDULENT FILING OF INFORMATION RETURNS.

(a) **GENERAL RULE.**—Subchapter B of chapter 76 (relating to proceedings by taxpayers and third parties) is amended by redesignating section 7434 as section 7435 and by inserting after section 7433 the following new section:

#### “SEC. 7434. CIVIL DAMAGES FOR FRAUDULENT FILING OF INFORMATION RETURNS.

“(a) **IN GENERAL.**—If any person willfully files a fraudulent information return with respect to payments purported to be made to any other person, such other person may bring a civil action for damages against the person so filing such return.

“(b) **DAMAGES.**—In any action brought under subsection (a), upon a finding of liability on the part of the defendant, the defendant shall be liable to the plaintiff in an amount equal to the greater of \$5,000 or the sum of—

“(1) any actual damages sustained by the plaintiff as a proximate result of the filing of the fraudulent information return (including any costs attributable to resolving deficiencies asserted as a result of such filing),

“(2) the costs of the action, and

“(3) in the court’s discretion, reasonable attorneys fees.

“(c) **PERIOD FOR BRINGING ACTION.**—Notwithstanding any other provision of law, an action to enforce the liability created under this section may be brought without regard to the amount in controversy and may be brought only within the later of—

“(1) 6 years after the date of the filing of the fraudulent information return, or

“(2) 1 year after the date such fraudulent information return would have been discovered by exercise of reasonable care.

“(d) **COPY OF COMPLAINT FILED WITH IRS.**—Any person bringing an action under subsection (a) shall provide a copy of the complaint to the Internal Revenue Service upon the filing of such complaint with the court.

“(e) **FINDING OF COURT TO INCLUDE CORRECT AMOUNT OF PAYMENT.**—The decision of the court awarding damages in an action brought under subsection (a) shall include a finding of the correct amount which should have been reported in the information return.

“(f) **INFORMATION RETURN.**—For purposes of this section, the term ‘information return’ means any statement described in section 6724(d)(1)(A).”

(b) **CLERICAL AMENDMENT.**—The table of sections for subchapter B of chapter 76 is amended by striking the item relating to section 7434 and inserting the following:

“Sec. 7434. Civil damages for fraudulent filing of information returns.

“Sec. 7435. Cross references.”

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

**SEC. 602. REQUIREMENT TO CONDUCT REASONABLE INVESTIGATIONS OF INFORMATION RETURNS.**

(a) **GENERAL RULE.**—Section 6201 (relating to assessment authority) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

“(d) **REQUIRED REASONABLE VERIFICATION OF INFORMATION RETURNS.**—In any court proceeding, if a taxpayer asserts a reasonable dispute with respect to any item of income reported on an information return filed with the Secretary under subpart B or C of part III of subchapter A of chapter 61 by a third party and the taxpayer has fully cooperated with the Secretary (including providing, within a reasonable period of time, access to and inspection of all witnesses, information, and documents within the control of the taxpayer as reasonably requested by the Secretary), the Secretary shall have the burden of producing reasonable and probative information concerning such deficiency in addition to such information return.”

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

26 USC 6201  
note.

## **TITLE VII—AWARDING OF COSTS AND CERTAIN FEES**

**SEC. 701. UNITED STATES MUST ESTABLISH THAT ITS POSITION IN PROCEEDING WAS SUBSTANTIALLY JUSTIFIED.**

(a) **GENERAL RULE.**—Subparagraph (A) of section 7430(c)(4) (defining prevailing party) is amended by striking clause (i) and by redesignating clauses (ii) and (iii) as clauses (i) and (ii), respectively.

(b) **BURDEN OF PROOF ON UNITED STATES.**—Paragraph (4) of section 7430(c) is amended by redesignating subparagraph (B) as subparagraph (C) and by inserting after subparagraph (A) the following new subparagraph:

“(B) **EXCEPTION IF UNITED STATES ESTABLISHES THAT ITS POSITION WAS SUBSTANTIALLY JUSTIFIED.**—

“(i) **GENERAL RULE.**—A party shall not be treated as the prevailing party in a proceeding to which subsection (a) applies if the United States establishes that the position of the United States in the proceeding was substantially justified.

“(ii) **PRESUMPTION OF NO JUSTIFICATION IF INTERNAL REVENUE SERVICE DID NOT FOLLOW CERTAIN PUBLISHED GUIDANCE.**—For purposes of clause (i), the position of the United States shall be presumed not to be substantially justified if the Internal Revenue Service did not follow its applicable published guidance in the administrative proceeding. Such presumption may be rebutted.

“(iii) **APPLICABLE PUBLISHED GUIDANCE.**—For purposes of clause (ii), the term ‘applicable published guidance’ means—

“(I) regulations, revenue rulings, revenue procedures, information releases, notices, and announcements, and

“(II) any of the following which are issued to the taxpayer: private letter rulings, technical advice memoranda, and determination letters.”.

(c) CONFORMING AMENDMENTS.—

(1) Subparagraph (B) of section 7430(c)(2) is amended by striking “paragraph (4)(B)” and inserting “paragraph (4)(C)”.

(2) Subparagraph (C) of section 7430(c)(4), as redesignated by subsection (b), is amended by striking “subparagraph (A)” and inserting “this paragraph”.

(3) Sections 6404(g) and 6656(c)(1), as amended by this Act, are each amended by striking “section 7430(c)(4)(A)(iii)” and inserting “section 7430(c)(4)(A)(ii)”.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply in the case of proceedings commenced after the date of the enactment of this Act.

26 USC 6404  
note.

**SEC. 702. INCREASED LIMIT ON ATTORNEY FEES.**

(a) IN GENERAL.—Paragraph (1) of section 7430(c) (defining reasonable litigation costs) is amended—

(1) by striking “\$75” in clause (iii) of subparagraph (B) and inserting “\$110”,

(2) by striking “an increase in the cost of living or” in clause (iii) of subparagraph (B), and

(3) by adding after clause (iii) the following:

“In the case of any calendar year beginning after 1996, the dollar amount referred to in clause (iii) shall be increased by an amount equal to such dollar amount multiplied by the cost-of-living adjustment determined under section 1(f)(3) for such calendar year, by substituting ‘calendar year 1995’ for ‘calendar year 1992’ in subparagraph (B) thereof. If any dollar amount after being increased under the preceding sentence is not a multiple of \$10, such dollar amount shall be rounded to the nearest multiple of \$10.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply in the case of proceedings commenced after the date of the enactment of this Act.

26 USC 7430  
note.

**SEC. 703. FAILURE TO AGREE TO EXTENSION NOT TAKEN INTO ACCOUNT.**

(a) IN GENERAL.—Paragraph (1) of section 7430(b) (relating to requirement that administrative remedies be exhausted) is amended by adding at the end the following new sentence: “Any failure to agree to an extension of the time for the assessment of any tax shall not be taken into account for purposes of determining whether the prevailing party meets the requirements of the preceding sentence.”.

(b) EFFECTIVE DATE.—The amendment made by this section shall apply in the case of proceedings commenced after the date of the enactment of this Act.

26 USC 7430  
note.

**SEC. 704. AWARD OF LITIGATION COSTS PERMITTED IN DECLARATORY JUDGMENT PROCEEDINGS.**

(a) IN GENERAL.—Subsection (b) of section 7430 is amended by striking paragraph (3) and by redesignating paragraph (4) as paragraph (3).

(b) EFFECTIVE DATE.—The amendment made by this section shall apply in the case of proceedings commenced after the date of the enactment of this Act.

26 USC 7430  
note.

## TITLE VIII—MODIFICATION TO RECOVERY OF CIVIL DAMAGES FOR UNAUTHORIZED COLLECTION ACTIONS

### SEC. 801. INCREASE IN LIMIT ON RECOVERY OF CIVIL DAMAGES FOR UNAUTHORIZED COLLECTION ACTIONS.

(a) **GENERAL RULE.**—Subsection (b) of section 7433 (relating to damages) is amended by striking “\$100,000” and inserting “\$1,000,000”.

(b) **EFFECTIVE DATE.**—The amendment made by subsection (a) shall apply to actions by officers or employees of the Internal Revenue Service after the date of the enactment of this Act.

26 USC 7433  
note.

### SEC. 802. COURT DISCRETION TO REDUCE AWARD FOR LITIGATION COSTS FOR FAILURE TO EXHAUST ADMINISTRATIVE REMEDIES.

(a) **GENERAL RULE.**—Paragraph (1) of section 7433(d) (relating to civil damages for certain unauthorized collection actions) is amended to read as follows:

“(1) **AWARD FOR DAMAGES MAY BE REDUCED IF ADMINISTRATIVE REMEDIES NOT EXHAUSTED.**—The amount of damages awarded under subsection (b) may be reduced if the court determines that the plaintiff has not exhausted the administrative remedies available to such plaintiff within the Internal Revenue Service.”

(b) **EFFECTIVE DATE.**—The amendment made by this section shall apply in the case of proceedings commenced after the date of the enactment of this Act.

26 USC 7433  
note.

## TITLE IX—MODIFICATIONS TO PENALTY FOR FAILURE TO COLLECT AND PAY OVER TAX

### SEC. 901. PRELIMINARY NOTICE REQUIREMENT.

(a) **IN GENERAL.**—Section 6672 (relating to failure to collect and pay over tax, or attempt to evade or defeat tax) is amended by redesignating subsection (b) as subsection (c) and by inserting after subsection (a) the following new subsection:

“(b) **PRELIMINARY NOTICE REQUIREMENT.**—

“(1) **IN GENERAL.**—No penalty shall be imposed under subsection (a) unless the Secretary notifies the taxpayer in writing by mail to an address as determined under section 6212(b) that the taxpayer shall be subject to an assessment of such penalty.

“(2) **TIMING OF NOTICE.**—The mailing of the notice described in paragraph (1) shall precede any notice and demand of any penalty under subsection (a) by at least 60 days.

“(3) **STATUTE OF LIMITATIONS.**—If a notice described in paragraph (1) with respect to any penalty is mailed before the expiration of the period provided by section 6501 for the assessment of such penalty (determined without regard to this paragraph), the period provided by such section for the assessment of such penalty shall not expire before the later of—

“(A) the date 90 days after the date on which such notice was mailed, or

“(B) if there is a timely protest of the proposed assessment, the date 30 days after the Secretary makes a final administrative determination with respect to such protest.

“(4) EXCEPTION FOR JEOPARDY.—This subsection shall not apply if the Secretary finds that the collection of the penalty is in jeopardy.”

26 USC 6672  
note.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to proposed assessments made after June 30, 1996.

**SEC. 902. DISCLOSURE OF CERTAIN INFORMATION WHERE MORE THAN 1 PERSON LIABLE FOR PENALTY FOR FAILURE TO COLLECT AND PAY OVER TAX.**

(a) IN GENERAL.—Subsection (e) of section 6103 (relating to disclosure to persons having material interest), as amended by section 403, is amended by adding at the end the following new paragraph:

“(9) DISCLOSURE OF CERTAIN INFORMATION WHERE MORE THAN 1 PERSON SUBJECT TO PENALTY UNDER SECTION 6672.—If the Secretary determines that a person is liable for a penalty under section 6672(a) with respect to any failure, upon request in writing of such person, the Secretary shall disclose in writing to such person—

“(A) the name of any other person whom the Secretary has determined to be liable for such penalty with respect to such failure, and

“(B) whether the Secretary has attempted to collect such penalty from such other person, the general nature of such collection activities, and the amount collected.”

26 USC 6103  
note.

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

**SEC. 903. RIGHT OF CONTRIBUTION WHERE MORE THAN 1 PERSON LIABLE FOR PENALTY FOR FAILURE TO COLLECT AND PAY OVER TAX.**

(a) IN GENERAL.—Section 6672 (relating to failure to collect and pay over tax, or attempt to evade or defeat tax) is amended by adding at the end the following new subsection:

“(d) RIGHT OF CONTRIBUTION WHERE MORE THAN 1 PERSON LIABLE FOR PENALTY.—If more than 1 person is liable for the penalty under subsection (a) with respect to any tax, each person who paid such penalty shall be entitled to recover from other persons who are liable for such penalty an amount equal to the excess of the amount paid by such person over such person's proportionate share of the penalty. Any claim for such a recovery may be made only in a proceeding which is separate from, and is not joined or consolidated with—

“(1) an action for collection of such penalty brought by the United States, or

“(2) a proceeding in which the United States files a counterclaim or third-party complaint for the collection of such penalty.”

26 USC 6672  
note.

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to penalties assessed after the date of the enactment of this Act.

**SEC. 904. VOLUNTEER BOARD MEMBERS OF TAX-EXEMPT ORGANIZATIONS EXEMPT FROM PENALTY FOR FAILURE TO COLLECT AND PAY OVER TAX.**

(a) **IN GENERAL.**—Section 6672 is amended by adding at the end the following new subsection:

“(e) **EXCEPTION FOR VOLUNTARY BOARD MEMBERS OF TAX-EXEMPT ORGANIZATIONS.**—No penalty shall be imposed by subsection (a) on any unpaid, volunteer member of any board of trustees or directors of an organization exempt from tax under subtitle A if such member—

“(1) is solely serving in an honorary capacity,

“(2) does not participate in the day-to-day or financial operations of the organization, and

“(3) does not have actual knowledge of the failure on which such penalty is imposed.

The preceding sentence shall not apply if it results in no person being liable for the penalty imposed by subsection (a).”.

(b) **PUBLIC INFORMATION REQUIREMENTS.**—

(1) **IN GENERAL.**—The Secretary of the Treasury or the Secretary's delegate (hereafter in this subsection referred to as the “Secretary”) shall take such actions as may be appropriate to ensure that employees are aware of their responsibilities under the Federal tax depository system, the circumstances under which employees may be liable for the penalty imposed by section 6672 of the Internal Revenue Code of 1986, and the responsibility to promptly report to the Internal Revenue Service any failure referred to in subsection (a) of such section 6672. Such actions shall include—

(A) printing of a warning on deposit coupon booklets and the appropriate tax returns that certain employees may be liable for the penalty imposed by such section 6672, and

(B) the development of a special information packet.

(2) **DEVELOPMENT OF EXPLANATORY MATERIALS.**—The Secretary shall develop materials explaining the circumstances under which board members of tax-exempt organizations (including voluntary and honorary members) may be subject to penalty under section 6672 of such Code. Such materials shall be made available to tax-exempt organizations.

(3) **IRS INSTRUCTIONS.**—The Secretary shall clarify the instructions to Internal Revenue Service employees on the application of the penalty under section 6672 of such Code with regard to voluntary members of boards of trustees or directors of tax-exempt organizations.

26 USC 6672  
note.

## **TITLE X—MODIFICATIONS OF RULES RELATING TO SUMMONSES**

**SEC. 1001. ENROLLED AGENTS INCLUDED AS THIRD-PARTY RECORD-KEEPERS.**

(a) **IN GENERAL.**—Paragraph (3) of section 7609(a) (relating to third-party recordkeeper defined) is amended by striking “and” at the end of subparagraph (G), by striking the period at the end of subparagraph (H) and inserting “; and”, and by adding at the end the following the subparagraph:

“(I) any enrolled agent.”.

26 USC 7609  
note.

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

**SEC. 1002. SAFEGUARDS RELATING TO DESIGNATED SUMMONSES.**

(a) **STANDARD OF REVIEW.**—Subparagraph (A) of section 6503(k)(2) (defining designated summons) is amended by redesignating clauses (i) and (ii) as clauses (ii) and (iii), respectively, and by inserting before clause (ii) (as so redesignated) the following new clause:

“(i) the issuance of such summons is preceded by a review of such issuance by the regional counsel of the Office of Chief Counsel for the region in which the examination of the corporation is being conducted.”.

(b) **LIMITATION ON PERSONS TO WHOM DESIGNATED SUMMONS MAY BE ISSUED.**—Paragraph (1) of section 6503(k) is amended by striking “with respect to any return of tax by a corporation” and inserting “to a corporation (or to any other person to whom the corporation has transferred records) with respect to any return of tax by such corporation for a taxable year (or other period) for which such corporation is being examined under the coordinated examination program (or any successor program) of the Internal Revenue Service”.

(c) **CLERICAL AMENDMENT.**—Section 6503 is amended by redesignating subsections (k) and (l) (as amended by this section) as subsections (j) and (k), respectively.

26 USC 6503  
note.

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

26 USC 6503  
note.

**SEC. 1003. ANNUAL REPORT TO CONGRESS CONCERNING DESIGNATED SUMMONSES.**

Not later than December 31 of each calendar year after 1995, the Secretary of the Treasury or his delegate shall report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the number of designated summonses (as defined in section 6503(j) of the Internal Revenue Code of 1986) which were issued during the preceding 12 months.

**TITLE XI—RELIEF FROM RETROACTIVE APPLICATION OF TREASURY DEPARTMENT REGULATIONS**

**SEC. 1101. RELIEF FROM RETROACTIVE APPLICATION OF TREASURY DEPARTMENT REGULATIONS.**

(a) **IN GENERAL.**—Subsection (b) of section 7805 (relating to rules and regulations) is amended to read as follows:

“(b) **RETROACTIVITY OF REGULATIONS.**—

“(1) **IN GENERAL.**—Except as otherwise provided in this subsection, no temporary, proposed, or final regulation relating to the internal revenue laws shall apply to any taxable period ending before the earliest of the following dates:

“(A) The date on which such regulation is filed with the Federal Register.

“(B) In the case of any final regulation, the date on which any proposed or temporary regulation to which such final regulation relates was filed with the Federal Register.

“(C) The date on which any notice substantially describing the expected contents of any temporary, proposed, or final regulation is issued to the public.

“(2) EXCEPTION FOR PROMPTLY ISSUED REGULATIONS.—Paragraph (1) shall not apply to regulations filed or issued within 18 months of the date of the enactment of the statutory provision to which the regulation relates.

“(3) PREVENTION OF ABUSE.—The Secretary may provide that any regulation may take effect or apply retroactively to prevent abuse.

“(4) CORRECTION OF PROCEDURAL DEFECTS.—The Secretary may provide that any regulation may apply retroactively to correct a procedural defect in the issuance of any prior regulation.

“(5) INTERNAL REGULATIONS.—The limitation of paragraph (1) shall not apply to any regulation relating to internal Treasury Department policies, practices, or procedures.

“(6) CONGRESSIONAL AUTHORIZATION.—The limitation of paragraph (1) may be superseded by a legislative grant from Congress authorizing the Secretary to prescribe the effective date with respect to any regulation.

“(7) ELECTION TO APPLY RETROACTIVELY.—The Secretary may provide for any taxpayer to elect to apply any regulation before the dates specified in paragraph (1).

“(8) APPLICATION TO RULINGS.—The Secretary may prescribe the extent, if any, to which any ruling (including any judicial decision or any administrative determination other than by regulation) relating to the internal revenue laws shall be applied without retroactive effect.”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply with respect to regulations which relate to statutory provisions enacted on or after the date of the enactment of this Act.

26 USC 7805  
note.

## TITLE XII—MISCELLANEOUS PROVISIONS

### SEC. 1201. PHONE NUMBER OF PERSON PROVIDING PAYEE STATEMENTS REQUIRED TO BE SHOWN ON SUCH STATEMENT.

(a) GENERAL RULE.—The following provisions are each amended by striking “name and address” and inserting “name, address, and phone number of the information contact”:

- (1) Section 6041(d)(1).
- (2) Section 6041A(e)(1).
- (3) Section 6042(c)(1).
- (4) Section 6044(e)(1).
- (5) Section 6045(b)(1).
- (6) Section 6049(c)(1)(A).
- (7) Section 6050B(b)(1).
- (8) Section 6050H(d)(1).
- (9) Section 6050I(e)(1).

- (10) Section 6050J(e).
- (11) Section 6050K(b)(1).
- (12) Section 6050N(b)(1).

26 USC 6041  
note.

(b) **EFFECTIVE DATE.**—The amendments made by subsection (a) shall apply to statements required to be furnished after December 31, 1996 (determined without regard to any extension).

26 USC 6311  
note.

**SEC. 1202. REQUIRED NOTICE OF CERTAIN PAYMENTS.**

If any payment is received by the Secretary of the Treasury or his delegate from any taxpayer and the Secretary cannot associate such payment with such taxpayer, the Secretary shall make reasonable efforts to notify the taxpayer of such inability within 60 days after the receipt of such payment.

**SEC. 1203. UNAUTHORIZED ENTICEMENT OF INFORMATION DISCLOSURE.**

(a) **IN GENERAL.**—Subchapter B of chapter 76 (relating to proceedings by taxpayers and third parties), as amended by section 601(a), is amended by redesignating section 7435 as section 7436 and by inserting after section 7434 the following new section:

**“SEC. 7435. CIVIL DAMAGES FOR UNAUTHORIZED ENTICEMENT OF INFORMATION DISCLOSURE.**

“(a) **IN GENERAL.**—If any officer or employee of the United States intentionally compromises the determination or collection of any tax due from an attorney, certified public accountant, or enrolled agent representing a taxpayer in exchange for information conveyed by the taxpayer to the attorney, certified public accountant, or enrolled agent for purposes of obtaining advice concerning the taxpayer’s tax liability, such taxpayer may bring a civil action for damages against the United States in a district court of the United States. Such civil action shall be the exclusive remedy for recovering damages resulting from such actions.

“(b) **DAMAGES.**—In any action brought under subsection (a), upon a finding of liability on the part of the defendant, the defendant shall be liable to the plaintiff in an amount equal to the lesser of \$500,000 or the sum of—

- “(1) actual, direct economic damages sustained by the plaintiff as a proximate result of the information disclosure, and
- “(2) the costs of the action.

Damages shall not include the taxpayer’s liability for any civil or criminal penalties, or other losses attributable to incarceration or the imposition of other criminal sanctions.

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

“(d) **PERIOD FOR BRINGING ACTION.**—Notwithstanding any other provision of law, an action to enforce liability created under this section may be brought without regard to the amount in controversy and may be brought only within 2 years after the date the actions creating such liability would have been discovered by exercise of reasonable care.

“(e) **MANDATORY STAY.**—Upon a certification by the Commissioner or the Commissioner’s delegate that there is an ongoing investigation or prosecution of the taxpayer, the district court before which an action under this section is pending shall stay all proceedings with respect to such action pending the conclusion of the investigation or prosecution.

“(f) CRIME-FRAUD EXCEPTION.—Subsection (a) shall not apply to information conveyed to an attorney, certified public accountant, or enrolled agent for the purpose of perpetrating a fraud or crime.”.

(b) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 76, as amended by section 601(b), is amended by striking the item relating to section 7435 and by adding at the end the following new items:

“Sec. 7435. Civil damages for unauthorized enticement of information disclosure.  
“Sec. 7436. Cross references.”.

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

26 USC 7435  
note.

**SEC. 1204. ANNUAL REMINDERS TO TAXPAYERS WITH OUTSTANDING DELINQUENT ACCOUNTS.**

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

**“SEC. 7524. ANNUAL NOTICE OF TAX DELINQUENCY.**

“Not less often than annually, the Secretary shall send a written notice to each taxpayer who has a tax delinquent account of the amount of the tax delinquency as of the date of the notice.”.

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

“Sec. 7524. Annual notice of tax delinquency.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to calendar years after 1996.

26 USC 7524  
note.

**SEC. 1205. 5-YEAR EXTENSION OF AUTHORITY FOR UNDERCOVER OPERATIONS.**

(a) IN GENERAL.—Paragraph (3) of section 7601(c) of the Anti-Drug Abuse Act of 1988 is amended by striking all that follows “this Act” and inserting a period.

(b) RESTORATION OF AUTHORITY FOR 5 YEARS.—Subsection (c) of section 7608 is amended by adding at the end the following new paragraph:

“(6) APPLICATION OF SECTION.—The provisions of this subsection—

“(A) shall apply after November 17, 1988, and before January 1, 1990, and

“(B) shall apply after the date of the enactment of this paragraph and before January 1, 2001.

All amounts expended pursuant to this subsection during the period described in subparagraph (B) shall be recovered to the extent possible, and deposited in the Treasury of the United States as miscellaneous receipts, before January 1, 2001.”.

(c) ENHANCED OVERSIGHT.—

(1) ADDITIONAL INFORMATION REQUIRED IN REPORTS TO CONGRESS.—Subparagraph (B) of section 7608(c)(4) is amended—

(A) by striking “preceding the period” in clause (ii),

(B) by striking “and” at the end of clause (ii), and

(C) by striking clause (iii) and inserting the following:

“(iii) the number, by programs, of undercover investigative operations closed in the 1-year period for which such report is submitted, and

“(iv) the following information with respect to each undercover investigative operation pending as of the

end of the 1-year period for which such report is submitted or closed during such 1-year period—

“(I) the date the operation began and the date of the certification referred to in the last sentence of paragraph (1),

“(II) the total expenditures under the operation and the amount and use of the proceeds from the operation,

“(III) a detailed description of the operation including the potential violation being investigated and whether the operation is being conducted under grand jury auspices, and

“(IV) the results of the operation including the results of criminal proceedings.”.

(2) AUDITS REQUIRED WITHOUT REGARD TO AMOUNTS INVOLVED.—Subparagraph (C) of section 7608(c)(5) is amended to read as follows:

“(C) UNDERCOVER INVESTIGATIVE OPERATION.—The term ‘undercover investigative operation’ means any undercover investigative operation of the Service; except that, for purposes of subparagraphs (A) and (C) of paragraph (4), such term only includes an operation which is exempt from section 3302 or 9102 of title 31, United States Code.”.

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

**SEC. 1206. DISCLOSURE OF FORM 8300 INFORMATION ON CASH TRANSACTIONS.**

(a) IN GENERAL.—Subsection (l) of section 6103 (relating to disclosure of returns and return information for purposes other than tax administration) is amended by adding at the end the following new paragraph:

“(15) DISCLOSURE OF RETURNS FILED UNDER SECTION 6050I.—The Secretary may, upon written request, disclose to officers and employees of—

“(A) any Federal agency,

“(B) any agency of a State or local government, or

“(C) any agency of the government of a foreign country, information contained on returns filed under section 6050I. Any such disclosure shall be made on the same basis, and subject to the same conditions, as apply to disclosures of information on reports filed under section 5313 of title 31, United States Code; except that no disclosure under this paragraph shall be made for purposes of the administration of any tax law.”.

(b) CONFORMING AMENDMENTS.—

(1) Subsection (i) of section 6103 is amended by striking paragraph (8).

(2) Subparagraph (A) of section 6103(p)(3) is amended—

(A) by striking “(7)(A)(ii), or (8)” and inserting “or (7)(A)(ii)”, and

(B) by striking “or (14)” and inserting “(14), or (15)”.

(3) The material preceding subparagraph (A) of section 6103(p)(4) is amended—

(A) by striking “(5), or (8)” and inserting “or (5)”,

(B) by striking “(i)(3)(B)(i), or (8)” and inserting “(i)(3)(B)(i),” and

(C) by striking “or (12)” and inserting “(12), or (15)”.

(4) Clause (ii) of section 6103(p)(4)(F) is amended—

(A) by striking “(5), or (8)” and inserting “or (5), and

(B) by striking “or (14)” and inserting “(14), or (15)”.

(5) Paragraph (2) of section 7213(a) is amended by striking “or (12)” and inserting “(12), or (15)”.

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

26 USC 6103  
note.

**SEC. 1207. DISCLOSURE OF RETURNS AND RETURN INFORMATION TO DESIGNEE OF TAXPAYER.**

Subsection (c) of section 6103 (relating to disclosure of returns and return information to designee of taxpayer) is amended by striking “written request for or consent to such disclosure” and inserting “request for or consent to such disclosure”.

**SEC. 1208. STUDY OF NETTING OF INTEREST ON OVERPAYMENTS AND LIABILITIES.**

(a) **IN GENERAL.**—The Secretary of the Treasury or his delegate shall—

(1) conduct a study of the manner in which the Internal Revenue Service has implemented the netting of interest on overpayments and underpayments and of the policy and administrative implications of global netting, and

(2) before submitting the report of such study, hold a public hearing to receive comments on the matters included in such study.

(b) **REPORT.**—The report of such study shall be submitted not later than 6 months after the date of the enactment of this Act to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate.

**SEC. 1209. EXPENSES OF DETECTION OF UNDERPAYMENTS AND FRAUD, ETC.**

(a) **IN GENERAL.**—Section 7623 (relating to expenses of deduction and punishment of frauds) is amended to read as follows:

**“SEC. 7623. EXPENSES OF DETECTION OF UNDERPAYMENTS AND FRAUD, ETC.**

“The Secretary, under regulations prescribed by the Secretary, is authorized to pay such sums as he deems necessary for—

“(1) detecting underpayments of tax, and

“(2) detecting and bringing to trial and punishment persons guilty of violating the internal revenue laws or conniving at the same,

in cases where such expenses are not otherwise provided for by law. Any amount payable under the preceding sentence shall be paid from the proceeds of amounts (other than interest) collected by reason of the information provided, and any amount so collected shall be available for such payments.”.

Regulations.

(b) CLERICAL AMENDMENT.—The table of sections for subchapter B of chapter 78 is amended by striking the item relating to section 7623 and inserting the following new item:

“Sec. 7623. Expenses of detection of underpayments and fraud, etc.”.

26 USC 7623  
note.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date which is 6 months after the date of the enactment of this Act.

26 USC 7623  
note.

(d) REPORT.—The Secretary of the Treasury or his delegate shall submit an annual report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on the payments under section 7623 of the Internal Revenue Code of 1986 during the year and on the amounts collected for which such payments were made.

**SEC. 1210. USE OF PRIVATE DELIVERY SERVICES FOR TIMELY-MAILING-AS-TIMELY-FILING RULE.**

Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end the following new subsection:

“(f) TREATMENT OF PRIVATE DELIVERY SERVICES.—

“(1) IN GENERAL.—Any reference in this section to the United States mail shall be treated as including a reference to any designated delivery service, and any reference in this section to a postmark by the United States Postal Service shall be treated as including a reference to any date recorded or marked as described in paragraph (2)(C) by any designated delivery service.

“(2) DESIGNATED DELIVERY SERVICE.—For purposes of this subsection, the term ‘designated delivery service’ means any delivery service provided by a trade or business if such service is designated by the Secretary for purposes of this section. The Secretary may designate a delivery service under the preceding sentence only if the Secretary determines that such service—

“(A) is available to the general public,

“(B) is at least as timely and reliable on a regular basis as the United States mail,

“(C) records electronically to its data base, kept in the regular course of its business, or marks on the cover in which any item referred to in this section is to be delivered, the date on which such item was given to such trade or business for delivery, and

“(D) meets such other criteria as the Secretary may prescribe.

“(3) EQUIVALENTS OF REGISTERED AND CERTIFIED MAIL.—The Secretary may provide a rule similar to the rule of paragraph (1) with respect to any service provided by a designated delivery service which is substantially equivalent to United States registered or certified mail.”.

26 USC 7803  
note.

**SEC. 1211. REPORTS ON MISCONDUCT OF IRS EMPLOYEES.**

On or before June 1 of each calendar year after 1996, 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 on—

(1) all categories of instances involving the misconduct of employees of the Internal Revenue Service during the preceding calendar year, and

(2) the disposition during the preceding calendar year of any such instances (without regard to the year of the misconduct).

## TITLE XIII—REVENUE OFFSETS

### Subtitle A—Application of Failure-to-Pay Penalty to Substitute Returns

#### SEC. 1301. APPLICATION OF FAILURE-TO-PAY PENALTY TO SUBSTITUTE RETURNS.

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

“(g) TREATMENT OF RETURNS PREPARED BY SECRETARY UNDER SECTION 6020(b).—In the case of any return made by the Secretary under section 6020(b)—

“(1) such return shall be disregarded for purposes of determining the amount of the addition under paragraph (1) of subsection (a), but

“(2) such return shall be treated as the return filed by the taxpayer for purposes of determining the amount of the addition under paragraphs (2) and (3) of subsection (a).”

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply in the case of any return the due date for which (determined without regard to extensions) is after the date of the enactment of this Act.

26 USC 6651  
note.

### Subtitle B—Excise Taxes on Amounts of Private Excess Benefits

#### SEC. 1311. EXCISE TAXES FOR FAILURE BY CERTAIN CHARITABLE ORGANIZATIONS TO MEET CERTAIN QUALIFICATION REQUIREMENTS.

(a) IN GENERAL.—Chapter 42 (relating to private foundations and certain other tax-exempt organizations) is amended by redesignating subchapter D as subchapter E and by inserting after subchapter C the following new subchapter:

#### “Subchapter D—Failure by Certain Charitable Organizations To Meet Certain Qualification Requirements

“Sec. 4958. Taxes on excess benefit transactions.

#### “SEC. 4958. TAXES ON EXCESS BENEFIT TRANSACTIONS.

“(a) INITIAL TAXES.—

“(1) ON THE DISQUALIFIED PERSON.—There is hereby imposed on each excess benefit transaction a tax equal to 25 percent of the excess benefit. The tax imposed by this paragraph shall be paid by any disqualified person referred to in subsection (f)(1) with respect to such transaction.

“(2) ON THE MANAGEMENT.—In any case in which a tax is imposed by paragraph (1), there is hereby imposed on the participation of any organization manager in the excess benefit transaction, knowing that it is such a transaction, a tax equal to 10 percent of the excess benefit, unless such participation is not willful and is due to reasonable cause. The tax imposed by this paragraph shall be paid by any organization manager who participated in the excess benefit transaction.

“(b) ADDITIONAL TAX ON THE DISQUALIFIED PERSON.—In any case in which an initial tax is imposed by subsection (a)(1) on an excess benefit transaction and the excess benefit involved in such transaction is not corrected within the taxable period, there is hereby imposed a tax equal to 200 percent of the excess benefit involved. The tax imposed by this subsection shall be paid by any disqualified person referred to in subsection (f)(1) with respect to such transaction.

“(c) EXCESS BENEFIT TRANSACTION; EXCESS BENEFIT.—For purposes of this section—

“(1) EXCESS BENEFIT TRANSACTION.—

“(A) IN GENERAL.—The term ‘excess benefit transaction’ means any transaction in which an economic benefit is provided by an applicable tax-exempt organization directly or indirectly to or for the use of any disqualified person if the value of the economic benefit provided exceeds the value of the consideration (including the performance of services) received for providing such benefit. For purposes of the preceding sentence, an economic benefit shall not be treated as consideration for the performance of services unless such organization clearly indicated its intent to so treat such benefit.

“(B) EXCESS BENEFIT.—The term ‘excess benefit’ means the excess referred to in subparagraph (A).

“(2) AUTHORITY TO INCLUDE CERTAIN OTHER PRIVATE INUREMENT.—To the extent provided in regulations prescribed by the Secretary, the term ‘excess benefit transaction’ includes any transaction in which the amount of any economic benefit provided to or for the use of a disqualified person is determined in whole or in part by the revenues of 1 or more activities of the organization but only if such transaction results in inurement not permitted under paragraph (3) or (4) of section 501(c), as the case may be. In the case of any such transaction, the excess benefit shall be the amount of the inurement not so permitted.

“(d) SPECIAL RULES.—For purposes of this section—

“(1) JOINT AND SEVERAL LIABILITY.—If more than 1 person is liable for any tax imposed by subsection (a) or subsection (b), all such persons shall be jointly and severally liable for such tax.

“(2) LIMIT FOR MANAGEMENT.—With respect to any 1 excess benefit transaction, the maximum amount of the tax imposed by subsection (a)(2) shall not exceed \$10,000.

“(e) APPLICABLE TAX-EXEMPT ORGANIZATION.—For purposes of this subchapter, the term ‘applicable tax-exempt organization’ means—

“(1) any organization which (without regard to any excess benefit) would be described in paragraph (3) or (4) of section 501(c) and exempt from tax under section 501(a), and

“(2) any organization which was described in paragraph (1) at any time during the 5-year period ending on the date of the transaction.

Such term shall not include a private foundation (as defined in section 509(a)).

“(f) OTHER DEFINITIONS.—For purposes of this section—

“(1) DISQUALIFIED PERSON.—The term ‘disqualified person’ means, with respect to any transaction—

“(A) any person who was, at any time during the 5-year period ending on the date of such transaction, in a position to exercise substantial influence over the affairs of the organization,

“(B) a member of the family of an individual described in subparagraph (A), and

“(C) a 35-percent controlled entity.

“(2) ORGANIZATION MANAGER.—The term ‘organization manager’ means, with respect to any applicable tax-exempt organization, any officer, director, or trustee of such organization (or any individual having powers or responsibilities similar to those of officers, directors, or trustees of the organization).

“(3) 35-PERCENT CONTROLLED ENTITY.—

“(A) IN GENERAL.—The term ‘35-percent controlled entity’ means—

“(i) a corporation in which persons described in subparagraph (A) or (B) of paragraph (1) own more than 35 percent of the total combined voting power,

“(ii) a partnership in which such persons own more than 35 percent of the profits interest, and

“(iii) a trust or estate in which such persons own more than 35 percent of the beneficial interest.

“(B) CONSTRUCTIVE OWNERSHIP RULES.—Rules similar to the rules of paragraphs (3) and (4) of section 4946(a) shall apply for purposes of this paragraph.

“(4) FAMILY MEMBERS.—The members of an individual’s family shall be determined under section 4946(d); except that such members also shall include the brothers and sisters (whether by the whole or half blood) of the individual and their spouses.

“(5) TAXABLE PERIOD.—The term ‘taxable period’ means, with respect to any excess benefit transaction, the period beginning with the date on which the transaction occurs and ending on the earliest of—

“(A) the date of mailing a notice of deficiency under section 6212 with respect to the tax imposed by subsection (a)(1), or

“(B) the date on which the tax imposed by subsection (a)(1) is assessed.

“(6) CORRECTION.—The terms ‘correction’ and ‘correct’ mean, with respect to any excess benefit transaction, undoing the excess benefit to the extent possible, and taking any additional measures necessary to place the organization in a financial position not worse than that in which it would be if the disqualified person were dealing under the highest fiduciary standards.”.

(b) APPLICATION OF PRIVATE INUREMENT RULE TO TAX-EXEMPT ORGANIZATIONS DESCRIBED IN SECTION 501(c)(4).—

(1) **IN GENERAL.**—Paragraph (4) of section 501(c) is amended by inserting “(A)” after “(4)” and by adding at the end the following:

“(B) Subparagraph (A) shall not apply to an entity unless no part of the net earnings of such entity inures to the benefit of any private shareholder or individual.”

26 USC 501 note.

(2) **SPECIAL RULE FOR CERTAIN COOPERATIVES.**—In the case of an organization operating on a cooperative basis which, before the date of the enactment of this Act, was determined by the Secretary of the Treasury or his delegate, to be described in section 501(c)(4) of the Internal Revenue Code of 1986 and exempt from tax under section 501(a) of such Code, the allocation or return of net margins or capital to the members of such organization in accordance with its incorporating statute and bylaws shall not be treated for purposes of such Code as the inurement of the net earnings of such organization to the benefit of any private shareholder or individual. The preceding sentence shall apply only if such statute and bylaws are substantially as such statute and bylaws were in existence on the date of the enactment of this Act.

(c) **TECHNICAL AND CONFORMING AMENDMENTS.**—

(1) Subsection (e) of section 4955 is amended—

(A) by striking “SECTION 4945” in the heading and inserting “SECTIONS 4945 AND 4958”, and

(B) by inserting before the period “or an excess benefit for purposes of section 4958”.

(2) Subsections (a), (b), and (c) of section 4963 are each amended by inserting “4958,” after “4955,”.

(3) Subsection (e) of section 6213 is amended by inserting “4958 (relating to private excess benefit),” before “4971”.

(4) Paragraphs (2) and (3) of section 7422(g) are each amended by inserting “4958,” after “4955,”.

(5) Subsection (b) of section 7454 is amended by inserting “or whether an organization manager (as defined in section 4958(f)(2)) has ‘knowingly’ participated in an excess benefit transaction (as defined in section 4958(c)),” after “section 4912(b),”.

(6) The table of subchapters for chapter 42 is amended by striking the last item and inserting the following:

“SUBCHAPTER D. Failure by certain charitable organizations to meet certain qualification requirements.

“SUBCHAPTER E. Abatement of first and second tier taxes in certain cases.”.

(d) **EFFECTIVE DATES.**—

26 USC 4955  
note.

(1) **IN GENERAL.**—The amendments made by this section (other than subsection (b)) shall apply to excess benefit transactions occurring on or after September 14, 1995.

26 USC 4955  
note.

(2) **BINDING CONTRACTS.**—The amendments referred to in paragraph (1) shall not apply to any benefit arising from a transaction pursuant to any written contract which was binding on September 13, 1995, and at all times thereafter before such transaction occurred.

26 USC 501 note.

(3) **APPLICATION OF PRIVATE INUREMENT RULE TO TAX-EXEMPT ORGANIZATIONS DESCRIBED IN SECTION 501(c)(4).**—

(A) **IN GENERAL.**—The amendment made by subsection (b) shall apply to inurement occurring on or after September 14, 1995.

(B) **BINDING CONTRACTS.**—The amendment made by subsection (b) shall not apply to any inurement occurring before January 1, 1997, pursuant to a written contract which was binding on September 13, 1995, and at all times thereafter before such inurement occurred.

**SEC. 1312. REPORTING OF CERTAIN EXCISE TAXES AND OTHER INFORMATION.**

(a) **REPORTING BY ORGANIZATIONS DESCRIBED IN SECTION 501(c)(3).**—Subsection (b) of section 6033 (relating to certain organizations described in section 501(c)(3)) is amended by striking “and” at the end of paragraph (9), by redesignating paragraph (10) as paragraph (14), and by inserting after paragraph (9) the following new paragraphs:

“(10) the respective amounts (if any) of the taxes paid by the organization during the taxable year under the following provisions:

“(A) section 4911 (relating to tax on excess expenditures to influence legislation),

“(B) section 4912 (relating to tax on disqualifying lobbying expenditures of certain organizations), and

“(C) section 4955 (relating to taxes on political expenditures of section 501(c)(3) organizations),

“(11) the respective amounts (if any) of the taxes paid by the organization, or any disqualified person with respect to such organization, during the taxable year under section 4958 (relating to taxes on private excess benefit from certain charitable organizations),

“(12) such information as the Secretary may require with respect to any excess benefit transaction (as defined in section 4958),

“(13) such information with respect to disqualified persons as the Secretary may prescribe, and”.

(b) **ORGANIZATIONS DESCRIBED IN SECTION 501(c)(4).**—Section 6033 is amended by redesignating subsection (f) as subsection (g) and by inserting after subsection (e) the following new subsection:

“(f) **CERTAIN ORGANIZATIONS DESCRIBED IN SECTION 501(c)(4).**—Every organization described in section 501(c)(4) which is subject to the requirements of subsection (a) shall include on the return required under subsection (a) the information referred to in paragraphs (11), (12) and (13) of subsection (b) with respect to such organization.”.

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

26 USC 6033  
note.

**SEC. 1313. EXEMPT ORGANIZATIONS REQUIRED TO PROVIDE COPY OF RETURN.**

(a) **REQUIREMENT TO PROVIDE COPY.**—

(1) Subparagraph (A) of section 6104(e)(1) (relating to public inspection of annual returns) is amended to read as follows:

“(A) **IN GENERAL.**—During the 3-year period beginning on the filing date—

“(i) a copy of the annual return filed under section 6033 (relating to returns by exempt organizations) by any organization to which this paragraph applies shall be made available by such organization for inspection during regular business hours by any individual at

the principal office of such organization and, if such organization regularly maintains 1 or more regional or district offices having 3 or more employees, at each such regional or district office, and

“(ii) upon request of an individual made at such principal office or such a regional or district office, a copy of such annual return shall be provided to such individual without charge other than a reasonable fee for any reproduction and mailing costs.

The request described in clause (ii) must be made in person or in writing. If the request under clause (ii) is made in person, such copy shall be provided immediately and, if made in writing, shall be provided within 30 days.”.

(2) Clause (ii) of section 6104(e)(2)(A) is amended by inserting before the period at the end the following: “(and, upon request of an individual made at such principal office or such a regional or district office, a copy of the material requested to be available for inspection under this subparagraph shall be provided (in accordance with the last sentence of paragraph (1)(A)) to such individual without charge other than reasonable fee for any reproduction and mailing costs)”.

(3) Subsection (e) of section 6104 is amended by adding at the end the following new paragraph:

“(3) LIMITATION.—Paragraph (1)(A)(ii) (and the corresponding provision of paragraph (2)) shall not apply to any request if, in accordance with regulations promulgated by the Secretary, the organization has made the requested documents widely available, or, the Secretary determines, upon application by an organization, that such request is part of a harassment campaign and that compliance with such request is not in the public interest.”.

(b) INCREASE IN PENALTY FOR WILLFUL FAILURE TO ALLOW PUBLIC INSPECTION OF CERTAIN RETURNS, ETC.—Section 6685 is amended by striking “\$1,000” and inserting “\$5,000”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to requests made on or after the 60th day after the Secretary of the Treasury first issues the regulations referred to section 6104(e)(3) of the Internal Revenue Code of 1986 (as added by subsection (a)(3)).

**SEC. 1314. INCREASE IN PENALTIES ON EXEMPT ORGANIZATIONS FOR FAILURE TO FILE COMPLETE AND TIMELY ANNUAL RETURNS.**

(a) IN GENERAL.—Subparagraph (A) of section 6652(c)(1) (relating to annual returns under section 6033) is amended by striking “\$10” and inserting “\$20” and by striking “\$5,000” and inserting “\$10,000”.

(b) LARGER PENALTY ON ORGANIZATIONS HAVING GROSS RECEIPTS IN EXCESS OF \$1,000,000.—Subparagraph (A) of section 6652(c)(1) is amended by adding at the end the following new sentence: “In the case of an organization having gross receipts exceeding \$1,000,000 for any year, with respect to the return required under section 6033 for such year, the first sentence of this subparagraph shall be applied by substituting ‘\$100’ for ‘\$20’ and, in lieu of applying the second sentence of this subparagraph, the maximum penalty under this subparagraph shall not exceed \$50,000.”.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to returns for taxable years ending on or after the date of the enactment of this Act. 26 USC 6652 note.

Approved July 30, 1996.

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**LEGISLATIVE HISTORY—H.R. 2337:**

HOUSE REPORTS: No. 104-506 (Comm. on Ways and Means).

CONGRESSIONAL RECORD, Vol. 142 (1996):

Apr. 16, considered and passed House.

July 11, considered and passed Senate.

WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS, Vol. 32 (1996):

July 30, Presidential remarks.