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TAXPAYER ASSISTANCE AND SERVICE ACT

SEPTEMBER 17, 2026.—Ordered to be printed

Mr. CRAPO, from the Committee on Finance,
submitted the following

R E P O R T

[To accompany S. 5441]

The Committee on Finance, having considered an original bill (S. 5441), to improve services provided to taxpayers by the Internal Revenue Service, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

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I. LEGISLATIVE BACKGROUND

The Committee on Finance, having considered S. 5441, the Taxpayer Assistance and Service Act, a bill to amend the Internal Revenue Code of 1986 to improve services provided to taxpayers by the Internal Revenue Service, reports favorably thereon and recommends that the bill do pass.

Purpose and summary

The purpose of the legislation is to improve taxpayer services and administrative processes within the Internal Revenue Service, enhance transparency and accountability, modernize electronic systems, strengthen taxpayer protections, and streamline various procedures relating to tax administration. The bill includes provisions addressing digitization, electronic access to taxpayer information, expansion of online accounts, taxpayer assistance through the Taxpayer Advocate Service, enhancements to the Independent Office of Appeals, improvements to tax whistleblower procedures, minimum standards for paid tax preparers, modernization of Tax Court procedures, and increased support for taxpayers living abroad.

Background and need for legislative action

As detailed in the annual recommendations of the National Taxpayer Advocate, taxpayers continue to face challenges interacting with the IRS relating to outdated technology, document processing delays, limited transparency regarding account information and refund status, inconsistent communication, and fragmented administrative procedures. Taxpayers and practitioners increasingly rely on aging electronic systems that require modernization and improved security. In addition, taxpayers facing economic hardship, taxpayers living or wrongfully detained abroad, and taxpayers engaged in disputes with the IRS may encounter unique challenges not fully addressed by current law.

The Committee believes that targeted reforms to taxpayer services, appeals procedures, electronic filing programs, and preparer minimum standards are necessary to ensure that taxpayers receive accurate, timely, and fair treatment. The provisions of this legislation are intended to strengthen taxpayer rights, enhance administrative efficiency, reduce burdens associated with paper filings, and support IRS efforts to improve service delivery. Many of the provi-

sions in this legislation are similar to measures previously introduced in the Senate by members of the Finance Committee. In addition, several provisions have been considered and passed by the House of Representatives during the 119th Congress.

Committee action

Based on a proposal recommended by Chairman Crapo, the Committee on Finance marked up original legislation (the “Taxpayer Assistance and Service Act”) on July 30, 2026, and, with a majority present, ordered the bill favorably reported.

II. EXPLANATION OF THE BILL

TITLE I—TAX ADMINISTRATION AND CUSTOMER SERVICE

1. Digitization of tax returns and correspondence (sec. 101 of the bill)

PRESENT LAW

Every citizen, whether residing in or outside the United States, and every resident of the United States within the meaning of section 7701(b) must file an income tax return if the individual has income that equals or exceeds the exemption amount.¹ Regulations issued by the Department of the Treasury (“Treasury”) require individual taxpayers to make this return using a Form 1040, U.S. Individual Income Tax Return.² Similarly, every corporation subject to Federal income tax, regardless of the amount of its gross or taxable income for the taxable year, is required to file a return.³ Various returns are also required to be submitted by certain employers, partnerships, estates, trusts, noncitizen nonresident individuals, and taxpayers subject to Federal gift tax, estate tax, generation-skipping transfer tax, excise taxes, and other miscellaneous Federal taxes.

In 1998, Congress declared a policy that (1) paperless filing should be the preferred and most convenient means of filing Federal tax and information returns, (2) the goal of the Internal Revenue Service (“IRS”) should be to receive at least 80 percent of all returns electronically by 2007, and (3) the IRS should encourage private-sector competition to increase electronic filing.⁴ Section 6011(f), also enacted in 1998, authorizes Treasury to advertise the benefits of electronic tax administration programs and to make payment of appropriate incentives for electronically-filed returns.

Treasury generally is authorized to prescribe regulations providing standards for determining which returns must be filed on magnetic media or in another machine-readable form.⁵ However, except under certain circumstances, Treasury “may not require returns of any tax imposed by subtitle A on individuals, estates, and

¹Sec. 6012(a)(1); Treas. Reg. sec. 1.6012-1(a)(1).

²Treas. Reg. sec. 1.6012-1(a)(6).

³Sec. 6012(a)(2).

⁴The Internal Revenue Service Restructuring and Reform Act of 1998, Pub. L. No. 105-206, sec. 2001.

⁵Sec. 6011(e). The statute uses the term “magnetic media,” and applicable Treasury regulations specify that magnetic media includes electronic filing. Treas. Reg. sec. 301.6011-2(a)(1).

trusts, to be other than on paper forms supplied by the Secretary.”⁶

REASONS FOR CHANGE

Manual data entry of paper returns significantly contributes to the IRS’s backlogs. In some cases, when the IRS accepts returns electronically, it prints them out and processes them manually. By digitizing paper returns and taxpayer correspondence and the electronic processing of returns, the Committee believes the IRS can eliminate errors resulting from manual data-entry of paper returns, speed up processing, reduce storage costs, and focus more of its resources on customer service.

EXPLANATION OF PROVISION

The provision provides that any Federal tax return or amendments to such return that are required to be filed, may be filed electronically, and if filed electronically, will be processed electronically by the Secretary of the Treasury (“Secretary”).

The provision requires the IRS to use optical character recognition (“OCR”) technology (or any functionally similar technology) to transcribe (1) any return that is received by the IRS only in a paper form; or (2) any correspondence that is received by the IRS only in a paper form.

An exception to these requirements applies if the Secretary of the Treasury (or delegate) (“Secretary”) determines that the OCR technology or functionally similar technology is slower or less reliable than the process of manually transcribing the returns or correspondence received in paper form (or any other process normally used by the IRS).

Under the provision, any such exception applies only if the Secretary provides a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate within 30 days of making a determination of the exception.

EFFECTIVE DATE

The provision is effective for individual income tax returns received on or after January 1 of the first calendar year beginning more than 180 days after the date of enactment.

The provision is effective for estate tax returns or gift tax returns received on or after January 1 of the first calendar year beginning more than 24 months after the date of enactment.

The provision is effective for any other return or correspondence received on or after January 1 of the first calendar year beginning more than 18 months after the date of enactment.

2. Establishment of dashboard to inform taxpayers of backlogs and wait times (sec. 102 of the bill)

PRESENT LAW

The Code provides for the appointment of a Commissioner of Internal Revenue (“Commissioner”) to fulfill such duties and powers

⁶Sec. 6011(e)(1). In this context, “Secretary” refers to the Secretary of the Treasury or his delegate. See sec. 7701(a)(11).

as prescribed by the Secretary.⁷ Unless otherwise specified by the Secretary, such duties and powers include the power to administer, manage, conduct, direct, and supervise the execution and application of the internal revenue laws or related statutes. Furthermore, in discharging his duties, the Commissioner is required to ensure that the employees of the Internal Revenue Service (“IRS”) are familiar with, and act in accordance with taxpayer rights, including the right to be informed and the right to quality service.⁸

REASONS FOR CHANGE

The Committee believes the establishment of a user-friendly real-time dashboard on the IRS website can reduce unnecessary calls and letters. By providing taxpayers with information on call volume, backlogs, wait-times, and the availability of callbacks, the IRS will improve its ability to provide customer service that is timely and accurate. Furthermore, the Committee believes that requiring the IRS to provide monthly reports summarizing telephone service, and weekly updates following weeks during which there are significant processing delays will set expectations and discourage repeated calls.

EXPLANATION OF PROVISION

Under the provision, the Secretary of the Treasury or the Secretary’s delegate (“Secretary”) shall require the IRS to provide in real time on its public website, to the extent practical, separately with respect to each applicable phone number extension⁹ the following information:

1. the number of callers connected to speak directly with a representative of the IRS;
2. the number of callers connected to speak with an automated system;
3. the number of callers who are waiting to be connected to speak directly with a representative of the IRS or an automated system;
4. the longest amount of time that any caller has been waiting to be connected to speak directly with a representative of the IRS; and
5. whether callback service is currently available, and if not, when such service is scheduled to be available.

This information must be displayed on an application or tool embedded on the website and must also include the estimated approximate wait-times to speak directly with a representative of the IRS.

The IRS is also required to provide an application programming interface on its public website that allows any person to access the information described in the five items listed above using automation, and to create an application or tool embedded on a website to display such information.

⁷ Sec. 7803(a).

⁸ Secs. 7803(a)(3)(A), (B).

⁹ An “applicable phone number extension” means any extension or application which may be reached by calling a phone number which is listed by the IRS on any website, publication, form, or instruction which is available to the public and operated by the IRS accounts management function, operated by the IRS automated collection function, managed by the IRS Joint Operations Center, managed and staffed by a contractor on behalf of the IRS, or received 200,000 or more calls during the preceding calendar year.

In addition, the IRS is required to provide a summary of the information described in the five items listed above with respect to the prior month, including the average and median length of calls; the average and median amount of time that callers spoke directly with a representative of the IRS; the number and percent of calls that were directed to an automated system; the number and percent of calls that were disconnected or terminated by the IRS; the number of callers who were transferred to another applicable phone number extension after the call was initially answered by a representative of the IRS along with the average and median amount of time that these callers were on hold following the transfer; and the number and percent of callers who indicated that they received the answers or service for which they were contacting the IRS.

The Secretary shall require the IRS to use technology to detect and screen automated calls.

Separately, the IRS is required to report significant processing delays for categories of applicable items. An “applicable item” is each category of tax return, claim, statement, or other document filed with the IRS. A significant processing delay is generally the failure to process all such applicable items within 21 days of receipt. For any week in which there is a significant processing delay (“the applicable week”), the IRS is required to publicly list during the subsequent week, the earliest date of receipt for items that were processed during the applicable week.

EFFECTIVE DATE

The requirements of this section shall apply to periods beginning after the date that is 12 months after the date of enactment.

3. Expansion of electronic access to information about returns and refunds (sec. 103 of the bill)

PRESENT LAW

See the Present Law discussion in section 102, above.

REASONS FOR CHANGE

The Committee believes that requiring the IRS to update and improve the provision of individualized and timely information to taxpayers via a website or mobile application will reduce unnecessary calls and letters as well as improve the quality of customer service provided.

EXPLANATION OF PROVISION

Not later than January 1 of the first calendar year beginning more than 12 months after the date of enactment of the Act, the Secretary must provide, through a website or a mobile application, individualized, specific, and up-to-date information to taxpayers regarding their tax returns and amended returns. The website or application must include information with respect to whether the IRS has received such return and entered such return into their systems, completed processing such return, including the date on which the IRS issued any refund of any overpayment of tax, if any, or suspended processing of the return. If the IRS issues a refund,

it must include the estimated date on which the taxpayer can expect to receive such refund (if the refund will be issued by electronic fund transfer, the partial or full account number for such account and the name and routing number of the financial institution, or if the refund will be issued by paper check, the address to which the check will be mailed). If processing of the return was suspended, the IRS must include the reason for the suspension, and in the case of any information which was requested by the IRS, the information requested, the form and manner for submission, and the date on which such information is due to be submitted to the IRS.

EFFECTIVE DATE

The provision is effective on the date of enactment.

4. Expansion of callback technology (sec. 104 of the bill)

PRESENT LAW

See the Present Law discussion in section 102, above.

REASONS FOR CHANGE

The Committee believes that taxpayers who call IRS phone lines value the option to receive a callback instead of waiting on hold, and that IRS should therefore offer this option on all of its major lines and extensions.

EXPLANATION OF PROVISION

The provision states that it is the sense of Congress that taxpayers contacting the IRS should have the option to receive a callback instead of waiting on hold and that not later than calendar year 2028, the IRS should provide any taxpayer (including any taxpayer residing outside of the United States) the option to receive a callback for any call made by the taxpayer to an applicable phone number extension¹⁰ that has not been answered within five minutes.

EFFECTIVE DATE

The provision is effective on the date of enactment.

5. Expansion of online accounts (sec. 105 of the bill)

PRESENT LAW

See the Present Law discussion in section 102, above.

REASONS FOR CHANGE

The Committee believes that an expansion of online accounts that permits both individual and business taxpayers (and tax professionals) to view tax returns, documents, notices, and letters sent or received by the IRS, as well as the ability to provide responses

¹⁰ An “applicable phone number extension” means any extension or application which may be reached by calling a phone number which is listed by the IRS on any website, publication, form, or instruction which is available to the public and operated by the IRS accounts management function, operated by the IRS automated collection function, managed by the IRS Joint Operations Center, managed and staffed by a contractor on behalf of the IRS, or which received 200,000 or more calls during the preceding calendar year.

to IRS inquiries through the online account, is a necessary improvement and will reduce reliance on paper, phone, and in-person assistance to taxpayers.

EXPLANATION OF PROVISION

Under the provision, the Secretary shall make available a website or mobile application which, in a manner consistent with limitations under section 6103 of the Code, allows any taxpayer (including any taxpayer residing outside of the United States) to view any return,¹¹ document, notice, or letter (other than an educational item with no legal effect) which, during the preceding six-year period,¹² was sent to the taxpayer by the IRS or filed with the IRS by (1) the taxpayer, (2) a person described in section 6103(c) with respect to such taxpayer,¹³ or (3) with respect to such taxpayer in accordance with section 6103(e).¹⁴ In the case of a representative¹⁵ of a taxpayer who is authorized to practice before the Treasury Department, a tax return preparer¹⁶ with an identifying number,¹⁷ or a qualified reporting agent, the Secretary shall permit such representative, preparer, or agent, to access such information, to the extent authorized by the taxpayer. The Secretary shall make available for viewing any return, document, notice, or letter (as described above) by the taxpayer, any representative, tax return preparer or qualified reporting agent to the extent authorized by the taxpayer (as described above), as soon as is practicable and pursuant to regulations prescribed by the Secretary. A qualified reporting agent is a person who is properly authorized as an agent to sign and file employment tax returns,¹⁸ make related payments and deposits, and perform such other acts on behalf of a taxpayer under procedures and requirements set forth by the Secretary, who has met such other requirements as may be established by the Secretary, and for whom authorization has not been revoked or suspended by the Secretary pursuant to procedures established by the Secretary.

The Secretary shall also make available a website or mobile application which allows the taxpayer to respond to any document, notice, or letter sent to the taxpayer by the IRS by uploading or otherwise transmitting the taxpayer's response. The Secretary shall permit any representative, preparer, or agent of the taxpayer (as described above) to transmit such information, to the extent authorized by the taxpayer. The website or mobile application must allow a representative, tax return preparer, or qualified reporting agent to access information for multiple taxpayers without any requirement to individually and separately access the account of each individual taxpayer.

¹¹ As defined in section 6103(b)(1).

¹² This period shall not include any years ending before the date of enactment.

¹³ Section 6103(c) permits the IRS to disclose returns and return information to a designee of the taxpayer or pursuant to the taxpayer's consent.

¹⁴ Under section 6103(e) a return of a person upon written request can be inspected or disclosed to certain persons having a material interest.

¹⁵ Section 330, Title 31.

¹⁶ Sec. 7701(a)(36).

¹⁷ Sec. 6109(a)(4).

¹⁸ An "employment tax return" includes any return required to be filed by an employer to report the obligations of the employer and its employees under section 3101, 3111, 3301, or 3402, as well as other returns as designated by the Secretary.

Prior to making such website or mobile application available, the Secretary shall conduct focus groups with taxpayers and tax professionals to ensure that any amounts appropriated or otherwise made available for such purposes are expended appropriately.

In order to prevent unauthorized disclosure of return information by persons designated by taxpayers, the Secretary shall establish a program to investigate and address any access, use, or disclosure of return information (as defined in section 6103(b)) by any person which is in excess of the permitted authorization under the provision, as well as any related misconduct. The Secretary shall also publish annually on the public website of the IRS, the actions undertaken pursuant to this program, such as the number of complaints investigated, the number of persons whose access was revoked, and other relevant statistical data.

Under the provision, the website or application shall be made available not later than January 1 of the first calendar year beginning more than 18 months after the date of enactment. The program to investigate and address unauthorized disclosure of return information shall also be established not later than January 1 of the first calendar year beginning more than 18 months after the date of enactment.

EFFECTIVE DATE

The provision is effective on the date of enactment.

6. Automation of refund offset bypass (sec. 106 of the bill and secs. 6402 and 6343 of the Code)

PRESENT LAW

The Secretary is authorized to apply a taxpayer's overpayment to outstanding Federal tax liabilities and other legally enforceable debts before issuing a refund.¹⁹ Present law contains no explicit authority directing the Secretary to bypass offsets against Federal tax liabilities on account of hardship or to limit the amount of an offset where refundable credits are involved.²⁰ The IRS does provide such relief to taxpayers from offset administratively on a case-by-case basis if the taxpayer's income does not cover reasonable basic living expenses determined by the economic hardship standard,²¹ and no statutory mechanism limits the amount of an offset for taxpayers eligible for refundable credits such as the earned income tax credit ("EITC").

REASONS FOR CHANGE

The Committee believes statutory clarification is needed to ensure that low-income taxpayers classified as currently not collectible can reliably receive the benefit of refundable credits such as the earned income tax credit. Relying on discretionary, case by-case administrative decisions during the filing season leads to inconsistent outcomes and prevents Congress's intended support from reaching households facing hardship. Establishing a mandatory offset bypass for these taxpayers improves equity, reduces adminis-

¹⁹ Sec. 6402(a).

²⁰ *Ibid.* IRS administrative guidance provides limited, non-statutory offset-bypass relief in certain hardship cases. Internal Revenue Manual, *Manual Refunds*, 21.4.4 (August 27, 2025).

²¹ Treas. Reg. sec. 301.6343-1(b)(4).

trative burden, and ensures refundable credits are delivered as intended even when collection of outstanding Federal tax liabilities is not presently feasible.

EXPLANATION OF PROVISION

The provision creates a mandatory offset bypass for certain low-income taxpayers. Specifically, in the case of an overpayment for a taxable year in which an “applicable taxpayer” is allowed an EITC, the Secretary is required to refund the amount of the overpayment up to the amount of the EITC, overriding only the offset authority under section 6402(a) for federal income tax liabilities. An “applicable taxpayer” is defined as a taxpayer that the Secretary classified as currently not collectible (within the meaning of section 6343(e)) at the time the taxpayer’s overpayment arises (for example, upon filing of the return). The bypass is “subject to subsections (c), (d), (e), and (f)” of section 6402, and therefore the existing rules that instruct the IRS how to apply non tax offsets continue to apply to any remaining amount of the overpayment. Those subsections govern offsets for past due child support, Federal agency non tax debts, State income tax obligations, and Federal unemployment compensation debts.

EFFECTIVE DATE

The provision applies to offsets made after the date that is 12 months after the date of enactment.

7. Installment agreement fees eliminated for certain individuals (sec. 107 of the bill and sec. 6159 of the Code)

PRESENT LAW

Under present law, the IRS is authorized to enter into installment agreements with taxpayers to allow payment of outstanding tax liabilities over time.²² The Code authorizes the IRS to charge user fees for entering into an installment agreement, and provides limited circumstances in which they may be reduced or waived.²³

A reduced fee is available for low income taxpayers who enter into a direct debit installment agreement, and present law permits reimbursement of fees for certain low income taxpayers upon successful completion of the agreement. Low income taxpayers who cannot use direct debit are required to submit the standard user fee upfront, which is reimbursed upon successful completion of the agreement.

Reasons for Change The Committee believes that user fees for installment agreements can pose a financial burden on taxpayers facing economic hardship, particularly low-income individuals who already struggle to pay outstanding tax liabilities. Eliminating these fees for taxpayers with incomes modestly above the Federal poverty level is intended to reduce barriers to compliance, encourage timely resolution of tax obligations, and simplify administration by minimizing the need for fee reimbursements.

²² Sec. 6159(a).

²³ Sec. 6159(f).

EXPLANATION OF PROVISION

The provision amends the Code to eliminate user fees for installment agreements for certain low income taxpayers. Under the provision, no fee may be imposed for entering into an installment agreement if the taxpayer's adjusted gross income for the most recent taxable year for which information is available does not exceed 250 percent of the applicable poverty level, as determined by the Secretary. The provision does not change fees applicable to taxpayers with income above the threshold.

EFFECTIVE DATE

The provision applies to installment agreements entered into after the date that is 12 months after the date of enactment.

8. Individuals facing economic hardships informed of collection alternatives (sec. 108 of the bill and secs. 6159 and 7122 of the Code)

PRESENT LAW

Under present law, taxpayers who are unable to fully pay their tax liabilities may be eligible for various forms of collection relief, including partial payment installment agreements²⁴ and offers in compromise.²⁵ Eligibility for these forms of relief is determined based on the taxpayer's financial condition and ability to meet basic living expenses. Present law does not require the IRS to proactively identify taxpayers who may be experiencing economic hardship or to inform such taxpayers of alternative collection options when they request an installment agreement.

REASONS FOR CHANGE

The Committee believes that taxpayers experiencing economic hardship often lack awareness of the full range of collection alternatives available to them. Because installment agreements are frequently requested by taxpayers in financial distress, requiring the IRS to identify likely hardship cases and provide information about other collection options will improve transparency, promote more appropriate resolution of tax liabilities, and reduce unnecessary burdens on taxpayers who may qualify for relief better suited to their circumstances.

EXPLANATION OF PROVISION

The provision requires the Secretary, within 12 months of enactment, to establish a program to identify taxpayers who are reasonably likely to be experiencing economic hardship and who also have unpaid tax liabilities. When such a taxpayer requests an installment agreement, the IRS must provide information about other available collection alternatives, including partial payment installment agreements, offers in compromise, and currently not collectible status. Determinations of likely hardship are required to be made using income and asset information from the most recent re-

²⁴ Sec. 6159.

²⁵ Sec. 7122.

turn or report available to the IRS, as well as the national and local allowance schedules referenced in the Code.²⁶

Within two years after enactment, the Secretary, after consulting with the National Taxpayer Advocate, is required to submit a report to the House Committee on Ways and Means and the Senate Committee on Finance evaluating the accuracy of the hardship identification program, analyzing whether the procedures could appropriately be applied for other purposes, and providing data on (i) the taxpayers identified as reasonably likely to be experiencing hardship; (ii) the collection alternatives offered to those taxpayers; and (iii) the status of their tax liabilities.

EFFECTIVE DATE

The provision requires implementation within 12 months after the date of enactment.

9. Quarterly notices to certain taxpayers with delinquencies (sec. 109 of the bill and sec. 7524 of the Code)

PRESENT LAW

The Code requires the IRS to send taxpayers with outstanding tax delinquencies an annual reminder notice stating the amount of unpaid tax and associated penalties and interest.²⁷ There is no statutory requirement that such notices be provided more frequently, nor does present law require the IRS to include information estimating future penalties and interest or describing available taxpayer assistance programs.

REASONS FOR CHANGE

The Committee believes that taxpayers with outstanding liabilities benefit from more frequent and informative communication. Annual notices may not provide taxpayers with a clear understanding of how penalties and interest accumulate over time or the assistance options available to help them resolve their obligations. Providing quarterly notices is intended to enhance taxpayer awareness, promote timely action, and reduce the adverse consequences of prolonged delinquency.

EXPLANATION OF PROVISION

The provision amends the Code to require the IRS to send notices not less often than quarterly (rather than annual notices) to taxpayers with outstanding tax delinquencies, except in certain circumstances. The quarterly notices must include (1) an estimate of penalties and interest that may accrue if the liability is not fully paid within the remaining collection period and (2) information on programs and services that may assist the taxpayer. The provision also creates exceptions to the quarterly-notice requirement for taxpayers who are in an active installment agreement, have an accepted offer in compromise, or have been determined to be currently not collectible.

²⁶ Sec. 7122(d)(2)(A).

²⁷ Sec. 7524.

EFFECTIVE DATE

The provision is effective on the date that is 24 months after the date of enactment.

10. Reform Federal grants to low-income taxpayer clinics (sec. 110 of the bill and sec. 7526(c) of the Code)

PRESENT LAW

The Code provides that the Secretary is authorized to award matching grants to further the development, expansion, or continuation of certain qualified low-income taxpayer clinics.²⁸ Eligible clinics are those that charge no more than a nominal fee to either represent low-income taxpayers in controversies with the IRS or provide tax information to individuals for whom English is a second language. Section 7526(c)(2) provides that no clinic can receive more than \$100,000 per year, but this \$100,000 limit is temporarily superseded by an appropriations law, which appropriated up to \$200,000 per year.²⁹ Furthermore, clinics are required to match 100 percent of the grant funds received.³⁰

Matching funds may include the salary (including fringe benefits) of individuals performing services of the clinic, and the cost of equipment used in the clinic. Indirect expenses, including general overhead of the institution sponsoring the clinic, are not to be counted as matching funds.

A qualified low-income taxpayer clinic includes (1) a clinical program at an accredited law, business, or accounting school, in which students represent low-income taxpayers in tax controversies, or (2) an organization exempt from tax under Code section 501(c) which either represents low-income taxpayers or provides referrals to qualified representatives. A low-income taxpayer is an individual whose income does not exceed 250 percent of the poverty level, as determined in accordance with criteria established by the Director of the Office of Management and Budget.

REASONS FOR CHANGE

Because the Committee believes that low-income taxpayer clinics are an effective and low cost means of providing services to low-income taxpayers who need help in disputes with the IRS, and because appropriation bills have provided funding above the limit specified in the Code, the Committee believes it is appropriate to remove the specified limit in the Code and clarify that qualified low-income taxpayer clinics may access appropriated funds. Furthermore, the Committee believes that granting the Secretary the authority to match less than 100 percent of the grant (but not less than 25 percent) will improve the overall efficacy of the program and increase service to additional taxpayers.

EXPLANATION OF PROVISION

Under the provision, low-income taxpayer clinics generally continue to be required to match 100 percent of grant funds received.

²⁸ Sec. 7526.

²⁹ Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, Div. E, Title I, December 29, 2022.

³⁰ Sec. 7526(c)(5).

However, the Secretary is granted authority to reduce the matching requirement from 100 percent to as low as 25 percent if the Secretary determines that such percentage would expand the coverage of the low-income taxpayer clinic to additional taxpayers.

EFFECTIVE DATE

The provision is effective for calendar years beginning after the date of enactment.

11. Chief Counsel reviews of offers-in-compromise streamlined (sec. 111 of the bill and sec. 7122 of the Code)

PRESENT LAW

The IRS is authorized to enter into offers-in-compromise under which the IRS and the taxpayer agree that a tax liability may be satisfied by payment of less than the full amount owed.³¹ An offer-in-compromise may be accepted on one of three grounds: (1) doubt as to liability, available in cases in which the validity of the actual tax liability is in question; (2) doubt as to collectability based on lack of sufficient assets from which the tax, interest, and penalties can be paid in full; or (3) effective tax administration, generally applicable in a case in which collection in full would cause the taxpayer economic hardship such that compromise rather than collection would better encourage tax compliance.³² In addition, certain qualified offers may be deemed accepted if they remain pending without rejection 24 months after the offer was submitted.³³

Regardless of the basis of the proposed offer, a publicly available report of the accepted offer is prepared. If the unpaid tax liabilities total \$50,000 or more, the publicly available report on the accepted offer must include a written opinion from the Office of Chief Counsel for the IRS (“Chief Counsel”), stating the reasons for the compromise, the amounts of assessed tax, penalties and interest, and the amounts actually paid pursuant to the offer-in-compromise.³⁴

In general, a taxpayer is required to provide a user fee for processing an offer-in-compromise.³⁵ Taxpayers making a lump sum offer-in-compromise must also include a nonrefundable payment of 20 percent of the lump sum with the initial offer (herein, “upfront partial payment”).³⁶ Taxpayers seeking an offer-in-compromise involving periodic payments must provide a nonrefundable payment of the first installment that would be due if the offer were accepted.³⁷

Low-income taxpayers are exempt from the user fee and upfront partial payment requirements with respect to any offer-in-compromise. A low-income taxpayer is defined as an individual whose adjusted gross income for the most recent taxable year for which information is available does not exceed 250 percent of “the appli-

³¹ Sec. 7122.

³² Treas. Reg. sec. 1.7122-1(b). For this purpose, economic hardship is defined under Treas. Reg. sec. 301.6343-1.

³³ Sec. 7122(f).

³⁴ Sec. 7122(b); Treas. Reg. sec. 1.7122-1(e)(6). The report is made on Form 7249, available at <https://www.irs.gov/pub/irs-utl/f7249-2022-sample.pdf>.

³⁵ Treas. Reg. sec. 300.3(b), as amended T.D. 9894, 85 FR 14572, March 13, 2020.

³⁶ Sec. 7122(c)(1)(A).

³⁷ Sec. 7122(c)(1)(B).

cable poverty level” as determined by the Secretary.³⁸ In addition, no fee will be charged if an offer is based solely on doubt as to liability.³⁹

REASONS FOR CHANGE

The Committee believes that offers in compromise receive adequate review. Particularly in cases where the offer does not present any legal issues, the requirement for Counsel review unnecessarily delays offer processing and diverts Counsel attorneys from performing core legal work. As a result, the Committee believes the requirement for Counsel attorneys to review every offer to compromise liabilities over a certain amount is a wasteful legislative mandate that is not necessary.

EXPLANATION OF PROVISION

The provision limits the statutory requirement for the IRS to include an opinion from the Chief Counsel in the public report on offers to compromise liabilities to cases in which the Secretary determines there are significant legal issues. Effective Date The provision is effective for offers pending on the date of enactment as well as those submitted on or after the date of enactment.

12. Modification of procedural requirements for penalties and disallowance periods (sec. 112 of the bill and sec. 6751 of the Code)

PRESENT LAW

Under present law, before the IRS may assess certain penalties, the Code requires that the initial determination of the penalty be personally approved in writing by the immediate supervisor of the individual making that determination.⁴⁰ No definition of “initial determination” is provided, nor does the Code specify when the requisite supervisory approval must be signed. The Code identifies the immediate supervisor of the person initially determining the penalty as the party whose approval is required, although it authorizes the Secretary to designate a higher-level official to provide the requisite approval.⁴¹

In resulting litigation over these restrictions on assessing certain penalties, the United States Tax Court (“Tax Court”) established varying benchmarks for the point at which an “initial determination” occurs that could require the Secretary to produce evidence of compliance with the supervisory approval requirement, even if the Secretary does not bear the burden of proof as to the merits of the penalty.⁴² New judicial interpretations of these rules have been ap-

³⁸ Sec. 7122(c)(3), which codified a prior regulatory exception for low-income applicants, at Treas. Reg. sec. 300.3(b)(ii).

³⁹ Treas. Reg. sec. 300.3(b)(i).

⁴⁰ Sec. 6751(b).

⁴¹ *Ibid.*

⁴² *Chai v. Commissioner*, T.C. Memo. 2015-42, rev’d (2nd Cir. 2017); *Graev v. Commissioner*, 149 T.C. 485, 492-93 (2017), supplementing and overruling in part 147 T.C. 460 (2016) (supervisory approval could occur at any point before the assessment was made); *Clay v. Commissioner*, 152 T.C. 223, 249-50 (2019), (section 6751(b) requirement was not satisfied because approval was not obtained before a communication that advised the taxpayer that penalties would be proposed and gave the taxpayer the right to appeal them with Appeals), appeal on other issues aff’d, 990 F.3d 1296 (11th Cir. 2021); *Belair Woods, LLC v. Commissioner*, 154 T.C. 1, 15 (2020) (IRS letter and summary report, setting forth the tentative proposed adjustments and inviting taxpayer to a conference to discuss them, was not the initial determination of a penalty

plied by the various courts retroactively without regard to efforts made by the IRS to comply with the supervisory approval requirements as they were interpreted by the IRS or another court at the time.⁴³ Because the Tax Court is a court of national jurisdiction, its cases have been appealed to multiple circuits based on residence of the taxpayer in the case, with the result that there is a split of authority among the circuits.⁴⁴

Two groups of penalties are outside the scope of the requirement for prior written supervisory approval. First, several delinquency penalties as well as two accuracy-related penalties are specifically identified as exempt from the requirement.⁴⁵ Second, those penalties “automatically calculated through electronic means” are also exempt from the requirement of prior supervisory approval. The Tax Court has held that such standard is met if a penalty or addition is determined by a computer program without human review, including accuracy-related penalties under sections 6662(a) and (b).⁴⁶

Regulations promulgated under section 6751⁴⁷ also require supervisory approval for certain other proposed administrative actions relating to disallowances, including disallowances of credits or refund claims when such disallowances are issued through specific IRS notices.⁴⁸ The Code specifies procedural timeframes during which the IRS is required to act but does not expressly coordinate or standardize supervisory approval requirements across all penalty and disallowance actions.

REASONS FOR CHANGE

The Committee believes that inconsistent judicial interpretations of section 6751(b) have created uncertainty for taxpayers and the IRS regarding when supervisory approval must be obtained. Various management arrangements can also create confusion about the identity of a person’s “supervisor.” Clarifying the timing and scope of the approval requirement will help standardize administration, reduce disputes, and ensure that penalties and disallowances subject to review are issued only after appropriate oversight. Extending supervisory approval to specified disallowance periods

that required prior supervisory approval; instead the 60-day letter was the initial determination of the penalties and the IRS satisfied section 6751(b)(1) for three of the penalties asserted by obtaining written supervisory approval for the penalties before the 60-day letter was issued).

⁴³ See Chief Counsel Notice 2018–006, June 6, 2018, discussing various scenarios in which the provisions of subsection 6751(b) could be at issue. See *Beland v. Commissioner*, 156 T.C. No.5 (2021) (granting taxpayer’s motion for partial summary judgment that a fraud penalty was not timely where the supervisory approval was signed August 21, 2015, after a revenue agent report was provided to the taxpayer during a summons administration conference convened on August 19, 2015, citing the standards first articulated in *Chai v. Commissioner*, 851 F.3d 190, and *Graev v. Commissioner*, 149 T.C. 485, in 2017).

⁴⁴ Contrast the Second Circuit opinion in *Chai v. Commissioner*, 851 F.3d 190, 220–221 (referring to the task of determining whether a specific scenario is a “consequential moment” in forming IRS position on asserting a penalty) with *Kroner v. Commissioner*, No. 20–13902 (11th Cir. 2022) (holding that approval is timely if provided before the penalty is assessed, interpreting “initial determination” to describe what is subject to approval, not a timing requirement) and *Laidlaw’s Harley Davidson Sales, Inc. v. Commissioner*, 29 F.4th 1066 (9th Cir. 2022) (holding that the statute requires approval before the assessment of a penalty or, if earlier, before the relevant supervisor loses discretion whether to approve the penalty assessment).

⁴⁵ Section 6751(b)(2) specifically excepts sections 6651, 6654, and 6655 (delinquency penalties for failure to pay tax and estimated taxes), accuracy related penalties under section 6662(b)(9) (overstatement of charitable deduction under section 170(p)), and section 6662(b)(10) (disallowance of charitable deduction under section 170(h)(7)).

⁴⁶ *Walquist v. Commissioner*, 152 T.C. No. 3 (2019).

⁴⁷ Treas. Reg. sec. 301.6751(b)–1.

⁴⁸ IRS guidance requires supervisory approval before asserting multi-year credit disallowance bans. Internal Revenue Manual 4.19.13.7.1.1, *Supervisory Approval of Bans* (January 23, 2026).

for certain refundable credits further promotes transparency and accountability in IRS examination procedures.

EXPLANATION OF PROVISION

The provision revises section 6751(b) to modify and clarify when supervisory approval is required for penalties and certain disallowance determinations. The provision provides that supervisory approval is required to be obtained in writing before the IRS issues a notice to a taxpayer proposing a penalty or disallowance that allows for administrative or judicial review. The provision also defines “disallowance period” for certain refundable credits and provides that such disallowance periods require supervisory approval even if calculated through electronic means. The provision also clarifies that supervisory approval may be obtained from either an immediate supervisor or the Office of Servicewide Penalties (or a successor organization).

In addition, beginning 24 months after enactment and annually thereafter, the Secretary is required to publish a report on all penalties assessed during the preceding calendar year, including data on each IRS organizational unit involved in assessment, review, and enforcement, and the progression and final outcomes of those penalties.

EFFECTIVE DATE

The provision applies to notices issued after the date that is one year after the date of enactment.

13. Return of amounts collected by IRS in excess of accepted offer-in-compromise amount (sec. 113 of the bill and sec. 7122 of the Code)

PRESENT LAW

The IRS is authorized to enter into offers-in-compromise under which the taxpayer and the Federal government agree to settle a tax liability for less than the full amount owed.⁴⁹ An offer-in-compromise may be accepted on one of three grounds: (1) doubt as to liability, when the validity of the underlying tax liability is in question; (2) doubt as to collectability, when the taxpayer lacks sufficient assets to pay the full amount of tax, interest, and penalties; or (3) effective tax administration, generally when full collection would cause economic hardship such that compromise better promotes overall tax compliance.⁵⁰

Once an offer-in-compromise is accepted, the taxpayer is required to satisfy the terms of the agreement, and the IRS generally ceases further collection activity on the compromised liabilities except as provided in the offer. The Code does not expressly require the IRS to return amounts collected after acceptance of an offer-in-compromise if those amounts exceed the compromised amount, nor does it establish a procedure to notify taxpayers of refund amounts inadvertently collected after an offer is accepted.

⁴⁹ Sec. 7122.

⁵⁰ Treas. Reg. sec. 1.7122-1(b). For this purpose, economic hardship is defined under Treas. Reg. sec. 301.6343-1.

REASONS FOR CHANGE

The Committee believes that because taxpayers are expected to fulfill the terms of any offer that they agree to enter into, the IRS should likewise be authorized and required to fulfill the terms of any offer that it agrees to enter into. Taxpayers who enter into offers-in-compromise should be protected against inadvertent overcollections occurring after the compromise is accepted. Establishing a clear requirement for returning excess amounts collected after acceptance promotes fairness, ensures consistent administration of offer in compromise agreements, and provides taxpayers with confidence that compromised liabilities will be handled as intended. Clarifying levy release rules in this context also strengthens protections for taxpayers and improves transparency in collection practices.

EXPLANATION OF PROVISION

The provision requires the Secretary to return any amounts collected after an offer-in-compromise is accepted that exceed the payments still owed under the agreement, unless the parties have agreed otherwise or the Secretary determines the offer is in default and elects to terminate the compromise. The provision also updates the levy release rules to require the Secretary to return any extra amounts collected after an offer in compromise is accepted, subject to the same exception for cases in which the parties have agreed otherwise or the compromise is in default and the Secretary elects to terminate the compromise.

EFFECTIVE DATE

The provision applies to offers-in-compromise accepted after the date of enactment.

14. Extension of period for return of amounts subject to wrongful levy (sec. 114 of the bill and sec. 6343 of the Code)

PRESENT LAW

If the IRS wrongfully levies property, the Code allows the owner to seek the return of the property or the amount realized from its sale.⁵¹ This request is generally required to be made within two years of the date the levy occurred. Under present law, the limitations period may differ depending on whether the levy was served by mail⁵² or by electronic means,⁵³ because those methods are treated as occurring on different dates for purposes of starting the two-year period. Present law does not address situations where the IRS receives money attributable to a wrongful levy after the levy date, such as delayed remittances or sale proceeds transferred at a later time.

⁵¹Sec. 6343(b).

⁵²Treas. Reg. sec. 301.6331-1(c) (the date of levy is the date the levy is delivered to the person in possession of the property).

⁵³IRM 5.11.7.3.7(2) (October 22, 2024) (the levy date is tied to the system-generated transmission date, rather than a physical delivery date or the date the funds are received), available at https://www.irs.gov/irm/part5/irm_05-011-007r.

REASONS FOR CHANGE

The Committee believes that the limitations period for wrongful levy claims should not depend on whether the levy was issued electronically or by mail. In addition, the current limitations period for wrongful levy claims does not adequately protect taxpayers in situations where the IRS receives amounts attributable to a wrongful levy after the original levy date. Aligning the start of the limitations period with the date the IRS receives the funds will promote fairness, ensure consistency regardless of how the levy was served, and prevent taxpayers from losing the opportunity to recover money collected in error simply because of administrative timing issues.

EXPLANATION OF PROVISION

The provision extends and clarifies the period for requesting the return of money wrongfully levied by replacing the reference to “the date of such levy” with “the date the Secretary received any such amount.” This change ensures that the two-year period begins when the IRS actually receives the money sought to be returned, rather than when the levy was executed.

EFFECTIVE DATE

The provision applies to money levied upon, or amounts received from the sale of property, after the date that is 12 months after enactment.

15. Reports to Congress (sec. 115 of the bill)

PRESENT LAW

Present law does not require the IRS to report to Congress on its implementation of taxpayer service, or administrative reforms of the type contained in this bill. Present law also does not mandate recurring reports on IRS efforts to identify, prevent, and address various forms of tax fraud. Present law does not require the IRS to report to Congress on its document management systems, on efforts to prevent duplicative requests for documents, or on modernization initiatives relating to document tracking, online accounts, electronic submissions, and paper retention.

Present law does require the National Taxpayer Advocate (“NTA”) to submit annual reports to Congress that identify the most serious problems encountered by taxpayers in their dealings with the IRS and propose administrative and legislative actions to mitigate such problems.⁵⁴ In addition, present law requires the IRS to conduct and publish an annual report analyzing the sources of complexity in the administration of the Federal tax laws.⁵⁵

REASONS FOR CHANGE

The Committee believes that periodic reporting on IRS implementation of taxpayer service initiatives will improve transparency, facilitate congressional oversight, and help ensure consistent progress toward modernizing IRS operations. Requiring annual

⁵⁴ Sec. 7803(c)(2).

⁵⁵ IRS Restructuring and Reform Act of 1998, Pub. L. No. 105–206, sec. 4022, July 22, 1998.

fraud prevention reports will provide Congress with timely information on emerging threats and the steps the IRS and industry partners are taking to address them. In addition, mandating detailed reporting on IRS document management systems is intended to reduce taxpayer burden, curb duplicative document requests, improve internal coordination, and support modernization efforts, including online accounts and digital submission tools.

EXPLANATION OF PROVISION

The provision requires the Secretary, after consulting with the National Taxpayer Advocate, the Treasury Inspector General for Tax Administration (“TIGTA”), and the Government Accountability Office (“GAO”), to submit a report to the House Ways and Means Committee and the Senate Finance Committee within two years of enactment describing IRS actions to implement this title, including successes, challenges, and any legislative recommendations. The provision also requires the Secretary to submit an annual report on IRS efforts to identify, prevent, and resolve each type of tax fraud, including first-person fraud and stolen identity refund fraud. The first such annual report is required to be submitted not later than 12 months after the date of enactment.

The annual report is required to include: (i) a detailed description, timeline, and analysis of any efforts undertaken by the IRS and any of the other members of the Security Summit (the IRS partnership with State tax agencies and the tax preparation industry to combat identity theft and refund fraud) during the most recent filing season, to address and prevent each type of tax fraud, including all information or guidance exchanged among participants such as any “be on the lookout” alerts or other warnings, updated guidelines or restrictions, threat analyses, data or analytics, and other actionable threat information and any recommendations among Summit members regarding improvements to fraud detection, analytics, information sharing, and collaboration; (ii) a detailed description and timeline of IRS interactions with tax filing providers that are not Security Summit participants, including any information or guidance shared with or received from such providers regarding each type of fraud, and recommendations related to improving fraud prevention, data and analytics, information sharing, and collaboration; and (iii) for the most recent filing season, fraud specific numerical data and analysis for each form of tax fraud identified by the IRS, including data by tax form (including amended returns), by method of filing, and the total dollar amount of fraudulent refund claims, distinguishing amounts erroneously disbursed from amounts identified and stopped before disbursement.

The provision requires that all data included in the annual report be made publicly available on the IRS website with appropriate redactions.

The provision requires the IRS to resume its prior practice of reporting annually to Congress on the sources of tax-law complexity in a report separate from the National Taxpayer Advocate’s reports to congress.

The provision requires the Secretary to submit a report to the Senate Committee on Finance within one year of the date of enactment, and annually for five years thereafter, describing the IRS’s

systems and practices for tracking documents submitted by taxpayers, Congressional offices, and authorized third-party representatives.

The provision requires the report to address how the IRS catalogues, tracks, and retains documents and communications, including procedures for internal document sharing and for avoiding lost documents and duplicative requests to taxpayers. The provision also requires the report to describe the status and future plans for managing electronic and paper submissions through online accounts, new document submission tools, and paper-retention processes. Finally, the provision requires the report to include a discussion of any modernization efforts aimed at reducing duplicative document requests and any barriers the IRS has identified to implementing improvements.

EFFECTIVE DATE

The provision is effective on the date of enactment.

TITLE II—AMERICAN CITIZENS ABROAD

1. Report on combined tax and foreign bank and financial account reporting (sec. 201 of the bill, 31 U.S.C. secs. 5311–5314e and 5316–5332e, and sec. 6038D of the Internal Revenue Code)

PRESENT LAW

The Secretary has authority to obtain access to information about foreign financial assets owned by residents of the United States under the Bank Secrecy Act of 1970 (the “Bank Secrecy Act”)⁵⁶ as well as the Code. With respect to foreign financial accounts and assets, the Bank Secrecy Act and the Code both require self-reporting (reporting by the holder) and third-party information reporting (reporting by a financial intermediary).

Reporting under the Bank Secrecy Act

The Financial Crimes Enforcement Network (“FinCEN”), a bureau of the Department of the Treasury, administers the Bank Secrecy Act as part of its activities to combat money laundering and counter the terrorist financing. U.S. persons are required to file reports of foreign financial accounts, the Foreign Bank Account Report (FBAR).

FBAR reporting

A citizen or resident of, or person doing business in, the United States is required to keep records and file an FBAR⁵⁷ when that person enters a transaction or maintains a relationship (e.g., an account) with a foreign financial entity (including a foreign bank or

⁵⁶ 31 U.S.C. secs. 5311–5314e and 5316–5332e; 12 U.S.C. secs. 1829b and 1951–1959e. With the Bank Secrecy Act, Congress intended to provide enforcement tools necessary “to cope with the problems created by the so-called secrecy jurisdictions.” H.R. Rep. No. 975, 91st Cong., 2d Sess. 19 (1970). Those tools include mandatory reporting by financial institutions and account holders on a broad range of financial activity, including reports on currency transactions, suspicious activity, and foreign financial transactions to ensure the reports “are highly useful in . . . criminal, tax, or regulatory investigations, risk assessments, or proceedings.” 31 U.S.C. 5311.

⁵⁷ FinCEN Report 114, “Report of Foreign Bank and Financial Accounts” (the “FBAR”).

foreign trust).⁵⁸ The FBAR must be filed electronically with FinCEN on April 15 of the year following the year in which the aggregate value of all foreign financial accounts in which the person has a financial interest or over which the person has signature or other authority exceeds \$10,000.⁵⁹ Despite the filing date, the FBAR is neither part of the Federal income tax return nor filed in the same office as that return; as a result, the FBAR is not considered “return information” for purposes of Code section 6103, allowing FinCEN to share the information with other law enforcement agencies. FinCEN has delegated to the IRS certain authority to administer and enforce FBAR reporting.⁶⁰

Failure to file the FBAR is subject to both criminal and civil penalties. Willful failure to file an FBAR may be subject to penalties in amounts not to exceed the greater of \$100,000 (subject to an inflation adjustment) or 50 percent of the amount in the account at the time of the violation.⁶¹ A non-willful, but negligent, failure to file is subject to a penalty of \$10,000 for each negligent violation.⁶² Regulations provide that the failure-to-file penalty is asserted per account that was subject to reporting, not the number of reports required. In a case involving non-willful failure to file, the Supreme Court held that the penalty is based on each report that includes a non-willful but negligent error.⁶³ The penalty may be waived if (1) there is reasonable cause for the failure to report and (2) the amount of the transaction or balance in the account was properly reported. In addition, serious violations are subject to criminal prosecution, potentially resulting in both monetary penalties and imprisonment.⁶⁴ Civil and criminal sanctions are not mutually exclusive.

Reporting foreign financial assets under the Code

In addition to the Bank Secrecy Act, the Code requires reporting with respect to financial interests, with special provisions that focus on reporting on cross-border transactions or foreign financial interests. These international information reporting provisions include sections 6038 through 6039F, which require the holder of the interest to report at risk of significant penalties, and third-party reporting under sections 6046A (interests in foreign partnerships) and 6048 (interests in foreign trusts).

Section 6038D is frequently described as duplicative of the FBAR reports. While similar to FBAR in that it requires identifying certain foreign financial assets contemporaneously with filing an income tax return, the thresholds and specific assets covered vary from that required in FBAR. Under section 6038D, specified individuals with foreign financial accounts or assets exceeding \$50,000 in value must disclose such assets on their Federal income tax returns. The reporting threshold increases depending on the taxpayer filing status (*i.e.*, single, married filing separately, or filing jointly)

⁵⁸ 31 USC sec. 5314.

⁵⁹ 31 C.F.R. sec. 1010.350.

⁶⁰ 31 C.F.R. sec. 1010.810(g).

⁶¹ 31 U.S.C. sec. 5321(a)(5)(C). 31 U.S.C. sec. 1010.821 (Penalty adjustment and table).

⁶² 31 U.S.C. sec. 5321(a)(5)(B).

⁶³ *Bittner v. United States*, 143 S. Ct. 713, 215 L. Ed 1 (2023).

⁶⁴ 31 U.S.C. sec. 5322(a) and (b) (willful failure to file is punishable by a fine up to \$250,000, imprisonment for five years, or both; either or both of those punishments may double if the violation occurs in conjunction with certain other violations).

as well as where the taxpayer resides.⁶⁵ To the extent required by regulations, any domestic entity that such individuals used to hold such assets, directly or indirectly, must also report.⁶⁶ Failure to do so results in both a failure to disclose penalty as well as an increase in any otherwise applicable accuracy-related penalty under section 6662 for a deficiency in tax attributable to such asset. A special limitations period for assessment of additional tax attributable to an asset that is subject to such reporting may also apply.⁶⁷

Divergence between FBAR and Code requirements

As described above, the reporting requirements (including filing thresholds) differ for reporting under the Code and FBAR filings, and the assets required to be reported differ. FBAR is limited to foreign financial accounts, while Code reporting is broader under the international information reporting provisions described above. Even with respect to accounts held at foreign financial institutions, the reporting required by the Code differs from that required for FBAR. One area of discrepancy is accounts holding virtual currency or digital assets. Since 2013, FinCEN has required that persons administering, exchanging, or using “virtual currencies” comply with certain Bank Secrecy Act reporting requirements, such as suspicious activity reports and currency transaction reports, but did not extend that requirement to FBAR.⁶⁸ In 2020, FinCEN announced that FinCEN intends to propose amendments to the regulations implementing the Bank Secrecy Act (BSA) regarding FBAR to include virtual currency as a type of reportable account.⁶⁹ Until such rules are promulgated, accounts that hold only virtual currency are not reportable accounts, but accounts holding virtual currency as well as other financial assets are required to be reported.

In 2021, Congress codified FinCEN guidance on digital assets by means of the new definition of “monetary instruments.” That definition now encompasses, to the extent provided by the Secretary in regulations, “value that substitutes for any monetary instrument” as otherwise specified in the statute,⁷⁰ but does not cover all entities subject to the BSA.

REASONS FOR CHANGE

The Committee is aware of numerous concerns expressed by advocates for U.S. citizens and residents abroad who believe the reporting requirements of FBAR and the Code are duplicative. Although the two sets of requirements have different objectives, they

⁶⁵ The thresholds applicable to individuals may vary between \$50,000 and \$600,000. Treas. Reg. sec. 1.6038D-2.

⁶⁶ Treas. Reg. secs. 1.6038D-1 to -8 (on the scope of reporting required, the threshold values triggering reporting requirements, and the method for valuing assets).

⁶⁷ Sec. 6501(e)(1)(A)(ii).

⁶⁸ FinCEN Guidance on the Application of FinCEN’s Regulations to Persons Administering, Exchanging, or Using Virtual Currencies (FIN-2013-G001, March 18, 2013). See also FinCEN Guidance on the Application of FinCEN’s Regulations to Certain Business Models Involving Convertible Virtual Currencies (FIN-2019-G001, May 9, 2019) (“2019 CVC Guidance”).

⁶⁹ Notice 2020-2; 31 CFR 1010.350.

⁷⁰ 31 U.S.C. sec. 5312(a)(3), defining “monetary instruments” for purposes of Subchapter II “Records and Reports on Monetary Instruments Transactions,” as amended by section 6101(d)(1)(C) of National Defense Authorization Act for Fiscal Year 2021, Title LXIV, Pub. L. No. 116-283. Note that the expansion of the definition does not extend to reporting by non-financial trade or business. See 31 U.S.C. sec. 5331 (definition of currency for purposes of reports by parties in a nonfinancial trade or business is limited to coins, currency, including foreign currency and monetary instruments with a face value of less than \$10,000.)

are both administered by the Treasury Department. Therefore, efforts to study and evaluate how to reform either or both sets of rules may be best examined by the Secretary.

EXPLANATION OF PROVISION

Within 180 days after the date of enactment, the provision requires the Secretary to study and report to Congress on how to achieve the goals of (1) combining and simplifying the international information reporting requirements under both the Code and the Bank Secrecy Act, and (2) eliminating duplicative requests for information from nonresident U.S. citizens, with input from the National Taxpayer Advocate and nonresident U.S. citizens. In the report, the Secretary is to identify actions taken by the Secretary as a result of the study as well as statutory barriers to achieving the goals and make recommendations for necessary legislative changes.

EFFECTIVE DATE

The provision is effective on the date of enactment.

2. Study and reports on simplification (sec. 202 of the bill)

U.S. citizens residing abroad are often subject to the tax administrations of both the United States and their country of residence. The United States taxes its citizens and residents on their worldwide income, regardless of whether the source of the income is foreign or domestic, while most foreign jurisdictions impose tax based on residence. As a result, both the foreign jurisdiction and the U.S. may tax the income of the U.S. citizen abroad.

Several measures mitigate the extent to which a U.S. citizen abroad is subject to double taxation of foreign-source income. The measures include a credit for foreign income taxes paid with respect to the income⁷¹ and the exclusion from gross income of certain foreign earned income and foreign housing costs for qualified individuals.⁷² There may also be benefits of a bilateral treaty between the United States and the foreign jurisdiction.

For example, special rules apply to foreign currency gain or loss attributable to certain financial transactions to account for economic exposure to changes in exchange rates. Because the U.S. dollar is the functional currency⁷³ for the taxpayer residing abroad, the taxpayer must track property acquisitions and dispositions made in a foreign currency as well as deposits of wages paid in a foreign currency to a U.S. financial account.⁷⁴

In addition to potential additional tax burden, additional reporting obligations may apply based on working or investing abroad. The range of potential international information reporting obligations are discussed in more detail above, in “Section II.1. Report on combined tax and foreign bank and financial account reporting.” In particular, treatment of retirement accounts and other investment vehicles varies has been a source of some confusion. Few foreign

⁷¹ Secs. 901 and 904. The foreign tax credit generally is limited to a taxpayer’s U.S. tax liability on its foreign-source taxable income. The limit is intended to ensure that the credit mitigates double taxation of foreign-source income without offsetting U.S. tax on U.S.-source income.

⁷² Sec. 911. For taxable years beginning in 2026, the foreign earned income exclusion amount under section 911(b)(2)(D)(i) is \$132,900. Rev. Proc. 2025–32, sec. 4.39, 2025–45 I.R.B. 695.

⁷³ Sec. 985(b)(1)(A).

⁷⁴ Sec. 988.

pension funds or retirement plans in nontreaty countries are qualified pension funds within the meaning of regulations under section 6048.⁷⁵ U.S. persons residing abroad report confusion about understanding which reporting provision may be applicable to a particular fund or investment and difficulty obtaining assistance from the IRS or from local tax experts.⁷⁶

REASONS FOR CHANGE

The Committee believes the administrative difficulties of obtaining reliable assistance and the complexity of federal income tax obligations faced by U.S. citizens and residents abroad merit a broad study to identify sources of the problems and potential solutions.

EXPLANATION OF PROVISION

The provision requires the Comptroller General to study the compliance burdens faced by U.S. citizens or residents living abroad and to submit a public report to the Secretary and Congress within one year of date of enactment. Within one year after that report is submitted, the Secretary must report to Congress on actions taken to address the identified problems and recommendations on any legislation needed to address them.

The provision enumerates a range of five aspects of compliance difficulties faced by U.S. citizens living abroad, including low-income and moderate-income individuals, that the study must address. The first factor to be considered is the difficulty in understanding and complying with one's Federal tax obligations with respect to filing returns and FBAR filing requirements, the treatment of foreign retirement accounts, and foreign currency gains. The remaining factors describe various aspects of accessing assistance in managing financial matters. They comprise receiving or responding to official communications with IRS or FinCEN, access to financial products and services abroad, access to affordable tax preparation services for U.S. income tax obligations, and burdens that are disproportionate to the amount of tax owed.

EFFECTIVE DATE

The provision is effective on date of the enactment.

3. Extension of time for persons outside of the United States to request abatement of math error (sec. 203 of the bill and sec. 6213 of the Code)

PRESENT LAW

The authority of the IRS to assess additional tax is generally subject to certain restrictions on assessment known as deficiency

⁷⁵ Rev. Proc. 2020-17; Proposed Treas. Reg. sec. 1.6048-8(d)(4).

⁷⁶ Concerns raised by U.S. persons abroad are recounted in American Citizens Abroad, Statement for the Record at House Ways and Means Committee, Full Committee Hearing with Internal Revenue Service Chief Executive Officer, Frank J. Bisignano, March 4, 2026, available at https://www.americansabroad.org/aca_submits_statement_for_the_record_house_ways_and_means_committee_hearing_of_march_4_2026_with_irs_chief_executive_officer_frank_j_bisignano_to_discuss_the_2026_filing_season_260318. See also Government Accountability Office, *Workplace Retirement Accounts: Better Guidance and Information Could Help Plan Participants at Home and Abroad Manage Their Retirement Savings* (GAO-18-19), January 2018, available at <https://www.gao.gov/products/gao-18-19>.

procedures.⁷⁷ These deficiency procedures generally ensure that a taxpayer has access to administrative review and a pre-payment judicial forum (*i.e.*, the Tax Court) for reviewing disputed adjustments proposed by the IRS. A deficiency of tax is the amount by which the liability determined under the Code exceeds the sum of certain taxes⁷⁸ assessed for a period (including amounts shown on a return), after reduction for any rebates of tax.

Once the IRS determines a deficiency in a taxpayer's liability for income tax, gift tax, estate tax, or certain excise taxes and mails a notice of deficiency to the taxpayer's last known address, generally the taxpayer has 90 days to file a petition with the Tax Court to contest the deficiency determination. If the notice is addressed to a person outside the United States, the person has 150 days to file a petition with the Tax Court.⁷⁹ If the taxpayer fails to file a petition in that period, the IRS may begin collection action for the unpaid liability, and generally the taxpayer's only remaining option for judicial review of the liability amount is to pay the asserted liability, file a claim for credit or refund with the IRS, and, if such claim is denied or is not acted upon within six months, file suit in a U.S. district court or the Court of Federal Claims.⁸⁰

Math error exception to restrictions on assessments

There are several exceptions to the restrictions on assessment of tax.⁸¹ One of the principal exceptions is the IRS's authority to make a summary assessment of tax without issuance of a notice of deficiency if the error is a result of a mathematical or clerical error, generally referred to as math error authority. The definition of mathematical or clerical errors is not limited to math, clerical, or transcription errors. It addresses numerous categories of errors,⁸² many of which relate to rules regarding refundable credits.⁸³ If a mistake on the return is of a type that is within the meaning of mathematical or clerical error, the IRS immediately assesses the additional tax due as a result of correcting the mistake and sends notice to the taxpayer informing the taxpayer of the math error assessment.

The issuance of a notice of math error assessment begins a 60-day period within which the taxpayer may submit a request for

⁷⁷ Secs. 6211 through 6215.

⁷⁸ The taxes to which deficiency procedures apply are income, estate and gift and excise taxes arising under chapters 41, 42, or 44. Secs. 6211 and 6213.

⁷⁹ Sec. 6213(a). There are at least four statutory exceptions to the 90- or 150-day rule. First, the 90- or 150-day period is extended, if necessary, so that the final day of the period does not fall on a Saturday, a Sunday, or a legal holiday in the District of Columbia. Sec. 6213(a). Second, a taxpayer may file a petition after the 90- or 150-day period if the filing date is on or before the deadline specified by the IRS in the notice of deficiency and that deadline is after the statutory deadline. Sec. 6213(a). Third, the running of the filing period is suspended while the taxpayer is precluded from filing a Tax Court petition due to an ongoing bankruptcy case, and for 60 days thereafter. Sec. 6213(f)(1). Fourth, the running of the filing period for a petition to contest certain excise tax deficiency determinations is suspended for any period during which the IRS extends the time allowed the taxpayer for correcting the tax-triggering event. Sec. 6213(e).

⁸⁰ See secs. 6213(a), 7422, 6532(a).

⁸¹ Section 6213 provides that a taxpayer may waive the restrictions on assessment, permits immediate assessment to reflect payments of tax remitted to the IRS and to correct amounts credited or applied as a result of claims for carrybacks under section 1341(b), and requires assessment of amounts ordered as criminal restitution. Assessment is also permitted in certain circumstances in which collection of the tax would be in jeopardy. Secs. 6851, 6852, and 6861.

⁸² Secs. 6213(g)(2)(A) through (AA).

⁸³ Math error authority currently applies to certain errors related to the earned income tax credit, the child tax credit, the American opportunity tax credit, recovery rebate credits, and various energy-related credits.

abatement of the assessment. The IRS is required to prescribe procedures that permit taxpayers to request abatement in writing, electronically, by telephone, or in person.⁸⁴ If a taxpayer timely submits a request, the statute directs the IRS to abate the assessment⁸⁵ and send a notice of abatement to the taxpayer's last known address. Such notice must include a plain language description of the abatement as well as an itemized computation of any adjustments made to the items that were included in the notice of math error. The IRS may then refer the unresolved issue for examination under the deficiency procedures.

REASONS FOR CHANGE

A taxpayer generally has 90 days to petition the Tax Court after a notice of deficiency is mailed, but 150 days if the notice is addressed to a taxpayer at an address outside the United States. The Committee believes that a similar extended response rule allowing a longer period for response is warranted when a math-error notice is sent to an address outside the United States.

EXPLANATION OF PROVISION

Under the provision, the period in which a taxpayer may request abatement of a math error assessment is increased from 60 days to 120 days if the notice of such assessment was sent to an address outside the United States.

EFFECTIVE DATE

The provision applies to notices sent after the date that is 180 days after the date of enactment.

4. Clarification of assessment authority and pre-assessment appeals of foreign information return penalties (sec. 204 of the bill, secs. 6038(b)(1), 6038A(d)(1), 6038B(c), 6038C(c), 6038D(d)(1), 6039F(c)(1)(B), 6671 and 6677 and new sec. 6752 of the Code)

PRESENT LAW

Information reporting penalties

The Code requires information reporting with respect to certain foreign financial interests and cross-border transactions and provides associated penalties. These international information reporting obligations are specified in sections 6038 through 6039F as well as in certain third-party reporting provisions such as section 6048 (interests in foreign trusts).

Failure to comply with these reporting obligations generally results in a penalty for failure to file which the IRS assesses and for which the IRS issues a notice and demand for payment. Some of these penalties are located in the reporting provisions themselves, while others are imposed under chapter 68.⁸⁶ These provisions

⁸⁴ Such requirements are required within 180 days of the date of enactment of "The Internal Revenue Service Math and Taxpayer Help Act," Pub. L. No. 119-39, November 25, 2025.

⁸⁵ Sec. 6213(b)(2)(A). The statute provides no exceptions to the 60-day period in which to request abatement.

⁸⁶ For example, section 6039F imposes both a reporting obligation with respect to certain large gifts from a foreign person as well as a penalty for failure to comply with the trusts. In contrast,

often include an additional penalty (“continuation penalty”)⁸⁷ if a taxpayer’s noncompliance continues after the initial notice and demand for payment of the assessed penalty. For example, under section 6038, an initial penalty of \$10,000 may be imposed against a corporation or partnership that fails to file the required report. If the failure to file continues more than 90 days following issuance of the notice of the penalty assessment, an additional \$10,000 penalty may be assessed for each subsequent 30-day period of continued noncompliance, up to a maximum of \$50,000.⁸⁸ Different reporting requirements are subject to different limits (or no limit) on the aggregate penalties imposed.⁸⁹

Penalty assessment

The Code authorizes the IRS to assess all taxes, including interest, additional amounts of tax, additions to tax, and assessable penalties.⁹⁰ “Assessable penalties” is not a defined term in the Code but is used as the title of subchapter B of chapter 68. Section 6671 in that subchapter provides that all penalties included in that subchapter are to be paid upon notice and demand and are to be assessed and collected in the same manner as taxes, and that all references in the Code to “taxes” imposed by the Code are understood to encompass the penalties included in that subchapter.⁹¹ Pre-assessment administrative review is not available by right for these penalties, even upon request of the taxpayer. Any conference with or opportunity for administrative review by the IRS Independent Office of Appeals (“Appeals”) is generally available only after assessment, in the context of a collection due process procedure.⁹² By contrast, additions to tax that are determined in relation to an underpayment of income tax are subject to the restrictions on assessment applicable to income tax under the deficiency procedures.⁹³

In *Farhy v. Commissioner*,⁹⁴ the Tax Court held that the penalty imposed by section 6038(b) was not within the scope of the IRS’s assessment authority. The Tax Court reasoned that section 6038, located in chapter 61, is not collectible as a tax and is also not within the scope of the term “assessable penalties,” because section 6038 includes no cross-reference to assessment authority found in

section 6046A imposes reporting obligations with respect to foreign partnership interests but the related penalty for noncompliance is imposed by section 6679.

⁸⁷ See, e.g., sec. 6038(b)(1) and (2) (information reporting with respect to certain foreign corporations and partnerships); sec. 6038A(d)(1) and (2) (information with respect to certain foreign-owned corporations); sec. 6038B (notice of certain transfers to foreign persons); sec. 6038C (information with respect to foreign corporations engaged in U.S. business); sec. 6038D(d)(1) and (2) (information with respect to foreign financial assets); sec. 6039F(c)(1)(B) (notice of large gifts received from foreign persons); sec. 6677(a) (information with respect to foreign trusts).

⁸⁸ Sec. 6038(b)(2).

⁸⁹ For example, the maximum penalties set for the various provisions include no maximum (section 6038A), \$100,000 (section 6038B), 25 percent of the value of the foreign gift received by a U.S. person (section 6039F), and up to 100 percent of the amount reportable by a foreign trust under section 6048 (section 6677).

⁹⁰ Sec. 6201.

⁹¹ Sec. 6671. But see sec. 6665 (distinguishing between penalties and additions to tax that are summarily assessable and those that are subject to the deficiency procedures).

⁹² When the IRS initiates enforced collection activity after making an assessment and notice and demand for payment, the IRS generally is required to provide notice before making the levy or within five days of filing the notice of lien and to inform the taxpayer of his or her right to request a hearing with Appeals to dispute the collection action in a collection due process hearing. Secs. 6320(a), 6330(a).

⁹³ Sec. 6212 (defining a deficiency in tax); sec. 6213(b) (restricting assessment until after a formal notice of deficiency is issued, allowing for opportunity to seek review by the Tax Court).

⁹⁴ *Farhy v. Commissioner*, 160 T.C. 399 (2023), rev’d and remanded 100 F.4th 223 (D.C. Cir. 2024).

chapter 68 nor does it explicitly say that the penalty is payable upon notice and demand by the IRS. After the D.C. Circuit reversed *Farhy*, the Tax Court, following its holding in *Golsen v. Commissioner*⁹⁵ continued to apply *Farhy*'s reasoning in cases appealable to other circuits, including before the Second Circuit which later rejected that reasoning in *Safdieh v. Commissioner*.⁹⁶

Under the Tax Court's holding in *Farhy*, the section 6038(b) penalty and other relevantly similar penalties may be collected only if the IRS refers the case to the Department of Justice and requests that it initiate a civil collection suit. In contrast, additions to tax, additional amounts, and penalties imposed under chapter 68 are assessable upon notice and demand for payment, unless they are subject to deficiency procedures.⁹⁷

REASONS FOR CHANGE

The Committee is aware the legal uncertainty and geographic disparity regarding the IRS's authority to assess international information reporting penalties has caused disruption in the enforcement of international information reporting requirements and believes that such disruption must end. Accordingly, the Committee believes that the Code should explicitly provide that all penalties prescribed in the Code are assessable as taxes.

The Committee is also aware that other aspects of enforcement of international information reporting requirements have been criticized for the lack of transparency and due process as to the application of those penalties, even where assessment authority itself is not in doubt. The Committee is concerned that in some cases the IRS has automatically assessed large international information reporting penalties on returns filed late without first considering a taxpayer's reasonable cause statement, which if considered, would lead the IRS not to assess the penalties. Critics such as the National Taxpayer Advocate have pointed to high rate of abatement of certain international information reporting penalties as evidence that reform of the processes currently in place is needed. The Committee believes that new pre-assessment procedures will achieve the reform sought, reduce unnecessary burdens for taxpayers who have reasonable cause for filing late international information returns, increase trust for the IRS, and increase faith in the fairness of the tax system, which will increase voluntary tax compliance.

EXPLANATION OF PROVISION

The provision clarifies the IRS's authority to assess penalties and prescribes specific pre-assessment administrative review procedures for certain penalties.

Clarification of assessment authority

The provision abrogates the Tax Court's holding in *Farhy v. Commissioner*. Section 6671 is amended to provide that all pen-

⁹⁵*Golsen v. Commissioner*, 54 T.C. 742 (1970), aff'd, 445 F. 2d 985 (10th Cir. 1971), cert. denied, 404 U.S. 940 (1972) (holding that the Tax Court is bound by precedent of the circuit to which a case is appealable, and in the absence of controlling precedent, the Tax Court, as a Court of national jurisdiction, may follow its own precedent).

⁹⁶See *Cauchon v. Commissioner*, Dkt. No. 23863–22L (T.C. Feb. 14, 2025); *Mukhi v. Commissioner*, 162 T.C. 177 (2024); *Safdieh v. Commissioner*, Dkt. No. 11680–20L (T.C. Dec. 5, 2024), rev'd 169 F.4th 102 (2d Cir. 2026).

⁹⁷See secs. 6655 and 6671.

alties in the Code are assessable and collectible as taxes, including those penalties and liabilities that were already subject to section 6671. The sole exception to this assessment authority is provided for those penalties not within subchapter B of chapter 68 that are expressly required to be collected in civil or criminal proceedings or that, before the date of enactment, the Secretary has consistently treated as collectible only by such means.

Procedural reforms to ensure administrative review

The provision includes new procedural requirements to ensure availability of pre-assessment administrative review of certain international information reporting penalties. In cases in which the IRS determines that a person is liable for a penalty under sections 6038(b)(1), 6038A(d)(1), 6038B(c), 6038C(c), 6038D(d)(1), 6039F(c)(1)(B), or 6677 (the “covered penalties”), the IRS is required to mail a written notice of proposed assessment to the taxpayer’s last known address at least 60 days (120 days if addressed to a taxpayer outside the United States) before issuing a notice and demand for the covered penalty. The notice must identify the covered penalties proposed to be assessed, the basis for the covered penalty, and the taxable years or periods involved and inform the taxpayer of the right to request review by Appeals of the covered penalty. The period in which the taxpayer may request review is the period beginning with the date the notice is sent and continuing for 60 days (or 120 days if sent to a taxpayer outside the United States) thereafter.

Assessment, demand, and collection are prohibited from the date of the notice until the later of the end of the period in which the taxpayer may request review or the date a determination is reached by Appeals in a review requested under the new procedure. The period of limitations for assessment is suspended during the period in which assessment is prohibited, plus 30 days thereafter. The prohibition on assessment does not apply if the Secretary finds that the collection of the penalty is in jeopardy.

Finally, the provision includes a grant of regulatory authority and interpretive rules. The Secretary is authorized to promulgate regulations and guidance about the procedures for the new required notice and the time and manner for the taxpayer to present defenses against any of the covered penalties. The Secretary is authorized to establish simplified reviews for Appeals penalty reviews based on designated dollar thresholds. The Secretary may establish these thresholds by regulation or other published guidance.

The interpretive rules provide that the new procedures are not limitations on existing rights to seek collection due process or to pursue refund litigation. Further, the provision is not to be construed to create an inference as to the appropriate treatment under present law of the covered penalties within the scope of the provision.

EFFECTIVE DATE

The provision is effective as of the date of enactment.

5. Repeal of due date requirements for certain information returns relating to foreign gifts and trusts (sec. 205 of the bill, secs. 6039F(c)(1)(B) and 6677 of the Code and sec. 2006(b) of Pub. L. No. 114–41)

PRESENT LAW

The deadlines for filing of information reporting returns are generally established in regulatory guidance issued under the Code. Two exceptions are the deadlines for reporting under sections 6039F (gifts received from foreign persons) and 6048 (foreign trust events). Section 2006(b) of the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015⁹⁸ prescribed fixed deadlines for those two reporting obligations. Sections 6039F and 6048 include regulatory grants to determine filing deadlines.⁹⁹ The deadline for reporting certain foreign-trust transactions and certain gifts from foreign persons on Form 3520 under section 6048 is April 15th for calendar year filers (or within six months thereafter if an extension is granted), and the deadline for the annual return of a foreign trust with a U.S. owner under section 6048 is the 15th day of the third month after the close of the trust's taxable year (or within six months thereafter if an extension is granted). These deadlines are not in the Code and not subject to revision by the Secretary.

REASONS FOR CHANGE

The Committee believes the fixed deadlines for reports due under sections 6048 or 6039F create an unacceptable risk of confusion for U.S. persons living abroad, whose individual income tax returns generally are due June 15. A taxpayer may not identify a Form 3520 or Form 3520–A obligation until preparing the income tax return after the earlier information-return deadline. The off-Code deadlines also displace the Secretary's otherwise applicable authority to prescribe filing deadlines. The Committee anticipates that, after repeal, the Secretary will use the regulatory grants in sections 6039A and 6048 to prescribe appropriate and coordinated due dates.

EXPLANATION OF PROVISION

The provision repeals the off-Code provision that established fixed filing deadlines for reports required under sections 6048 and 6039F. Each of those two Code sections include a grant of regulatory authority that now may be used to establish new filing deadlines.

EFFECTIVE DATE

The provision is effective for returns and information returns for taxable years beginning after December 31, 2026.

⁹⁸ Sec. 2006, Pub. Law No. 114–41 (July 31, 2015).

⁹⁹ See secs 6039F(e) and 6048(d).

TITLE III—JUDICIAL REVIEW

1. Authorization of subpoenas before hearings to facilitate settlements (sec. 301 of the bill and sec. 7456 of the Code)

PRESENT LAW

The Tax Court has authority to issue subpoenas for the purpose of (among other things) compelling “the attendance and testimony of witnesses, and the production of all necessary returns, books, papers, documents, correspondence, and other evidence, from any place in the United States at any designated place of hearing.”¹⁰⁰ The Tax Court has interpreted this provision to mean that it may sign a subpoena requiring a third party to produce materials only at a scheduled hearing or deposition, but not otherwise in the course of pretrial discovery.¹⁰¹

REASONS FOR CHANGE

The Committee is concerned that because the Tax Court’s pretrial discovery powers are more limited than those of other Federal courts, Tax Court litigants sometimes must request and attend pretrial conferences solely to obtain books, records, and other key documents. This added hurdle may result in trials of cases that could otherwise have settled, increasing costs and time burdens for litigants and the Court. The Committee believes that specifically authorizing the Tax Court to issue subpoenas to third parties whether or not in connection with a scheduled hearing will enhance the efficiency and fairness of Tax Court case dispositions.

EXPLANATION OF PROVISION

The provision authorizes the Tax Court to sign subpoenas requiring any litigating party or any third party to produce books, papers, documents, electronically stored information, or tangible things from any place in the United States for purposes of discovery or evidence, whether or not in connection with a scheduled hearing.

EFFECTIVE DATE

The provision is effective on the date of enactment.

2. Clarification of Tax Court authority to order relief from a judgment or order (sec. 302 of the bill and sec. 7481 of the Code)

PRESENT LAW

Tax Court Rule 161 provides that any motion for reconsideration of an opinion must be filed with the Tax Court within 30 days after the opinion has been served, unless otherwise ordered by the Court. Tax Court Rule 162 provides that any motion to vacate or

¹⁰⁰Sec. 7456(a)(1).

¹⁰¹See Tax Court Rules of Practice and Procedure, Rule 147(a)(1)(B) (2026) (“Any command to produce documents, electronically stored information, or tangible things must be included in a subpoena commanding attendance at a deposition, hearing, or trial.”); Order, *Johnson v. Commissioner*, No. 17324–18 (T.C. Dec. 26, 2019). The Tax Court may be unable to unilaterally liberalize its third-party subpoena authority by amending Rule 147, due to the plain meaning of the term “hearing.” See “Hearing,” *Black’s Law Dictionary* (12th ed. 2024) (“A judicial session, [usually] open to the public, held for the purpose of deciding issues of fact or of law, sometimes with witnesses testifying.”).

revise a decision must be filed with the Tax Court within 30 days after the decision has been entered, unless otherwise permitted by the Court.

In ruling on motions for reconsideration and motions to vacate or revise, the Tax Court generally looks to cases in the U.S. district and appellate courts that interpret Rules 59 and 60 of the Federal Rules of Civil Procedure (“FRCP”),¹⁰² although the Tax Court is not bound by the FRCP.¹⁰³ FRCP Rule 60(a) permits a district court to correct a clerical mistake in a judgment or order, or a mistake arising from oversight or omission, on motion or on its own, with or without notice. Once an appeal has been docketed, such a mistake may be corrected only with the appellate court’s leave. FRCP Rule 60(b) permits a district court to relieve a party from a final judgment or order for the following reasons: (1) mistake, inadvertence, surprise, or excusable neglect; (2) newly discovered evidence that, with reasonable diligence, could not have been discovered in time to move for a new trial; (3) fraud (whether previously called intrinsic or extrinsic), misrepresentation, or misconduct by an opposing party; (4) the judgment is void; (5) the judgment has been satisfied, released, or discharged; it is based on an earlier judgment that has been reversed or vacated; or applying it prospectively is no longer equitable; and (6) any other reason that justifies relief. Motions under FRCP Rule 60(b) must be made within a reasonable time and, with respect to reasons (1), (2), and (3), no more than a year after entry of the relevant judgment or order.¹⁰⁴ While pending, such motions do not affect the judgment’s finality or suspend its operation.¹⁰⁵

REASONS FOR CHANGE

The Committee believes that the Tax Court’s standards for reconsidering, vacating, and revising its rulings should be transparent and should substantially align with those of the U.S. district and appellate courts, so that taxpayers have a reasonable degree of clarity about their options, rights, and prospects following a Tax Court ruling. The Committee believes that taxpayers should by default have longer than 30 days to move for the Tax Court to reconsider, vacate, or revise a ruling.

EXPLANATION OF PROVISION

The provision makes applicable to the Tax Court provisions similar to FRCP Rules 60(a) and 60(b). The provision authorizes the Tax Court to set aside a judgment in the case of fraud on the Court, whenever discovered. The provision provides that if the Tax Court provides relief from a final judgment or order, the parties have 90 days in which to file an appeal of such relief with the applicable U.S. appellate court.

EFFECTIVE DATE

The provision is effective on the date of enactment.

¹⁰² See *Pietanza v. Commissioner*, T.C. Memo. 1990–524.

¹⁰³ See sec. 7453.

¹⁰⁴ FRCP Rule 60(c)(1).

¹⁰⁵ FRCP Rule 60(c)(2).

3. Authorization of special trial judges to hear additional cases and address contempt (sec. 303 of the bill and sec. 7443A of the Code)

PRESENT LAW

Special trial judge case assignments

The chief judge of the Tax Court is authorized to appoint special trial judges.¹⁰⁶ The chief judge may assign special trial judges to hear the following types of proceedings:¹⁰⁷ (1) declaratory judgment proceedings, (2) certain cases where the amount in dispute does not exceed \$50,000 for any taxable year, period, or event, and the taxpayer agrees to use special trial procedures and to waive appeal rights,¹⁰⁸ (3) deficiency cases in which neither the deficiency for any taxable year, period, or event nor the amount of any claimed overpayment exceeds \$50,000, (4) collection due process cases to review a lien or levy action,¹⁰⁹ (5) proceedings to determine whether an individual is an employee for purposes of an employer's employment tax liabilities, if the amount of tax in dispute does not exceed \$50,000 for each tax period at issue and the taxpayer agrees to use special trial procedures and to waive appeal rights,¹¹⁰ (6) appeals of an IRS whistleblower award determination,¹¹¹ and (7) any other proceeding designated by the chief judge. However, with respect to the final category (that is, any other proceeding designated by the chief judge), a special trial judge may not independently render the Tax Court's decision.¹¹²

Rather, one of the Court's presidentially appointed judges may adopt the special trial judge's recommendation.

Punishment for contempt of the court

The Tax Court is authorized to punish with a fine or imprisonment the following types of contempt of the court: obstruction of justice, misbehavior of the Tax Court's officers in their official transactions, and disobedience of or resistance to its orders.¹¹³ Special trial judges are not specifically authorized to order punishment for contempt of the court.

REASONS FOR CHANGE

The Committee believes that authorizing the Tax Court's special trial judges to share more of the Court's workload will increase the Court's productivity and efficiency. The Committee also believes that empowering the special trial judges to exercise contempt authority in limited circumstances will create better incentives for Tax Court litigants to comply with orders and otherwise respect the judicial process.

EXPLANATION OF PROVISION

The provision authorizes the chief judge of the Tax Court to assign to a special trial judge any proceeding within the Tax Court's

¹⁰⁶ Sec. 7443A(a).

¹⁰⁷ Sec. 7443A(b).

¹⁰⁸ See sec. 7463.

¹⁰⁹ See secs. 6320, 6330.

¹¹⁰ See sec. 7436(c).

¹¹¹ See sec. 7623(b).

¹¹² Sec. 7443A(c).

¹¹³ Sec. 7456(c).

jurisdiction if the parties so consent and if such assignment is authorized by rules to be promulgated by the Tax Court for the purpose of implementing the provision. The provision provides that in any such proceeding, the Tax Court may authorize the special trial judge to independently render the Court's decision.

The provision authorizes special trial judges to order punishment for contempt of the court of the sort presently punishable by the Tax Court. However, the punishment ordered by a special trial judge may not exceed the maximum fine or prison term for a Class C misdemeanor. Currently those maximum penalties are \$5,000 for a fine¹¹⁴ and 30 days for imprisonment.¹¹⁵ The provision is not to be construed to limit a special trial judge's authority to order sanctions under any other statute or statutorily authorized Tax Court rule.¹¹⁶

EFFECTIVE DATE

The provision is generally effective on the date of enactment. The authorization of the Tax Court to authorize special trial judges to independently render the court's decision in cases where the parties consent and the court's rules so provide is effective upon the court's adoption of such rules.

4. Disqualification of judges and special trial judges (sec. 304 of the bill and new sec. 7467 of the Code)

PRESENT LAW

The Tax Court is directed to prescribe rules establishing procedures for filing, investigating, and resolving complaints regarding the conduct of any judge or special trial judge.¹¹⁷ The Tax Court has issued Rules for Judicial Conduct and Disability Proceedings.¹¹⁸ However, no statute or Tax Court rule specifically requires Tax Court judges or special trial judges to recuse themselves in any particular situations.¹¹⁹ At least one court has indicated that parties litigating in the Tax Court may force recusal of a judge only in cases where the due process clause of the Constitution so requires.¹²⁰

REASONS FOR CHANGE

The Committee believes that the Tax Court's judges and special trial judges should be subject to the same standards of disqualification that apply to other Federal judges in cases of conflicts of interest. The Committee believes that expanding these standards to encompass the Tax Court will enhance the court's real and perceived integrity, impartiality, and trustworthiness.

¹¹⁴ 18 U.S.C. sec. 3571(b)(6).

¹¹⁵ 18 U.S.C. sec. 3581(b)(8).

¹¹⁶ See, e.g., Tax Court Rules of Practice and Procedure, Rule 104(c) (2026) (providing that in certain cases where a party disobeys the Court's discovery orders, the Court may order certain sanctions, including payment of the other party's reasonable expenses caused by the disobedience).

¹¹⁷ Sec. 7466.

¹¹⁸ The rules are available at <https://www.ustaxcourt.gov/jcdp/> (last visited May 29, 2026).

¹¹⁹ See *Nobles v. Commissioner*, 105 F.3d 436, 438 (9th Cir. 1997).

¹²⁰ *Ibid.*

EXPLANATION OF PROVISION

The provision applies to the Tax Court’s judges and special trial judges the mandatory recusal provisions applicable to U.S. district and appellate judges.¹²¹ Those provisions require judges to recuse themselves in any proceeding in which their impartiality might reasonably be questioned.¹²² Those provisions also require judges to recuse themselves in the following circumstances, among others (and the litigating parties may not agree to waive recusal in such circumstances):¹²³ (1) where judges have a personal bias or prejudice concerning a party, or personal knowledge of disputed evidentiary facts concerning the proceeding; (2) where they or a colleague previously worked on the matter in private practice; (3) where they worked on the matter as a government employee; (4) where they know that they, or their spouse or minor child residing in their household, have a financial interest in the controversy; and (5) where they, their spouse, or a person within the third degree of relationship to either of them (or such person’s spouse) is a party to, lawyer in, or likely material witness in the proceeding. The provisions also require judges to inform themselves about their personal and fiduciary financial interests and to make a reasonable effort to inform themselves about the personal financial interests of their spouse and minor children residing in their household.¹²⁴

EFFECTIVE DATE

The provision is effective on the date of enactment.

5. Notice and review with respect to multi-year bans on claiming credits (sec. 305 of the bill and secs. 24, 25A, 32, 6212, 6214, 6511, and 7491 of the Code)

PRESENT LAW

Multi-year bans on claiming certain credits

If a taxpayer improperly claims the child tax credit, the American opportunity tax credit, or the earned income tax credit, the taxpayer may be disallowed from claiming that credit for a certain number of subsequent taxable years (“disallowance period”).¹²⁵ If there is a final determination that the improper claim was due to fraud, the disallowance period is 10 years. If there is a final determination that the improper claim was due to reckless or intentional disregard of rules or regulations (but not due to fraud), the disallowance period is two years.

If the Secretary disallows for any reason (in whole or in part) a claim of the child tax credit, the American opportunity tax credit, or the earned income tax credit by means of a notice of deficiency, and such disallowance is not overturned on appeal, the taxpayer is not allowed such credit for any subsequent taxable year unless the taxpayer provides such information as the Secretary requires to demonstrate eligibility for the credit.¹²⁶

¹²¹ See 28 U.S.C. sec. 455.

¹²² 28 U.S.C. sec. 455(a).

¹²³ 28 U.S.C. sec. 455(b), (e).

¹²⁴ 28 U.S.C. sec. 455(c).

¹²⁵ Secs. 24(g)(1), 25A(b)(4)(A), 32(k)(1).

¹²⁶ Secs. 24(g)(2), 25A(b)(4)(B), 32(k)(2).

The IRS may use its “math error” authority to deny a taxpayer’s claim for the child tax credit, the American opportunity tax credit, or the earned income tax credit during a disallowance period or without providing information required by the Secretary following a credit disallowance in a previous taxable year.¹²⁷ In other words, the IRS is not required to issue a notice of deficiency before denying the taxpayer’s claim for credit in these circumstances, and the taxpayer may not petition for Tax Court review unless the taxpayer first files a request for abatement with the IRS within 60 days of the math error notice.¹²⁸

Judicial review

The Code does not provide for judicial review of the Secretary’s determination to impose a disallowance period. Disallowance periods are not tax penalties (that is, amounts assessed for a taxpayer’s failure to follow a certain rule), although they may function similarly. When a taxpayer litigates a tax penalty, the Secretary bears the burden of producing evidence that the penalty is appropriate,¹²⁹ and, in the case of penalties for taxpayer fraud with intent to evade tax, the Secretary must prove by clear and convincing evidence that the penalty is warranted.¹³⁰

REASONS FOR CHANGE

The Committee believes that when the Secretary disallows the child tax credit, the American opportunity tax credit, or the earned income tax credit, affected taxpayers deserve a clear and conspicuous explanation of the disallowance and its potential future implications. Because the imposition of a disallowance period effectively functions as an income tax penalty, the Committee believes that taxpayers deserve the right to litigate disallowance periods before the Tax Court, in the same manner as income tax penalties generally.

EXPLANATION OF PROVISION

Notice of multi-year bans

If the Secretary determines a deficiency of income tax attributable to the denial (in whole or in part) of a claim for the child tax credit, the American opportunity tax credit, or the earned income tax credit, the provision requires the Secretary to include in the notice of deficiency sent to the taxpayer (1) an identification of the credit or credits denied and the grounds for each denial, (2) a statement that unless a denial is overturned on appeal, the taxpayer will be disallowed from claiming the same credit in subsequent years unless the taxpayer provides information required by the Secretary to demonstrate eligibility, and (3) the grounds for any determination to impose a disallowance period, and a statement of the length such period will last (unless overturned on appeal).

¹²⁷ Sec. 6213(g)(2)(K), (P), (Q).

¹²⁸ Sec. 6213(b).

¹²⁹ Sec. 7491(c).

¹³⁰ See sec. 7454(a); Tax Court Rules of Practice and Procedure, Rule 142(b)(2026) (providing that in any case involving the issue of fraud with intent to evade tax, the Secretary must carry the burden of proof by clear and convincing evidence).

Tax Court review of disallowance periods

The provision grants the Tax Court jurisdiction to redetermine the Secretary's imposition of any disallowance period if the deficiency before the court relates to the taxable year in which the Secretary made the determination. The provision also grants the Tax Court jurisdiction to impose a disallowance period if the Secretary, in the answer or an amended answer filed with the court, claims that such period should be imposed beginning with the taxable year immediately after any year before the court.¹³¹

Burden of production and standard of proof

The provision provides that in any court proceeding where the Secretary's determination to impose a disallowance period is at issue, the Secretary bears the burden of producing evidence that the determination is appropriate. The provision provides that in any court proceeding where the Secretary's determination to impose a disallowance period owing to taxpayer fraud is at issue, the Secretary must prove that the determination is appropriate by the same standard applicable to other issues of taxpayer fraud, that is, clear and convincing evidence.

Modification of disallowance periods

The provision provides that no disallowance period takes effect unless either (1) the Secretary properly sends a notice of deficiency containing the specific required information relating to the disallowance period (described above), or (2) a determination by the Tax Court that the taxpayer's claim of credit was due to either fraud or reckless or intentional disregard has become final. The provision clarifies that a disallowance period determined by the Secretary and properly identified in a notice of deficiency is nullified if the Tax Court determines that the Secretary's determination was improper. The provision further provides that the periods of limitation¹³² for claiming a credit or refund with respect to the child tax credit, the American opportunity tax credit, or the earned income tax credit for a taxable year in a disallowance period determined by the Secretary are suspended for any time during which the Secretary's determination is properly before the Tax Court.

EFFECTIVE DATE

The amendments regarding notices of deficiency apply to notices mailed on or after the date that is 36 months after the date of enactment. The amendments regarding Tax Court jurisdiction, including the special transition rule, apply to petitions filed on or after the date of enactment. The amendments regarding burden of production and standard of proof apply to court proceedings beginning after the date that is 36 months after the date of enactment in connection with disallowance periods determined after the date that is 36 months after the date of enactment. The amendments re-

¹³¹ The provision provides a special transition rule in the case of a deficiency attributable to a disallowance period relating to a notice of deficiency that did not include the grounds for the disallowance period and was mailed before the passage of 36 months after the date of enactment. In such cases, the provision grants the Tax Court jurisdiction to redetermine the Secretary's imposition of the disallowance period (regardless of the taxable year in which the imposition was determined) and to determine any overpayment attributable to overturning the disallowance period.

¹³² See sec. 6511(a), (b)(2).

garding modification of disallowance periods apply to taxable years beginning after the date that is 36 months after the date of enactment and to any disallowance period whose determination is communicated in a notice of deficiency sent after the date that is 36 months after the date of enactment. The amendment regarding the periods of limitation for claiming a credit or refund applies to Tax Court petitions filed after the date of enactment.

6. Authorization of de novo review of innocent spouse relief by the Tax Court and other courts (sec. 306 of the bill and sec. 6015 of the Code)

PRESENT LAW

If a married couple elects to file a tax return on which they report their income jointly, they are generally jointly and severally liable for the entire tax liability that is, or should have been, reported on the joint return.¹³³ A spouse may be entitled to relief from joint liability, in whole or in part, under the innocent spouse relief provisions of the Code.

Grounds for relief from joint liability

There are three types of relief: general innocent spouse relief; relief for spouses who are no longer married or are legally separated (separation of liabilities); and equitable relief.¹³⁴ The grounds for relief and its scope differ among these three types of relief. For instance, the first two types of relief apply only to underreported tax, whereas equitable relief may apply to both underreported tax and reported but unpaid tax. In addition, the first two types of relief must be sought no later than two years after the date the IRS begins collection activities against the electing spouse. For equitable relief, there is no limitations period in the statute.

General relief from joint liability with respect to an understatement of tax is available to all joint filers who make a timely election for such relief and are able to establish the following three conditions:¹³⁵ First, the electing spouse must establish that the understatement is attributable to the erroneous items of the other spouse. Second, the electing spouse must show that at the time of signing the return, the electing spouse did not know or have reason to know there was an understatement of tax. Finally, relief is granted only if it is inequitable to hold the electing spouse liable for the deficiency in tax, based on all facts and circumstances.

A separation of liabilities and relief from liability attributable to the other joint-filing spouse is available to persons who, at the time the election is filed, are no longer married to the other spouse, are legally separated from the other spouse, or have not lived in the same household as the other spouse for at least 12 months.¹³⁶ The spouse electing relief on this basis must establish the portion of the deficiency that is appropriately allocable to that spouse.¹³⁷ The allocation of deficiency generally proceeds by allocating tax items to the joint filers in the manner they would have been allocated had

¹³³ Sec. 6013(d)(3).

¹³⁴ Sec. 6015.

¹³⁵ Sec. 6015(b).

¹³⁶ Sec. 6015(c)(3)(A).

¹³⁷ Sec. 6015(c)(2).

the joint filers filed separate returns.¹³⁸ Special rules are provided for allocating items that gave rise to a tax benefit for the spouse to whom the item would not have been allocated had the spouses filed separately, as well as for certain property transfers and for children's liabilities.¹³⁹ Relief generally is not permitted with respect to items which contributed to a deficiency if the Secretary establishes that the requesting spouse was aware of such items at the time the return was signed.¹⁴⁰

Equitable relief from joint liability may be available to those spouses who are ineligible under the provisions for general relief or separation of liabilities relief.¹⁴¹ Such relief is granted only if, taking into account all facts and circumstances, it is inequitable to hold the individual liable for the unpaid portion of tax or for a deficiency with respect to the joint return.

Standard and scope of judicial review

If an individual elects relief from joint liability under any of the three grounds for relief, the individual may petition the Tax Court to review unfavorable determinations by the IRS with respect to the claimed relief.¹⁴² Tax Court review of innocent spouse relief cases is *de novo* (that is, no deference is given to the IRS determination), but the judicial record is limited to (1) the IRS administrative record established at the time of the IRS determination, plus (2) any evidence that is newly discovered or was previously unavailable.¹⁴³

The claim for relief from joint liability must be filed no later than 90 days after the notice of final determination on relief from joint liability and no earlier than the earlier of the mailing of such notice of final determination or the date that is six months after the election is filed.¹⁴⁴ Collection action is restricted during the period in which a petition may be filed, as well as during the pendency of a Tax Court proceeding.¹⁴⁵ If, while a Tax Court case is pending, either of the affected spouses files a refund suit in a district court or the Court of Federal Claims involving the joint return at issue, the latter court acquires jurisdiction over the innocent spouse petition, and the Tax Court loses such jurisdiction.¹⁴⁶

The ability to petition the Tax Court is "in addition to any other remedy provided by law."¹⁴⁷ Many courts have indicated that taxpayers generally may dispute the IRS's innocent spouse relief determinations in Federal courts other than the Tax Court whenever those determinations are relevant to a tax refund suit, tax collection suit, or bankruptcy case otherwise within those other courts' jurisdiction.¹⁴⁸ However, some courts have held that Federal courts other than the Tax Court may acquire jurisdiction over innocent spouse relief disputes only when a tax refund suit is filed by either

¹³⁸ Sec. 6015(d)(3)(A).

¹³⁹ Sec. 6015(c)(4), (d)(3)(B), (d)(5).

¹⁴⁰ Sec. 6015(c)(3)(C).

¹⁴¹ Sec. 6015(f).

¹⁴² Sec. 6015(e).

¹⁴³ Sec. 6015(e)(7), as added by the Taxpayer First Act, Pub. L. No. 116-25, sec. 1203(a)(1), 133 Stat. 981, 988 (2019).

¹⁴⁴ Sec. 6015(e)(1)(A).

¹⁴⁵ Sec. 6015(e)(1)(B).

¹⁴⁶ Sec. 6015(e)(3).

¹⁴⁷ Sec. 6015(e)(1)(A).

¹⁴⁸ See, e.g., *In re Pendergraft*, No. 16-33506, 2017 BL 90508 (Bankr. S.D. Tex. Mar. 22, 2017); *Flores v. United States*, 51 Fed. Cl. 49 (2001).

affected spouse while an innocent spouse case is pending with the Tax Court.¹⁴⁹

REASONS FOR CHANGE

The Committee finds it unfair that some taxpayers may challenge innocent spouse relief determinations in a refund, collection, or bankruptcy case while others may not, simply depending on the jurisprudence of the court hearing the case. The Committee believes that all taxpayers in these types of cases should have the right to efficient judicial review of the IRS's determination. The Committee is further concerned that some taxpayers who file for innocent spouse relief with the IRS may be deterred from presenting all relevant evidence to the IRS by the threat of retaliation from their spouse or by mental health problems resulting from domestic violence or psychological abuse. The Committee therefore believes that all taxpayers should have an additional chance at trial to present all evidence relevant to a claim for innocent spouse relief.

EXPLANATION OF PROVISION

The provision clarifies that the Federal district courts, the Court of Federal Claims, and the bankruptcy courts generally have jurisdiction to review IRS innocent spouse relief determinations regardless of whether an innocent spouse relief petition has been filed with the Tax Court, provided the relief claim is relevant to a tax refund suit, tax collection suit, or bankruptcy case otherwise within the court's jurisdiction.

Under the provision, judicial review of an innocent spouse relief determination, whether in the Tax Court or another court, is *de novo*, and the judicial record is no longer limited to the administrative record plus newly discovered or previously unavailable evidence. The provision allows all courts to consider all relevant evidence in reviewing innocent spouse relief determinations.

EFFECTIVE DATE

The provision is effective for petitions, requests, and suits filed or pending on or after the date of enactment.

7. Clarification of certain court filing deadlines (sec. 307 of the bill and secs. 7451 and 7459 of the Code)

PRESENT LAW

The 90- or 150-day deadline for deficiency petitions

Once the IRS determines a deficiency in a taxpayer's liability for income tax, gift tax, estate tax, or certain excise taxes and mails a notice of deficiency to the taxpayer's last known address, generally the taxpayer has 90 days (150 days if the notice is addressed to a person outside the United States) to file a petition with the

¹⁴⁹See, e.g., *Chandler v. United States*, 338 F. Supp. 3d 592 (N.D. Tex. 2018); *In re Mikels*, 524 B.R. 805 (Bankr. S.D. Ind. 2015); *United States v. Elman*, No. 1:10-cv-06369, 2012 BL 318746 (N.D. Ill. Dec. 6, 2012).

Tax Court to contest the deficiency determination.¹⁵⁰ If the taxpayer fails to file a petition in that period, the IRS may begin collection action for the unpaid liability, and generally the taxpayer's only remaining option for judicial review of the liability amount is to pay the asserted liability, file a claim for credit or refund with the IRS, and, if such claim is denied or is not acted upon within six months, file suit in a U.S. district court or the Court of Federal Claims.¹⁵¹

Until recently, the Tax Court and the U.S. courts of appeal consistently held that the taxpayer's meeting of the 90- or 150-day deadline is a prerequisite for the Tax Court's jurisdiction over a deficiency dispute and that the deadline may not be extended even on grounds of equity—that is, the deadline is not subject to “equitable tolling.”¹⁵² According to the Supreme Court: “[E]quitable tolling pauses the running of, or ‘tolls,’ a [period] of limitations when a litigant has pursued his rights diligently but some extraordinary circumstance prevents him from bringing a timely action.”¹⁵³

In 2022, the Supreme Court ruled that the 30-day deadline for taxpayers to file a Tax Court petition to contest an IRS notice of determination to proceed with a lien or levy action¹⁵⁴ (a “collection due process” petition) is not a jurisdictional deadline and is subject to equitable tolling.¹⁵⁵ The Supreme Court stated that a filing deadline is jurisdictional (and so cannot be equitably tolled) only if Congress “clearly states” that it is.¹⁵⁶

After the Supreme Court's 2022 decision, the Tax Court reconsidered the 90- or 150-day deadline for deficiency petitions and reaffirmed its longstanding position that the deadline is jurisdictional.¹⁵⁷ However, the U.S. Courts of Appeal for the Second, Third, and Sixth Circuits have since reversed their precedent and held that the deficiency petition deadline is not jurisdictional and is subject to equitable tolling.¹⁵⁸ Because the Tax Court follows the relevant precedent of the U.S. Court of Appeals to which the petitioner's case would be appealable,¹⁵⁹ the Tax Court currently will consider a motion for equitable tolling when a petitioner misses the

¹⁵⁰ Sec. 6213(a). There are at least five statutory exceptions to the 90- or 150-day rule. First, the 90- or 150-day period is extended, if necessary, so that the final day of the period does not fall on a Saturday, a Sunday, or a legal holiday in the District of Columbia. Sec. 6213(a). Second, a taxpayer may file a petition after the 90- or 150-day period if the filing date is on or before the deadline specified by the IRS in the notice of deficiency and that IRS-specified deadline falls after the statutory deadline. Sec. 6213(a). Third, the running of the filing period is suspended while the taxpayer is precluded from filing a Tax Court petition due to an ongoing bankruptcy case and for 60 days thereafter. Sec. 6213(f)(1). Fourth, the running of the filing period for a petition to contest certain excise tax deficiency determinations is suspended for any period during which the IRS extends the time allowed the taxpayer for correcting the tax-triggering event. Sec. 6213(e). Fifth, the running of the filing period for any Tax Court petition is extended if, on the date the petition is otherwise due, any Tax Court filing location (that is, either the office of the clerk of the Tax Court or any online portal made available for filing petitions) is inaccessible or otherwise unavailable to the general public. Sec. 7451(b).

¹⁵¹ See secs. 6213(a), 7422, 6532(a).

¹⁵² See *Hallmark Rsch. Collective v. Commissioner*, 159 T.C. 126, 153–63 (2022).

¹⁵³ *Lozano v. Montoya Alvarez*, 572 U.S. 1, 10 (2014).

¹⁵⁴ See sec. 6330(d)(1).

¹⁵⁵ *Boechler, P.C. v. Commissioner*, 596 U.S. 199 (2022).

¹⁵⁶ *Ibid.* at 203.

¹⁵⁷ *Hallmark*, *supra*; *Sanders v. Commissioner*, 161 T.C. 112 (2023).

¹⁵⁸ *Oquendo v. Commissioner*, 148 F.4th 820 (6th Cir. 2025); *Buller v. Commissioner*, 152 F.4th 84 (2d Cir. 2025); *Culp v. Commissioner*, 75 F.4th 196 (3d Cir. 2023).

¹⁵⁹ See *Golsen v. Commissioner*, 54 T.C. 742, 757 (1970). Generally, a Tax Court decision is appealable to the circuit in which was located the petitioner's legal residence at the time of filing the Tax Court petition. See sec. 7482(b).

90- or 150-day deficiency petition deadline and the petitioner's case would be appealable to the Second, Third, or Sixth circuits.

Effects of petition dismissal

A dismissal by the Tax Court of a deficiency petition (for instance, due to the petitioner's failure to state a legally cognizable claim or to prosecute the case) is generally treated by statute as the Tax Court's decision that the taxpayer has a deficiency in the amount determined in the notice of deficiency.¹⁶⁰ The only exceptions are when (1) the Tax Court cannot discern from the record the deficiency amount determined by the IRS, or (2) the dismissal is for lack of jurisdiction.¹⁶¹ Otherwise, a dismissal has *res judicata* effect, meaning that the taxpayer may not sue for a refund in a U.S. district court or the Court of Federal Claims after paying the disputed tax liability.¹⁶² In effect, the taxpayer loses the ability to litigate the deficiency determination on the merits, unless the applicable U.S. Court of Appeals finds that the Tax Court's dismissal was erroneous. The statutory rule precludes a taxpayer who receives a notice of deficiency and files a petition in the Tax Court from later choosing to pay the tax and litigate the matter in a different Federal court (for instance, in order to have the case tried by jury).¹⁶³

The Code does not provide rules to dictate the effect of the Tax Court's dismissal of any petition other than a deficiency petition. The Tax Court's rules provide that the court may dismiss a case for the petitioner's failure to properly prosecute the case or to comply with the court's rules and that such a dismissal operates as an adjudication on the merits, unless the court lacked jurisdiction over the case.¹⁶⁴ The Tax Court has held that it has discretion to grant a petitioner's motion to voluntarily dismiss a collection due process petition or an innocent spouse petition without prejudice to the petitioner's ability to litigate the matter in a future case, whether in the Tax Court or otherwise.¹⁶⁵

Collection due process and innocent spouse relief petition deadlines

As noted above, the Supreme Court has held that the 30-day deadline for taxpayers to file a collection due process petition with the Tax Court is not a jurisdictional deadline and is subject to equitable tolling.¹⁶⁶

A taxpayer who receives an unfavorable IRS determination on a request for "innocent spouse" relief from joint and several liability for the tax due on a joint return has, by statute, 90 days from the mailing of the IRS determination to petition the Tax Court for review.¹⁶⁷ The Tax Court has consistently held this deadline to be jurisdictional,¹⁶⁸ and to date no court of appeals has held otherwise.

¹⁶⁰ Sec. 7459(d).

¹⁶¹ *Ibid.*

¹⁶² See sec. 6512(a); *Hallmark*, *supra*, at 145.

¹⁶³ See, e.g., *Estate of Ming v. Commissioner*, 62 T.C. 519 (1974).

¹⁶⁴ Tax Court Rules of Practice and Procedure, Rule 123(d) (2026).

¹⁶⁵ *Davidson v. Commissioner*, 144 T.C. 273 (2015); *Wagner v. Commissioner*, 118 T.C. 330 (2002); *Dunn v. Commissioner*, T.C. Memo. 2026-2.

¹⁶⁶ *Boechler, P.C.*, *supra*.

¹⁶⁷ Sec. 6015(e)(1)(A).

¹⁶⁸ See *Frutiger v. Commissioner*, 162 T.C. 98 (2024).

Restrictions on assessment and collection

If a taxpayer timely files a deficiency petition, generally the government may not assess the disputed deficiency or undertake any collection action until the decision of the Tax Court becomes final (which occurs when all appeal rights have lapsed or been exhausted).¹⁶⁹ The Tax Court has jurisdiction to enjoin any assessment or collection action undertaken during this prohibition period, but only with respect to the deficiency at issue in a timely filed petition.¹⁷⁰ A timely filed petition suspends the running of the periods of limitations on assessment and collection (typically three years and 10 years, respectively) for the duration of the prohibition period plus an additional 60 days.¹⁷¹ If a taxpayer fails to timely file a petition, the IRS must assess the deficiency upon the lapse of the deadline.¹⁷²

If a taxpayer timely files a collection due process petition or an innocent spouse relief petition, generally the government may not undertake any collection action with respect to the liability at issue until the decision of the Tax Court becomes final, or (in the case of a collection due process petition) 90 days after the decision becomes final.¹⁷³ The Tax Court has jurisdiction to enjoin any collection action undertaken during this prohibition period, but only with respect to the liability at issue in a timely filed petition.¹⁷⁴ A timely filed petition generally suspends the running of the period of limitations on collection (typically 10 years) for the duration of the prohibition period plus (in the case of an innocent spouse relief petition) an additional 60 days.¹⁷⁵

Petition deadline tolling for inaccessible filing location

The running of the filing period for any Tax Court petition is extended if, on the date the petition is otherwise due, any Tax Court filing location (that is, either the office of the clerk of the Tax Court or any online portal made available for filing petitions) is inaccessible or otherwise unavailable to the general public. In such a case, the deadline is extended for the period of inaccessibility plus an additional 14 days.¹⁷⁶

REASONS FOR CHANGE

The Committee believes that Tax Court petitioners with a legitimate reason for failing to meet the statutory deadline for filing a petition to contest a notice of deficiency, a collection due process determination, or an innocent spouse relief determination should not lose the opportunity to litigate the matter in Tax Court. The Committee considers the possibility of equitable tolling to be particularly important at a court the majority of whose petitioners are self-represented. Therefore, the Committee desires the Tax Court to have jurisdiction over late-filed deficiency, collection due process, and innocent spouse relief petitions if the late filing occurs due to circumstances beyond the petitioner's control and despite the peti-

¹⁶⁹ Sec. 6213(a).

¹⁷⁰ *Ibid.*

¹⁷¹ Sec. 6503(a)(1).

¹⁷² Sec. 6213(c).

¹⁷³ Secs. 6015(e)(1)(B)(i), 6330(e)(1).

¹⁷⁴ Secs. 6015(e)(1)(B)(ii), 6330(e)(1).

¹⁷⁵ Secs. 6015(e)(2), 6330(e)(1).

¹⁷⁶ Sec. 7451(b).

tioner's reasonable diligence. Further, the Committee believes it would be unfair to automatically preclude late-filing petitioners who do not qualify for equitable tolling or another equitable doctrine from litigating their dispute on the merits in another court (for instance, after paying a deficiency and claiming a refund). Finally, the Committee believes that the inaccessibility of a Tax Court filing location for any part of the day on which a petition is due warrants extending the petition deadline for a reasonable period, since taxpayers cannot be expected to continuously monitor the filing location.

EXPLANATION OF PROVISION

Petition filing deadlines nonjurisdictional

The provision provides that the statutory Tax Court deadlines for deficiency petitions, collection due process petitions, and innocent spouse relief petitions are nonjurisdictional and, accordingly, are subject to equitable doctrines including equitable tolling, estoppel, forfeiture (whereby the IRS loses the right to have a late-filed petition dismissed if the IRS fails to timely raise the objection), and waiver (whereby the IRS may affirmatively consent to the Tax Court's hearing a late-filed petition, whether or not equitable tolling applies).

The provision's amendment regarding the nonjurisdictionality of deficiency, collection due process, and innocent spouse petition deadlines shall not be construed to create any inference regarding such petitions on which the Tax Court issued a final determination before the date of enactment, nor regarding any other type of Tax Court petition.

Restrictions on assessment and collection clarified

The provision provides that if the late filing of a deficiency petition is excused under the doctrines of equitable tolling, estoppel, forfeiture, or waiver, then (1) the government generally must suspend or reverse any assessment or collection action with respect to the disputed deficiency which occurred prior to the date the Tax Court determines to excuse the late filing (and the Tax Court has jurisdiction to enforce this requirement), (2) the government generally is prohibited from assessing or collecting the disputed deficiency between the date the Tax Court determines to excuse the late filing and the date the Tax Court's decision in the case becomes final (and the Tax Court has jurisdiction to enforce this requirement), and (3) the periods of limitations on assessment and collection are extended by the number of days between the original deadline for filing the petition and the date the Tax Court determines to excuse the late filing. The provision clarifies that assessment and collection actions are not prohibited between the passing of the deficiency petition deadline and the date the Tax Court determines to excuse a late filing.

The provision provides that if the late filing of a collection due process or innocent spouse relief petition is excused under the doctrines of equitable tolling, estoppel, forfeiture, or waiver, then (1) the government generally must suspend or reverse any collection action with respect to the liability at issue which occurred prior to the date the Tax Court determines to excuse the late filing (and the

Tax Court has jurisdiction to enforce this requirement), (2) the government generally is prohibited from collecting the liability at issue between the date the Tax Court determines to excuse the late filing and the date the Tax Court's decision in the case becomes final (and the Tax Court has jurisdiction to enforce this requirement), and (3) the period of limitations on collection is extended by the number of days between the original deadline for filing the petition and the date the Tax Court determines to excuse the late filing. Collection action is not prohibited between the passing of the collection due process or innocent spouse relief petition deadline and the date the Tax Court determines to excuse a late filing.

Dismissal of petitions

The provision amends the statutory rule that a dismissal by the Tax Court of a deficiency petition is generally treated as the Tax Court's decision that the taxpayer has a deficiency in the amount determined in the notice of deficiency. The provision exempts from this rule any dismissal by the Tax Court for failure to timely file the petition. Accordingly, a taxpayer who files a deficiency petition past the statutory deadline and whose circumstances do not merit the application of an equitable doctrine to extend or disregard the deadline generally may still pay the disputed tax, sue for a refund in a U.S. district court or the Court of Federal Claims, and litigate the tax liability on the merits.

The provision also provides that the Tax Court's dismissal of a collection due process petition or innocent spouse petition is treated as a decision on the merits unless the dismissal is for lack of jurisdiction, failure to timely file the petition, or (unless the Tax Court orders that the dismissal shall be considered its decision on the merits) at the request of the petitioner.

Inaccessible filing locations

The provision clarifies that if a Tax Court filing location is inaccessible for any part of the day on which a petition is otherwise due, then the deadline is extended for the number of days within the period of inaccessibility plus an additional 14 days. The provision therefore confirms that the deadline extension is available if a filing location is inaccessible for some of but not the entire day on which a petition is otherwise due.

EFFECTIVE DATE

The provision is effective for Tax Court cases pending on or after the date of enactment.

8. Clarification of Tax Court jurisdiction to determine tax liability in collection due process appeals (sec. 308 of the bill and sec. 6330 of the Code)

PRESENT LAW

Collection due process hearings

When a taxpayer neglects or refuses to pay an assessed internal revenue tax liability, generally the IRS may levy on the taxpayer's property or file a notice of lien against the taxpayer's property.¹⁷⁷

¹⁷⁷ Secs. 6321, 6331.

Generally the IRS must inform the taxpayer by notice before making the levy or within five days of filing the notice of lien, and the notice must indicate the taxpayer's right to request a hearing with the IRS Independent Office of Appeals ("IRS Appeals") to dispute the collection action, often called a "collection due process" hearing.¹⁷⁸ If the taxpayer requests a hearing, the IRS Appeals officer generally must (1) verify that the requirements of any applicable law or administrative procedure relating to the collection action have been met, (2) consider any relevant issues raised by the taxpayer, including collection alternatives such as an installment agreement or offer-in-compromise, and (3) determine whether the collection action balances the need for efficient collection of taxes with the taxpayer's legitimate concern that collection be no more intrusive than necessary.¹⁷⁹ A taxpayer is entitled to only one collection due process hearing with respect to any given tax period and a particular collection action (lien or levy).¹⁸⁰

The taxpayer may raise challenges to the existence or amount of the underlying tax liability only if the taxpayer did not receive a notice of deficiency for the liability or did not otherwise have a prior opportunity to dispute the liability.¹⁸¹ For this purpose, a prior opportunity includes (among other things) a bankruptcy case in which the IRS filed a proof of claim for the liability (whether or not the taxpayer disputed the claim),¹⁸² as well as a pre-assessment opportunity (whether or not availed of) for a conference with or appeal before IRS Appeals regarding the liability, unless the liability is subject to deficiency procedures.¹⁸³ This is true even if IRS Appeals' decision following the conference or appeal is not reviewable by the Tax Court.

The taxpayer generally may not raise an issue at a collection due process hearing if, among other things, the issue was raised and considered at a previous collection due process hearing or in any other previous administrative or judicial proceeding in which the taxpayer meaningfully participated.¹⁸⁴

Tax Court review

Once IRS Appeals issues a notice of determination after a collection due process hearing, the taxpayer may file a petition with the Tax Court to appeal the determination.¹⁸⁵ The Tax Court will consider a challenge to the underlying tax liability only if the taxpayer challenged the liability in the collection due process hearing and was entitled to do so.¹⁸⁶ Accordingly, the Tax Court generally will not consider a challenge to the underlying liability if, for instance, the taxpayer was offered a conference with or appeal before IRS Appeals regarding the liability prior to assessment, provided the li-

¹⁷⁸ Secs. 6320(a), 6330(a).

¹⁷⁹ Sec. 6330(c).

¹⁸⁰ Secs. 6320(b)(2), 6330(b)(2).

¹⁸¹ Sec. 6330(c)(2)(B).

¹⁸² See, e.g., *Kendricks v. Commissioner*, 124 T.C. 69 (2005).

¹⁸³ Treas. Reg. sec. 301.6330-1(e)(3), Q&A-E2; *Chavis v. Commissioner*, 158 T.C. 175 (2022); *Lewis v. Commissioner*, 128 T.C. 48 (2007). Liabilities subject to deficiency procedures include income tax, gift tax, estate tax, and certain excise taxes. See secs. 6211(a), 6212(a). Liabilities not subject to deficiency procedures include employment tax, certain excise taxes, trust fund recovery penalties, international information reporting penalties, and return preparer penalties.

¹⁸⁴ Sec. 6330(c)(4)(A).

¹⁸⁵ Sec. 6330(d).

¹⁸⁶ See *Goza v. Commissioner*, 114 T.C. 176, 182-83 (2000).

ability is not subject to deficiency procedures.¹⁸⁷ Likewise, the Tax Court generally will not consider a challenge to the underlying liability if the taxpayer was named in a previous bankruptcy case in which the IRS filed a proof of claim for the liability.¹⁸⁸

REASONS FOR CHANGE

The Committee believes that all taxpayers should have at least one prepayment opportunity to dispute in court a liability asserted by the IRS. The Committee does not regard the opportunity to dispute the liability in an administrative conference with the IRS as equivalent to the opportunity to dispute the liability in court.

EXPLANATION OF PROVISION

The provision provides that a taxpayer may raise a challenge to the underlying tax liability in a collection due process hearing if the taxpayer did not receive a notice of deficiency for the liability or did not otherwise have a prior opportunity to dispute the liability in a Federal court proceeding (other than an opportunity, if such existed, to file a refund suit related to the liability). For instance, a taxpayer who did not receive a notice of deficiency may challenge the liability at the collection due process hearing—and therefore generally be entitled to Tax Court review of the challenge—despite the fact that a previous conference with or appeal before IRS Appeals regarding the liability was offered or occurred prior to assessment (provided that any such conference or appeal did not result in a determination appealable to the Tax Court). However, if the taxpayer challenged the liability at a previous collection due process hearing for the same liability (but with respect to a different type of collection action), the appealable determination in that previous hearing would, as under present law, constitute a prior opportunity to dispute the liability in a Federal court proceeding.¹⁸⁹ Accordingly, the provision would not permit the taxpayer to challenge the liability at the second collection due process hearing.

The provision designates section 6330(c)(2)(B) as the sole rule governing the ability of a taxpayer to challenge the underlying liability at a collection due process hearing. The provision effects this designation by excluding the underlying liability from the preclusion rules of section 6330(c)(4), which continue to apply to all issues other than the underlying liability.

EFFECTIVE DATE

The provision is effective on the date of enactment.

¹⁸⁷ See, e.g., *Lewis v. Commissioner*, 128 T.C. 48 (2007).

¹⁸⁸ See, e.g., *Kendricks v. Commissioner*, 124 T.C. 69 (2005).

¹⁸⁹ See secs. 6320(c), 6330(d).

9. Authorization of the Tax Court to issue refunds in collection due process cases (sec. 309 of the bill and secs. 6330 and 6402 of the Code)

PRESENT LAW

Collection due process hearings

For present law regarding taxpayers' rights to collection due process hearings, see the present law description for the provision "Clarification of Tax Court Jurisdiction to Determine Tax Liability in Collection Due Process Appeals" (sec. 308 of the bill), above.

Tax Court refund jurisdiction

If a taxpayer receives a notice of deficiency for income tax, gift tax, estate tax, or certain excise taxes and timely files a petition with the Tax Court to contest the deficiency, the Tax Court has jurisdiction to not only redetermine the deficiency but also, if the facts warrant, determine an overpayment of tax for the taxable year(s), period(s), or event(s) to which the deficiency relates.¹⁹⁰ If the Tax Court determines an overpayment for a deficiency petitioner, the IRS generally must provide the petitioner a credit or refund in the amount of the overpayment once the Tax Court decision becomes final.¹⁹¹ If the IRS fails to do so within 120 days, the Tax Court generally may order a credit or refund of the overpayment plus interest.¹⁹² The credit or refund that the Tax Court may order generally is limited to the portion of the overpayment paid either (1) after the IRS mailed the notice of deficiency, (2) within the lookback period that would apply if the taxpayer had filed a claim for credit or refund on the date the notice of deficiency was mailed,¹⁹³ or (3) in cases where the taxpayer in fact timely filed a claim for credit or refund before the notice of deficiency was mailed, within the lookback period that applies to the filed claim.¹⁹⁴

Unlike in the case of deficiency petitions, the Tax Court does not have explicit statutory jurisdiction to determine an overpayment or to order a credit or refund for a petitioner contesting a notice of termination regarding a collection due process hearing.¹⁹⁵ The Tax

¹⁹⁰ Sec. 6512(b)(1). According to the Supreme Court, an overpayment occurs "when a taxpayer pays more than is owed, for whatever reason or no reason at all." *United States v. Dalm*, 494 U.S. 596, 609 n.6 (1990). Section 6401(a) provides: "The term 'overpayment' includes that part of the amount of the payment of any internal revenue tax which is assessed or collected after the expiration of the period of limitation properly applicable thereto."

¹⁹¹ Sec. 6512(b)(1).

¹⁹² Sec. 6512(b)(2).

¹⁹³ If a claim for credit or refund is filed within three years of the filing of the relevant tax return, the lookback period generally is the three years (plus any extension of time granted for filing the return) immediately preceding the filing of the claim. Sec. 6511(b)(2)(A). If a claim for credit or refund is filed within two years of paying the tax but more than three years after filing the relevant return, the lookback period generally is the two years immediately preceding the filing of the claim. Sec. 6511(b)(2)(B).

¹⁹⁴ The taxpayer may benefit from the lookback period for a claim actually filed before the notice of deficiency was mailed only if (1) the claim was not disallowed before the notice of deficiency was mailed, (2) the claim was disallowed before the notice of deficiency was mailed but the taxpayer could have timely commenced a suit for refund as of the date of mailing (which, under section 6532(a), generally requires that the notice of deficiency have been mailed no more than two years after the notice of disallowance was mailed), or (3) the claim was disallowed before the notice of deficiency was mailed and the taxpayer timely commenced a suit for refund before the notice of deficiency was mailed. Sec. 6512(b)(3)(C).

¹⁹⁵ See sec. 6330(d).

Court has held that it lacks such jurisdiction, even if the record warrants determining an overpayment.¹⁹⁶

Moreover, the Supreme Court has held that the Tax Court lacks jurisdiction to review the underlying liability in a collection due process case if the IRS has ceased to pursue the collection action at issue in the notice of determination, even if the taxpayer otherwise has the right to dispute that liability before the Tax Court.¹⁹⁷ This situation may occur if the taxpayer has made overpayments on other tax liabilities that the IRS has credited to the liability at issue in the collection due process case.¹⁹⁸ There is no limitation on the IRS's discretion over whether or how to credit overpayments among a taxpayer's outstanding Federal tax liabilities.¹⁹⁹

REASONS FOR CHANGE

The Committee believes that the Tax Court should have jurisdiction to determine and order credits or refunds in collection due process cases where the underlying liability is properly in dispute and the record indicates an overpayment. It is inefficient and burdensome to require taxpayers in these cases to fully pay the disputed liability and file an administrative claim for credit or refund (and then potentially file another suit). The Committee further believes that the IRS should not be permitted to credit overpayments against tax liabilities that are properly in dispute in a collection due process hearing or appeal. Moreover, taxpayers properly disputing the IRS's assertion of tax liability in a collection due process hearing or appeal should have an extension of time to file a claim for credit or refund regarding that liability.

EXPLANATION OF PROVISION

The provision explicitly confers jurisdiction on the Tax Court to determine an overpayment for any taxable years, periods, or events at issue in any case brought to contest a notice of determination regarding a collection due process hearing, provided that the taxpayer was not statutorily precluded from challenging the underlying liability in question at the collection due process hearing.²⁰⁰ The provision limits the credit or refund allowed after the Tax Court determines an overpayment in a collection due process case in a manner analogous to the existing limitation on the credit or refund allowed after the Tax Court determines an overpayment in a deficiency case.²⁰¹

The provision provides that when a taxpayer requests a collection due process hearing, the running of the period of limitations for filing a claim for credit or refund with respect to the taxes at issue (as well as the associated tax payment lookback periods) is

¹⁹⁶ See *Greene-Thapedi v. Commissioner*, 126 T.C. 1, 8–13 (2006); see also sec. 7442 (“The Tax Court and its divisions shall have such jurisdiction as is conferred on them by this title”); *Commissioner v. McCoy*, 484 U.S. 3, 7 (1987) (“The Tax Court is a court of limited jurisdiction and lacks general equitable powers.”).

¹⁹⁷ *Zuch v. Commissioner*, 605 U.S. 422 (2025).

¹⁹⁸ *Ibid.*

¹⁹⁹ See sec. 6402(a).

²⁰⁰ See sec. 6330(c)(2)(B) (providing that a taxpayer may contest the existence or amount of the tax liability for which collection is sought only if the taxpayer did not receive a notice of deficiency for the liability and did not otherwise have a prior opportunity to dispute the liability).

²⁰¹ See sec. 6512(b)(3).

suspended while the hearing and any appeals therefrom are pending.²⁰²

The provision prohibits the Secretary from crediting overpayments made on a taxpayer's other Federal tax liabilities to a liability whose amount is properly disputed at a collection due process, absent the taxpayer's consent. This prohibition lasts as long as the hearing and any appeals therefrom are pending.

EFFECTIVE DATE

The provision is generally effective for Tax Court cases pending on or after the date of enactment. The prohibition on crediting overpayments to liabilities properly disputed at a collection due process hearing while the hearing and any appeals are pending ("suspension period") is effective for suspension periods any portion of which falls after the date of enactment.

10. Authorization of the Tax Court to hear suits for refunds or credits (sec. 310 of the bill and secs. 7442 and 7463 of the Code)

PRESENT LAW

Tax refund suits

The U.S. district courts and the Court of Federal Claims have jurisdiction to hear suits brought by taxpayers seeking a refund of any Federal internal revenue tax or penalty alleged to have been erroneously or illegally collected or paid.²⁰³ To bring a refund suit, a taxpayer generally must (1) pay the full disputed liability for the relevant tax year, tax period, or (in the case of an excise tax) transaction or event,²⁰⁴ (2) file a timely claim with the IRS for credit or refund of the alleged overpayment,²⁰⁵ and (3) file suit no earlier than six months after filing the claim with the IRS and (if applicable) no later than two years after the IRS mails a notice disallowing the claim.²⁰⁶ The claim for credit or refund generally must be filed with the IRS within three years of filing the relevant tax return or within two years of paying the tax, whichever period expires later.²⁰⁷

Once a timely claim has been filed, the IRS may allow, and a court may order, a credit or refund for only the portion of the overpayment paid during the relevant lookback period. If the claim for credit or refund was filed within three years of the filing of the relevant tax return, the lookback period generally is the three years (plus any extension of time granted for filing the return) immediately preceding the filing of the claim.²⁰⁸ If the claim was filed within two years of paying the tax but more than three years after

²⁰² For instance, suppose a taxpayer files a tax return and makes an overpayment on April 15, 2028, and requests a collection due process hearing with respect to an asserted outstanding liability on the return on April 15, 2030. If the first day on which neither the hearing nor any appeals are pending is April 15, 2033, on which date the taxpayer files a claim for credit or refund, then the payment lookback period is April 15, 2027, through April 15, 2033. If instead the taxpayer files the claim for credit or refund on April 15, 2034, then the lookback period is April 15, 2028, through April 15, 2034.

²⁰³ 28 U.S.C. sec. 1346(a)(1).

²⁰⁴ See *Flora v. United States*, 362 U.S. 145, 150–51, 171 n.37 (1960).

²⁰⁵ Sec. 7422(a).

²⁰⁶ Sec. 6532(a)(1).

²⁰⁷ Sec. 6511(a).

²⁰⁸ Sec. 6511(b)(2)(A).

filing the relevant return, the lookback period generally is the two years immediately preceding the filing of the claim.²⁰⁹

If a taxpayer receives a notice of deficiency regarding income tax, gift tax, estate tax, or certain excise taxes and timely files a Tax Court petition to contest the notice, the taxpayer generally may not thereafter sue for a refund of the same tax for the same taxable years, periods, or acts at issue in the notice of deficiency.²¹⁰

If a taxpayer sues for a refund in a district court or the Court of Federal Claims and, before the case is heard, the IRS issues the taxpayer a notice of deficiency for any tax at issue in the taxpayer's suit, the proceedings in the taxpayer's suit are stayed for the period in which the taxpayer may file a petition in the Tax Court plus an additional 60 days.²¹¹ If the taxpayer files a Tax Court petition to contest the notice of deficiency, the court in which the taxpayer filed suit for refund loses jurisdiction to the extent the Tax Court acquires jurisdiction over the subject matter of the taxpayer's refund suit.²¹²

IRS Chief Counsel attorneys represent the Secretary in cases before the Tax Court,²¹³ whereas Department of Justice attorneys do so in suits (including refund suits) before the Federal district and appeals courts and the Court of Federal Claims.²¹⁴ IRS Chief Counsel attorneys generally assist the Department of Justice in tax cases.²¹⁵

Tax Court refund jurisdiction

The Tax Court does not have jurisdiction over standalone suits for refund of internal revenue taxes.²¹⁶ The Tax Court may determine an overpayment, and order an appropriate credit or refund, in certain cases that fall within its jurisdiction for reasons other than the taxpayer's assertion of an overpayment.²¹⁷ But taxpayers who believe, for instance, that they were subject to overwithholding, or that they made an error on their return that yielded an overstatement of tax liability, and whose claim for credit or refund is denied by the IRS, may not file suit in the Tax Court to contest the IRS's disallowance. Rather, those taxpayers must sue in a U.S. district court or the Court of Federal Claims.

REASONS FOR CHANGE

The Committee believes that taxpayers deserve the choice to litigate all but the largest refund disputes in the Tax Court, whose

²⁰⁹ Sec. 6511(b)(2)(B).

²¹⁰ Sec. 6512(a).

²¹¹ Sec. 7422(e).

²¹² *Ibid.*

²¹³ Sec. 7452.

²¹⁴ 28 U.S.C. sec. 516.

²¹⁵ See Internal Revenue Manual, 34.5.2, *Refund Litigation* (April 22, 2021).

²¹⁶ See 28 U.S.C. sec. 1346(a)(1); Code sec. 7442 ("The Tax Court and its divisions shall have such jurisdiction as is conferred on them by this title"); *Commissioner v. McCoy*, 484 U.S. 3, 7 (1987) ("The Tax Court is a court of limited jurisdiction and lacks general equitable powers.").

²¹⁷ See, e.g., secs. 6512(b) (authorizing the Tax Court to determine an overpayment and order an appropriate credit or refund in cases where a taxpayer files a petition to contest a notice of deficiency), 6404(h)(2)(B) (authorizing the Tax Court to determine an overpayment and order an appropriate credit or refund in cases where a taxpayer files a petition to contest the IRS's failure to abate interest on a liability), 6015(e)(1)(A) (authorizing the Tax Court, in cases where a spouse seeks relief from joint and several liability for income taxes, to "determine the appropriate relief available to the individual under this section [which includes subsection (g), authorizing a credit or refund in certain circumstances]").

judges specialize in tax law, whose petitioners often benefit from the assistance of low-income taxpayer clinics, and which offers procedures that are generally faster, less expensive, and less formal than those of the Federal district courts or the Court of Federal Claims. The Tax Court's procedures are even further simplified and streamlined for small-dollar disputes.

EXPLANATION OF PROVISION

The provision grants the Tax Court jurisdiction over suits brought by any taxpayer for a refund, not exceeding the "applicable amount," of any Federal internal revenue tax or penalty alleged to have been erroneously or illegally collected or paid, to the same extent that the U.S. district courts and the Court of Federal Claims currently hold jurisdiction over such suits. The U.S. district courts and the Court of Federal Claims will continue to have jurisdiction over this category of suits concurrently with the Tax Court.

The applicable amount is \$2 million for any one taxable year in the case of income tax, \$2 million in the case of estate tax, \$2 million for any one calendar year in the case of gift tax, \$2 million for any one taxable period or event in the case of employment taxes and excise taxes, and \$2 million in the case of any other amount collected under the provisions of the Code (such as assessable penalties).

If a taxpayer sues for a refund in the Tax Court and, before the case is heard, the IRS issues a notice of deficiency for any tax at issue in the suit, the provision provides that proceedings in the refund suit are stayed for the period in which the taxpayer may file a petition to contest the notice of deficiency plus an additional 60 days. If the taxpayer files such a petition, the provision provides that the petition is consolidated with the refund suit.

The provision permits the taxpayer in certain instances to elect the Tax Court's small case procedures for the conduct of a refund suit.²¹⁸

EFFECTIVE DATE

The provision is effective for actions filed after the date that is 12 months after the date of enactment.

11. Authorization to allow claims for refund in certain cases where full tax not paid (sec. 311 of the bill and sec. 7422 of the Code)

PRESENT LAW

Before filing a tax refund suit, a taxpayer generally must fully pay the tax or penalty liability in dispute.²¹⁹ Under this "full payment rule," the partial payment of an assessment for a particular taxable year, period, transaction, or event generally is insufficient to support refund suit jurisdiction. For instance, if a taxpayer is as-

²¹⁸ See the explanation of the provision "Adjustment of Threshold for Small Disputes" (sec. 312 of the bill).

²¹⁹ *Flora v. United States*, 362 U.S. 145, 177 (1960). The full payment rule also applies to non-tax amounts collected under the Code, including assessable penalties. Note that the Tax Court exists as a prepayment forum for disputing the IRS's deficiency determinations. However, taxpayers who fail to timely petition the Tax Court lose their right to a prepayment forum (such that a refund suit is the only remaining avenue of redress), and there are some Code-based liabilities (for instance, assessable penalties) for which the IRS is not required to follow deficiency procedures.

essed a \$10,000 income tax liability for the 2026 taxable year and believes the entire assessment to be erroneous, the taxpayer may not pay only \$5,000 and file suit for a refund of that amount; rather, the full \$10,000 must be paid first. If a taxpayer must delay filing a refund suit while attempting to pay the liability in full using an installment agreement,²²⁰ a court may not be authorized to order a full refund of the incorrect amount collected by the IRS because part or all of the refund may be time-barred by the time the taxpayer can properly file the suit.²²¹ Generally, the taxpayer is entitled to a refund only of amounts overpaid within a two- or three-year lookback period from the filing of the refund claim with the IRS.²²²

When contesting an estate tax liability, the Code provides an exception to the full payment rule if the liability is being paid in installments by reason of an election under section 6166 (which allows an extension of time to pay estate tax if the estate consists in large part of an interest in a closely-held business).²²³ There are also limited exceptions for tax return preparer penalties²²⁴ and penalties on promoting abusive tax shelters and on aiding and abetting tax liability understatements.²²⁵

REASONS FOR CHANGE

The Committee believes that the full payment rule, coupled with the lookback limitations on refundable amounts, has unfair consequences for taxpayers who cannot afford to pay what the IRS asserts they owe. Those who are attempting to pay a potentially erroneous liability under an installment agreement or who do not have adequate resources to continue making payments after a partial payment has been collected should have the same opportunity for judicial review as estates paying their estate tax liability in installments. The Committee believes that such taxpayers generally should be able to file a refund claim for amounts paid without having paid the full liability.

EXPLANATION OF PROVISION

The provision abrogates the full payment rule for taxpayers who are paying a tax or penalty liability under an installment agreement with the IRS (and who are not delinquent with any payments under the agreement) or whose liability the IRS has determined is currently not collectible. Any such taxpayer may file a refund suit for the liability in question regardless of whether the full liability has been paid, and if successful is generally entitled to a refund of the amount overpaid by the time of the court's decision.

The provision authorizes (but does not require) the court, upon the government's or the Secretary's request (as appropriate), to dis-

²²⁰ See sec. 6159.

²²¹ See sec. 7422(a) (providing that a refund suit may not be filed until the taxpayer has filed a refund claim with the IRS); sec. 6532(a)(1) (providing that generally a refund suit must be filed within two years after the IRS denies part or all of the refund claim); sec. 6511(a) (providing that generally a refund claim must be filed with the IRS within three years from the applicable return filing or two years from the time the applicable tax was paid, whichever period ends later); sec. 6511(b) (providing that generally a refund will be allowed only for the portion of the tax paid in the two- or three-year period immediately preceding the refund claim filing).

²²² Sec. 6511(b).

²²³ Sec. 7422(j)(1).

²²⁴ Sec. 6694(c)(1).

²²⁵ Sec. 6703(c)(1).

miss the case if the taxpayer becomes delinquent in making installment payments or is no longer in currently not collectible status. The court may dismiss the action, with or without taking evidence or holding a hearing, upon which the taxpayer has leave to refile at such time as either the taxpayer has made full payment of the liability, is current on all installment agreement payments, or is in currently not collectible status. In deciding whether to dismiss the action, the court may consider factors such as the extent to which the action has proceeded, the extent to which full payment has been made, the potential burdens on the taxpayer, the government, the Secretary, or the court, and broader policy reasons related to the full payment rule. Any dismissal will not be reviewable by any other court.

If the court redetermines the correct amount of the taxpayer's liability, the provision prohibits the Secretary from collecting any portion of the liability disallowed by the court once the decision has become final, and the provision requires the Secretary to refund any amounts paid in excess of the correct amount determined by the court, subject to the lookback limitations applicable to amounts paid before the taxpayer's refund claim was filed with the IRS.²²⁶

EFFECTIVE DATE

The provision is effective for actions filed on or after the date that is 12 months after the date of enactment.

12. Adjustment of threshold for small disputes (sec. 312 of the bill and secs. 7436 and 7463 of the Code)

PRESENT LAW

Small Tax Court cases

Taxpayers who petition the Tax Court may elect, in certain low-dollar disputes ("small cases"), to have their cases conducted under rules of evidence, practice, and procedure prescribed by the Tax Court for small cases, rather than the Federal Rules of Evidence and the default rules of practice and procedure prescribed by the Tax Court for its cases.²²⁷ The Tax Court has prescribed that trials of small cases are to be conducted as informally as possible consistent with orderly procedure, and any evidence deemed by the Court to have probative value is admissible.²²⁸ Unlike in the Tax Court's regular cases, neither briefs nor oral arguments are required in small cases unless the court directs otherwise.²²⁹ The chief judge of the Tax Court may assign the court's special trial judges (who are appointed by the chief judge, not the President) to hear and decide small cases.²³⁰ The decision of a judge (including a special trial judge) in a small case is not appealable to any other court and may not be treated as precedent for any other case.²³¹ The judge hearing a small case may not redetermine a deficiency, or determine an overpayment, in an amount greater than the

²²⁶ See sec. 6511(b).

²²⁷ Secs. 7463, 7453.

²²⁸ Tax Court Rules of Practice and Procedure, Rule 174(b) (2026).

²²⁹ Tax Court Rules of Practice and Procedure, Rule 174(c) (2026).

²³⁰ Sec. 7443A(b) and (c).

²³¹ Sec. 7463(b).

\$50,000 jurisdictional limits described below, except for amounts mutually agreed on by the parties.²³²

A petitioner disputing the Secretary's deficiency determination may elect the small case rules if neither the portion of the deficiency disputed nor any claimed overpayment exceeds \$50,000 for any one taxable year (in the case of income tax), \$50,000 total (in the case of estate tax), \$50,000 for any one calendar year (in the case of gift tax), or \$50,000 for any one taxable period or event (in the case of excise taxes subject to deficiency procedures).²³³ Additionally, a petitioner may elect the small case rules if (1) seeking relief from spousal joint and several liability, where the amount of relief does not exceed \$50,000, (2) appealing a collection due process determination to collect by lien or levy an unpaid amount of tax not exceeding \$50,000, (3) contesting the Secretary's failure to abate interest in an amount not exceeding \$50,000, or (4) contesting the Secretary's determination that the petitioner has misclassified employees as non-employees (or does not qualify for statutory relief from the tax liability associated with that misclassification), where the amount of employment tax in dispute does not exceed \$50,000 per calendar quarter.²³⁴ The Tax Court must consent to the taxpayer's election before the small case rules apply to any petition.

The abovementioned \$50,000 ceilings were set by the IRS Restructuring and Reform Act of 1998²³⁵ (which raised the previous \$10,000 ceilings) and are not adjusted for inflation.

REASONS FOR CHANGE

The Committee recognizes that the current \$50,000 ceilings for the Tax Court's small case rules were set in 1998 and have not been adjusted for inflation. The Committee believes that these ceilings should be doubled, and thereafter adjusted for inflation, in order to provide access to the small case rules for all taxpayers for whom those rules were originally designed. These changes would help more taxpayers resolve moderate-size disputes efficiently and would expand the capacity of the Tax Court to decide cases.

EXPLANATION OF PROVISION

The provision increases to \$100,000 each of the \$50,000 ceilings for the small case rule election.²³⁶ The provision provides that for any petition filed in a calendar year after 2026, the new \$100,000 ceiling for the small case rule election is adjusted for inflation (rounded down, if not a multiple of \$1,000, to the next lowest such multiple), using 2025 as the base year.

EFFECTIVE DATE

The provision is effective for Tax Court proceedings commencing after the date of enactment.

²³² Sec. 7463(c).

²³³ Sec. 7463(a). For these purposes, the deficiency placed in dispute includes any additions to tax, accuracy-related penalties, and civil fraud penalties (but not interest) that are disputed and are subject to deficiency procedures. Sec. 7463(e).

²³⁴ Secs. 7463(f), 7436(c).

²³⁵ Pub. L. No. 105-206, sec. 3103, 112 Stat. 685, 731.

²³⁶ Section 310 of the bill, "Authorization of the Tax Court to Hear Suits for Refunds or Credits," establishes a \$100,000 ceiling for the small case election for refund suits heard by the Tax Court.

TITLE IV—OFFICE OF THE TAXPAYER ADVOCATE

1. NTA Authorization to Direct Hire Attorneys (sec. 401 of the bill)

PRESENT LAW

The Office of the Taxpayer Advocate (“OTA”) is expected to represent taxpayer interests independently in disputes with the IRS. The National Taxpayer Advocate (“NTA”) supervises the Office of the Taxpayer Advocate. The NTA reports directly to the Commissioner of Internal Revenue and is entitled to compensation at the same rate as the highest rate of basic pay established for the Senior Executive Service under section 5382 of Title 5 of the United States Code. The NTA is responsible for appointing local taxpayer advocates and making available at least one such advocate for each State.²³⁷ She is also responsible for evaluating and taking personnel actions (including dismissal) with respect to any employee of any local office of a taxpayer advocate. There is no clear statutory authority for the NTA to directly hire and supervise independent legal counsel.

REASONS FOR CHANGE

The Committee believes that the ability of the NTA to hire attorneys that are independent and report directly to the NTA is essential to the ability of the NTA to effectively represent taxpayer interests in disputes with the IRS.

EXPLANATION OF PROVISION

The provision provides for the responsibility and authority of the National Taxpayer Advocate to appoint counsel in the Office of the Taxpayer Advocate to report directly to the NTA (or delegate). Furthermore, the NTA may utilize direct hire authority to recruit and appoint qualified applicants, without regard to any preference requirements, and any counsel so appointed will not report to the Chief Counsel for the IRS and may not represent the government in litigation. However, any legal interpretation of such counsel is not binding on the Secretary and the Chief Counsel for the IRS will continue to provide advice to the NTA and the Office of the Taxpayer Advocate.

EFFECTIVE DATE

The provision is effective on the date of enactment.

2. NTA authorization to make personnel decisions (sec. 402 of the bill)

PRESENT LAW

See the Present Law discussion in section 401, above.

REASONS FOR CHANGE

The Committee believes that the ability of the NTA to take independent personnel actions for all Taxpayer Advocate Service (“TAS”) employees, including those in the national office, is essen-

²³⁷ Sec. 7803(c)(2)(D)(i).

tial to protecting the independence of the TAS employees who are required to advocate for changes within the IRS, assist taxpayers in disputes with other functions within the IRS, and to advocate for legislative changes which other functions in the IRS or the administration may not support.

EXPLANATION OF PROVISION

Under the provision, the NTA is responsible for evaluating and taking personnel actions (including dismissal) with respect to an officer or employee of the Office of the Taxpayer Advocate.

EFFECTIVE DATE

The provision is effective 12 months after the date of enactment.

3. Access to Internal Revenue Service information, legal advice, and meetings (sec. 403 and sec. 7803(c) of the Code)

PRESENT LAW

In general

The Office of the Taxpayer Advocate is expected to represent taxpayer interests independently in disputes with the IRS. The Office of the Taxpayer Advocate has four principal functions:

1. to assist taxpayers in resolving problems with the IRS;
2. to identify areas in which taxpayers have problems in dealing with the IRS;
3. to propose changes in the administrative practices of the IRS to mitigate problems identified in (2); and
4. to identify potential legislative changes which may be appropriate to mitigate such problems.

Taxpayer Assistance Orders

A taxpayer can request a Taxpayer Assistance Order (“TAO”) if the taxpayer is suffering or about to suffer a “significant hardship” as a result of the manner in which the internal revenue laws are being administered by the IRS.²³⁸ A TAO may require the IRS within a specified time period, to release property of the taxpayer that has been levied upon, or to cease any action, take any action as permitted by law, or refrain from taking any action with respect to the taxpayer under specified provisions.²³⁹

The Commissioner of Internal Revenue, or the Deputy Commissioner of Internal Revenue may rescind a TAO issued by the NTA, only if a written explanation of the reasons for the modification or rescission is provided to the NTA.²⁴⁰

²³⁸ Sec. 7811(a)(1)(A). Significant hardship is deemed to occur if one of four factors exists: (1) there is an immediate threat of adverse action; (2) there has been a delay of more than 30 days in resolving the taxpayer’s problems; (3) the taxpayer will have to pay significant costs (including fees for professional services) if relief is not granted; or (4) the taxpayer will suffer irreparable injury, or a long term adverse impact if relief is not granted. Sec. 7811(a)(2). The NTA may also issue a TAO if the taxpayer meets requirements to be set forth in regulations. Sec. 7811(a)(1)(B).

²³⁹ Sec. 7811(b). A TAO or action taken by the NTA applies to persons performing services under a qualified tax collection contract to the same extent and to the same manner as such order applies to the IRS.

²⁴⁰ Sec. 7811(c). The NTA also may modify or rescind a TAO issued by the NTA.

Taxpayer Assistance Directives

While a TAO is specific to a particular taxpayer, a Taxpayer Assistance Directive (“TAD”) is systemic, intended to address groups of taxpayers. Delegation Order 13–3 authorizes the NTA alone to issue Taxpayer Advocate Directives to mandate administrative or procedural changes to improve the operation of a functional process or to grant relief to groups of taxpayers (or all taxpayers) when implementation will protect the rights of taxpayers, prevent undue burden, ensure equitable treatment or provide an essential service to taxpayers.²⁴¹ The authority to modify or rescind a TAD is delegated to Deputy Commissioner for Operations Support, Deputy Commissioner for Services and Enforcement, and to the National Taxpayer Advocate. The Commissioner or a Deputy Commissioner is required to take timely action on a TAD and the NTA is required to identify in her report to Congress any TAD which was not honored in a timely manner.²⁴²

Annual Reports

The NTA is required to submit two reports annually to the House Committee on Ways and Means and to the Senate Finance Committee.²⁴³ One report, due June 30 of each year, covers the Office of the Taxpayer Advocate’s objectives for the fiscal year beginning in that calendar year. Besides statistical information, the report must contain a full and substantive analysis of the objectives.

The other report, due December 31 of each year, concerns the activities of the Office of the Taxpayer Advocate. The content of this report is set by statute.²⁴⁴ Generally, the report must cover initiatives taken to improve taxpayer services and problems encountered, as well as the actions taken to resolve them and the results; an inventory of the items for which action remains to be completed; and an inventory of items for which no action was taken and the reasons for inaction. Specifically, the report must cover the ten most serious problems experienced by taxpayers. The report also must identify the ten most litigated issues for each category of taxpayer and the areas of the tax law that impose significant compliance burdens on taxpayers or the IRS. Recommendations received from individuals with the authority to issue Taxpayer Assistance Orders, and any Taxpayer Assistance Order not promptly honored by the IRS, must also be included in the report. The report must also set forth recommendations for administrative and legislative action to resolve problems encountered by taxpayers.

The NTA is required by statute to submit the reports directly to the Congressional committees without prior review of the Commissioner, the Secretary, or any officer or employee of the Treasury, the Oversight Board, or the Office of Management and Budget.²⁴⁵

REASONS FOR CHANGE

The Committee believes that the National Taxpayer Advocate must have timely and unimpeded access to information, legal analysis, and IRS personnel meetings in order to effectively assist tax-

²⁴¹ Delegation Order 13–3, Internal Revenue Manual 1.2.50.4 (January 17, 2001).

²⁴² Sec. 7803(c)(5).

²⁴³ Sec. 7803(c)(2)(B).

²⁴⁴ Sec. 7803(c)(2)(B)(ii)(I) through (XI).

²⁴⁵ Sec. 7803(c)(2)(B)(iii).

payers and provide Congress with accurate oversight information. Under current practice, delays or limitations in access can hinder the NTA's ability to resolve taxpayer issues, evaluate systemic concerns, and prepare the objective and annual reports required by law. Clarifying and codifying the NTA's access rights strengthens taxpayer protections, enhances transparency, and ensures that the NTA may independently assess IRS actions. The Committee also believes that preserving applicable privileges and requiring reporting of any failures to provide access promotes accountability while safeguarding sensitive legal materials.

EXPLANATION OF PROVISION

Under the provision, upon request, the Commissioner is required to provide the Office of the Taxpayer Advocate access to information, legal advice and meetings. In the case of an open and pending request by a taxpayer for assistance by the Office of the Taxpayer Advocate, this access includes that to any return information²⁴⁶ determined by the NTA to be necessary to assist the taxpayer, any legal advice provided by the Office of Chief Counsel to any employee of the IRS and determined to be necessary for the Office of the Taxpayer Advocate to assist the taxpayer regardless of whether the such legal advice may be disclosed to the taxpayer, and any meeting between the taxpayer and any employee of the IRS. The Commissioner will be deemed to have satisfied the requirement for a meeting if he extends an invitation to attend the meeting without regard to whether such a meeting is declined by any employee of the Office of the Taxpayer Advocate.

In the case of any of the annual reports required of the NTA, this access includes any relevant document, data, or statistical information, and any legal advice provided by the staff of the IRS Office of the Chief Counsel to any employee of the IRS, and any legal advice from the staff of the Office of Chief Counsel on any other matter or issue.

Access to such information, advice, or meeting is to be provided by the Commissioner not later than the date which is two weeks after the date on which a written request submitted by the Office of the Taxpayer Advocate has been received by the Commissioner, or another date which is agreed to by the Commissioner and the Office of the Taxpayer Advocate. Furthermore, the NTA is required to identify in her annual report to Congress any failures by the Commissioner to provide access to any information, advice, or meeting, by the date required, as described above. Finally, any access provided to the Office of the Taxpayer Advocate with respect to information or legal advice from the staff of the Office of Chief Counsel is to have no effect on any privilege which otherwise applies to such information or legal advice.

EFFECTIVE DATE

The provision is effective on the date of enactment.

²⁴⁶ As defined in section 6103(b).

4. Repeal of limitation period suspension for taxpayers seeking assistance from TAS (sec. 404 of the bill and sec. 7811 of the Code)

PRESENT LAW

Taxpayer Assistance Orders

Among other functions, the Office of the Taxpayer Advocate is expected to assist individual taxpayers in resolving problems with the IRS. A taxpayer can request a Taxpayer Assistance Order (“TAO”) if the taxpayer is suffering or about to suffer a “significant hardship” as a result of the manner in which the internal revenue laws are being administered by the IRS.²⁴⁷ 1A TAO may require the IRS within a specified time period, to release property of the taxpayer that has been levied upon, or to cease any action, take any action as permitted by law, or refrain from taking any action with respect to the taxpayer under specified provisions.²⁴⁸ The running of any period of limitation with respect to these actions is suspended for the period beginning on the date of the taxpayer’s application for a TAO, and ending on the date of the NTA’s decision with respect to such an application or any period specified by the NTA (or a designee of the NTA) in a TAO issued pursuant to the taxpayer’s application.

The Commissioner of Internal Revenue, or the Deputy Commissioner of Internal Revenue may rescind a TAO issued by the NTA or a designee of the NTA, only if a written explanation of the reasons for the modification or rescission is provided to the NTA.²⁴⁹

REASONS FOR CHANGE

The Committee believes that suspending periods of limitation while the Taxpayer Advocate Service and other IRS functions are evaluating a taxpayer’s application for a TAO can create administrative uncertainty and unintended consequences for both taxpayers and the IRS. The IRS has not implemented the statute suspension provision since its enactment in 1988, the mere application for a TAO does not delay enforcement actions that might cause the limitations periods for enforcement actions to lapse. Further, the Committee believes a statute suspension rule that applies only to written applications creates an unfair disparity between written and telephonic applications for a TAO. The Committee determined that such applications should not alter statutory limitation periods that govern assessment, collection, or other administrative actions. Repealing the suspension of limitations ensures consistent and predictable operation of statutory deadlines while preserving the substantive protections available through TAOs.

²⁴⁷ Sec. 7811(a)(1)(A). Significant hardship is deemed to occur if one of four factors exists: (1) there is an immediate threat of adverse action; (2) there has been a delay of more than 30 days in resolving the taxpayer’s problems; (3) the taxpayer will have to pay significant costs (including fees for professional services) if relief is not granted; or (4) the taxpayer will suffer irreparable injury, or a long term adverse impact if relief is not granted. Sec. 7811(a)(2). The NTA may also issue a TAO if the taxpayer meets requirements to be set forth in regulations. Sec. 7811(a)(1)(B).

²⁴⁸ Sec. 7811(b). A TAO or action taken by the NTA applies to persons performing services under a qualified tax collection contract to the same extent and to the same manner as such order applies to the IRS.

²⁴⁹ Sec. 7811(c). The NTA also may modify or rescind a TAO issued by the NTA.

EXPLANATION OF PROVISION

Under the provision, the suspension of the running of the period of limitation with respect to the actions described in the terms of a TAO is repealed.²⁵⁰

EFFECTIVE DATE

The provision is effective on the date of enactment.

5. Operations to assist taxpayers experiencing hardships during lapse in appropriations (sec. 405 of the bill)

PRESENT LAW

For a discussion of the duties of the NTA and the Office of the Taxpayer Advocate, see the discussion of Present Law in section 403, above. For a discussion of TAO's, see the discussion of Present Law in section 404, above.

Under 31 U.S.C. sec. 1341(a), an officer or employee of the U.S. Government or of the District of Columbia is generally prohibited from obligating or expending certain Federal funds in advance or in excess of an appropriation.

REASONS FOR CHANGE

The Committee believes that taxpayers facing economic hardship should not lose access to essential assistance during a lapse in appropriations. Under current law, the Anti Deficiency Act generally prevents the IRS and the Office of the Taxpayer Advocate from incurring obligations in advance of appropriations, even when a taxpayer is experiencing significant harm due to IRS action or inaction. The Committee believes that the National Taxpayer Advocate and other functions within the IRS should be able to continue assisting taxpayers and issuing or complying with Taxpayer Assistance Orders during a funding lapse to prevent hardship and ensure that basic taxpayer protections remain in place.

EXPLANATION OF PROVISION

Under the provision, notwithstanding 31 U.S.C. sec. 1341(a), during any lapse in appropriations, the Commissioner and the Office of the Taxpayer Advocate may incur obligations in advance of appropriations for necessary amounts to assist any taxpayer who may be experiencing an economic hardship²⁵¹ as a result of any action or inaction by the IRS, and for the purpose of complying with any TAO.

EFFECTIVE DATE

The provision is effective on the date of enactment.

²⁵⁰ Sec. 7811(d) is repealed.

²⁵¹ "Economic hardship" is defined within the meaning of sec. 6343(a)(1)(D).

TITLE V—TAX RETURN PREPARERS

1. Penalties for tax return preparers who improperly alter returns
(sec. 501 of the bill and sec. 6696 of the Code)

PRESENT LAW

Under present law, the term “return” for purposes of the tax return preparer penalty provisions includes (i) any return of any tax imposed by the Code; (ii) any administrative adjustment request filed under section 6227; and (iii) any partnership adjustment tracking report under section 6226(b)(4)(A).²⁵² The term does not include other documents that merely purport to be a return, an administrative adjustment request, or a partnership adjustment tracking report. These documents may resemble these filings but do not qualify as valid returns. For example, a draft return that has not been filed with the IRS, an unsigned return, an incomplete return missing required information or schedules, a document submitted in the wrong format or to the wrong IRS office, or a return that has been altered by the preparer after the taxpayer signed may appear similar to a filing but are not treated as returns.

REASONS FOR CHANGE

The Committee believes that the return preparer penalty regime should apply to situations in which a preparer alters a return after the taxpayer has reviewed and signed it, or submits documents purporting to be returns that do not satisfy all formal requirements. These practices can mislead taxpayers, impede IRS administration, and facilitate misconduct that undermines voluntary compliance. Expanding the definition of “return” ensures greater accountability and strengthens the integrity of tax administration.

EXPLANATION OF PROVISION

The provision expands the definition of “return” to include any document purporting to be a return of tax, an administrative adjustment request under section 6227, or a partnership adjustment tracking report under section 6226(b)(4)(A). This expansion ensures that return preparer penalties apply not only to properly filed returns, but also to documents submitted as returns that do not meet all formal requirements. The provision further clarifies that documents altered by a preparer after the taxpayer has reviewed and signed them are treated as returns for purposes of the preparer penalty provisions.

EFFECTIVE DATE

The provision is effective on the date of enactment.

2. Penalties for failure to provide valid preparer identification numbers (sec. 502 of the bill and secs. 6695, 7701, and 7218 of the Code)

PRESENT LAW

Under present law, a penalty applies if a tax return preparer fails to furnish a preparer identification number (PTIN) on a re-

²⁵² Sec. 6696(e).

turn or claim for refund.²⁵³ The penalty is \$65 per failure, up to a maximum aggregate penalty of \$33,000 per calendar year.²⁵⁴ The Code does not comprehensively address circumstances in which the identifying number provided is incorrect, expired, revoked, or otherwise invalid. Moreover, no criminal penalty applies to a tax preparer who willfully fails to furnish a PTIN on a return they prepare for a fee.

Present law also does not contain a separate penalty or rule governing the use of invalid or improperly appropriated electronic filing identification numbers (EFIN) by electronic return originators (EROs). In addition, the definition of “tax return preparer” under the Code generally covers persons who prepare returns or claims for refund for compensation, but the definition does not explicitly encompass documents purporting to be returns. No penalty applies to an ERO who provides the IRS with the wrong EFIN, another person’s EFIN, or an EFIN that has been suspended. In addition, the IRS is not required to maintain a secure, automated system through which authorized users can determine at scale and in real time whether an EFIN is active and eligible for use, nor are tax software providers required to validate EFINs.

REASONS FOR CHANGE

The Committee believes that clearer, more enforceable standards for paid tax preparers are essential to protecting taxpayers and improving return accuracy. Current law provides only a narrow penalty for failure to provide a valid preparer identifying number, leaving gaps in situations involving expired, revoked, improperly borrowed, or nonexistent PTINs, and does not fully address misuse of documents that merely purport to be returns.

As part of this broader modernization effort, the Committee also believes that clarifying and strengthening the rules governing the use of electronic filing identification numbers ensures that only authorized and valid EFINs may be used in transmitting electronic returns, reinforcing the integrity of the electronic filing environment. Implementing a secure, automated validation program will help support high-volume validation requests submitted through large-scale tax preparation, transmission, and electronic filing systems. In addition, the Committee believes an implementation plan and report will ensure the Secretary successfully operationalizes the program.

EXPLANATION OF PROVISION

The provision replaces the existing penalty under section 6695(c) with a more detailed regime applicable when a tax return preparer fails to furnish a valid identifying number on a return or claim for refund. The provision increases the current \$65-per-failure penalty (with a \$33,000 annual maximum) to \$250 per failure, with a \$75,000 annual maximum. A \$250 penalty applies for each failure to provide an identifying number that complies with section 6109(a)(4)(A), including circumstances in which the identifying number is assigned to another person, does not exist, is inactive or expired, has been withdrawn, or has been suspended, revoked, or

²⁵³ Sec. 6695(c).

²⁵⁴ *Ibid*; Rev. Proc. 2025–32, 2025–45 I.R.B. 695, November 3, 2025, sec. 4.54.

is otherwise invalid. No penalty is required to be imposed if the failure is due to reasonable cause and not due to willful neglect.

The provision also establishes a new penalty under section 6695(h) applicable to electronic return originators who fail to use a valid EFIN assigned to them by the Secretary. No penalty is required to be imposed if the failure is due to reasonable cause and not due to willful neglect. For this purpose, an “ERO” is defined as a person who originates the electronic submission of one or more returns or claims for refund on behalf of other taxpayers. Individuals who merely provide mechanical assistance (such as typing or reproduction), employees acting at the direction of an employer, fiduciaries, and persons initiating electronic submissions solely as a result of certain IRS determinations are excluded from the definition. An “EFIN” is defined as a number assigned by the Secretary to a person authorized to file returns electronically on behalf of taxpayers.

An EFIN is the unique identifier issued by the Secretary to authorize a person or entity to electronically file any return or other document with the Secretary on behalf of taxpayers. An EFIN encompasses authorization for the electronic filing of Federal tax returns as well as other documents required to be filed with the Secretary under the Code, except as otherwise provided by the Secretary. The Secretary may determine the documents for which EFIN usage is required or exempt.

Upon the establishment of the IRS EFIN validation program, any return or other document electronically filed using an invalid, suspended, revoked, inactive, ineligible, or compromised EFIN is treated as electronically filed without a valid EFIN for purposes of applying the penalty. Specifically, the validation program provides a real-time secure, automated system which confirms EFIN validity status, authorization, and eligibility. It is designed to support secure, automated, and high-volume validation requests. Software used to file returns or other documents electronically is required to validate the EFIN in accordance with the IRS program before permitting electronic submission.

The definition of “tax return preparer” under section 7701(a)(36) is modified to include persons who prepare, for compensation, documents purporting to be returns, in addition to actual returns or claims for refund. For this purpose, preparation of a substantial portion of any such document is treated as preparation of the return or claim itself.

The provision directs the Secretary to establish a program to promote voluntary compliance with identifying number requirements and to allow preparers to correct inadvertent errors before penalties are imposed. The program is to be developed in consultation with the National Taxpayer Advocate, low-income taxpayer clinics, and other relevant stakeholders, and is required to include procedures for identifying electronically submitted returns or claims that lack valid PTINs or that are submitted without a valid EFIN, and providing preparers an opportunity to supply missing information before penalties apply. This correction opportunity applies equally when a preparer initially submits a return with no EFIN or PTIN or with an EFIN or PTIN that is determined to be invalid after the validation program is established.

The provision also directs the Secretary to submit an implementation plan and a post-implementation report. The implementation plan, due not later than 180 days after enactment, must describe the program's design, operation, covered categories of persons, proposed standards, and technical specifications. The post-implementation report, due not later than two years after the program is established, must describe the program's performance, material service disruptions, validation request data, contingency problems, material decisions, and administrative and legislative recommendations.

In addition, the provision creates a new criminal penalty for willful failure to furnish a valid PTIN or for willfully providing an invalid PTIN with intent to evade or defeat statutory requirements. A violator is guilty of a felony and may be fined up to \$50,000 (\$100,000 for corporations), imprisoned for up to three years, or both, in addition to the costs of prosecution.

EFFECTIVE DATE

The provision is effective for returns or claims for refund filed after the date that is 18 months after the date of enactment.

3. Penalties for improper tax preparation or misappropriation of refunds (sec. 503 of the bill and sec. 6695 of the Code)

PRESENT LAW

Under present law, various assessable penalties apply to tax return preparers for failures relating to the preparation of returns for other persons, including failure to furnish a required copy of a return,²⁵⁶ failure to sign a return,²⁵⁷ failure to furnish a proper identifying number,²⁵⁸ failure to retain a copy of the return or maintain a list of the names and taxpayer identification numbers of the taxpayers for whom returns were prepared,²⁵⁹ the failure to file accurate information returns identifying employed tax return preparers,²⁶⁰ and failure to comply with due diligence requirements.²⁶¹ These penalties generally range from \$50 per failure to \$500 per failure, with annual maximums of \$25,000 each, except for the penalty for failure to comply with the due diligence requirement, which does not have a maximum. These penalty amounts are subject to annual inflation adjustments.²⁶²

Present law also imposes a penalty on a preparer who improperly negotiates a taxpayer's refund check, but it does not contain a specific penalty addressing broader misappropriation of a taxpayer's refund by a preparer.²⁶³

REASONS FOR CHANGE

The Committee believes that current penalty amounts applicable to tax return preparers do not sufficiently deter improper conduct

²⁵⁶ Sec. 6695(a).

²⁵⁷ Sec. 6695(b).

²⁵⁸ Sec. 6695(c).

²⁵⁹ Sec. 6695(d) (imposing a penalty for failure to comply with the return retention requirements of section 6107(b) of the Code).

²⁶⁰ Sec. 6695(e).

²⁶¹ Sec. 6695(g).

²⁶² Sec. 6695(h).

²⁶³ Sec. 6695(f).

or reflect the scale of modern return-preparation activities. Increasing penalty amounts and updating inflation adjustments strengthens accountability and promotes consistent compliance with preparer obligations. The Committee also believes that replacing the limited penalty for improper negotiation of a refund check with a broader penalty targeting misappropriation of any portion of a taxpayer's refund better protects taxpayers against abusive practices and ensures that preparer misconduct involving refund amounts is appropriately addressed.

EXPLANATION OF PROVISION

The provision increases several existing assessable penalties that apply to tax return preparers. Penalties that currently apply at a \$50 rate are increased to \$250, and the associated annual maximums are raised to either \$50,000 or \$75,000, depending on the particular requirement. In addition, the \$500 penalty applicable to the failure to comply with due diligence requirements is increased to \$1,000. The provision updates the existing inflation adjustment rules for these penalties by substituting the present law 2013-based indexing with a 2025 cost-of-living adjustment base year.

The provision also replaces the existing penalty for improper handling of a taxpayer's refund check with a new penalty targeting misappropriation of refund payments. Under the provision, a tax return preparer who misappropriates a taxpayer's refund is subject to a penalty equal to the greater of \$1,000 or the full amount of the misappropriated refund. The fixed dollar amount used in determining this penalty is subject to an annual inflation adjustment. The provision provides that no penalty applies where a bank deposits the full amount of the refund into the taxpayer's account for the taxpayer's benefit.

EFFECTIVE DATE

The provision is effective on the date of enactment.

4. Authority to deny, revoke, or suspend preparer tax identification numbers (sec. 504 of the bill and sec. 6109 of the Code)

PRESENT LAW

Under present law, a tax return preparer who prepares a return or claim for refund for compensation is required to furnish an identifying number as prescribed by the Secretary.²⁶⁴ Present law does not provide explicit statutory criteria governing the issuance or renewal of preparer tax identification numbers and contains no statutory framework for suitability checks, education requirements, State licensing equivalency, or related qualification standards.

Present law also does not establish a statutory process for denying, suspending, or revoking a preparer tax identification number, and it does not specify grounds for such actions, authorize related monetary penalties, or provide procedures for reinstatement. In addition, present law does not require public disclosure of final determinations involving suspension or revocation of preparer credentials.

²⁶⁴ Sec. 6109(a)(4).

Present law contains no requirement that identifying numbers be included on compensated offers-in-compromise. Further, there is no GAO reporting requirement relating to IRS information sharing with State authorities regarding preparer identification numbers, and present law does not require the IRS to publish common preparer errors or common reasons for preparer penalties or disciplinary actions.

Under present law, the Secretary regulates practice before the Department of the Treasury through Circular 230, which establishes standards of conduct for practitioners (including enrolled agents, certified public accountants, and attorneys, but not uncredentialed paid tax preparers) and provides procedures for disciplinary actions such as censure, suspension, and disbarment.²⁶⁵

REASONS FOR CHANGE

The Committee recognizes that studies by GAO, TIGTA, and others have consistently found that tax returns prepared by non-credentialed paid preparers have higher levels of inaccuracies than other returns. In addition, paid preparers who encourage taxpayers to claim credits that they do not qualify for are consistently on the IRS's list of the top "dirty dozen" tax scams. Not only do these scams drain Federal revenues, but they also harm taxpayers who are liable for repaying any improperly received amounts along with interest and penalties. Many of these taxpayers do not know that the preparer they use is offering incorrect or fraudulent advice. They may not understand the consequences of following such unhelpful advice.

The Committee believes that a comprehensive statutory framework governing the issuance, use, and enforcement of preparer tax identification numbers is necessary to protect taxpayers, improve return accuracy, and promote professionalism among paid preparers. Current law provides limited authority to address misconduct or to ensure preparers meet minimum suitability and competency standards. Establishing clear qualification requirements, enforcement tools, reinstatement procedures, and public disclosure rules will strengthen tax administration, enhance transparency, and reduce the risk of taxpayer harm. The Committee also believes that requiring identifying numbers on compensated offers-in-compromise, improving Federal-State coordination, and publishing common preparer errors will further support taxpayer protection and compliance.

EXPLANATION OF PROVISION

As described in more detail below, the provision creates a statutory framework governing who may obtain, use, and retain a preparer identification number, including qualification standards that may be satisfied through any one of three routes: (i) meeting Federal suitability and education requirements; (ii) holding a comparable State preparer license; or (iii) qualifying as a specified practitioner. The provision authorizes the Secretary to deny, suspend, or revoke identification numbers and to impose monetary penalties for misconduct, with procedures for reinstatement and publication of final determinations. The provision also extends

²⁶⁵ 31 U.S.C. sec. 330.

identifying number requirements to certain compensated filings and includes related reporting, disclosure, and publication obligations.

Requirements for preparer identification numbers

The provision requires any compensated preparer to include an identifying number on any return, claim for refund, or document purporting to be such a filing. Identifying numbers that have been suspended or revoked are not valid identifying numbers.

Eligibility and qualification standards

The provision establishes requirements for the issuance and renewal of preparer identification numbers. Individuals may qualify through any one of three routes: (i) meeting Federal suitability criteria, including background checks and compliance with personal tax requirements, and completing education in ethics, professional responsibility, and tax law; (ii) holding a State license with preparer standards comparable to the Federal suitability and education requirements; or (iii) qualifying as a specified practitioner. Individuals who qualify based on a State license with comparable preparer standards are treated as satisfying the Federal suitability and continuing education requirements and are not required to meet those Federal requirements separately. Specified practitioners include certified public accountants, attorneys, and enrolled agents who are in good standing and authorized to practice before the Treasury.²⁶⁶ These specified practitioners are treated as satisfying the preparer qualification requirements without meeting the Federal suitability and education criteria. The provision also provides grandfathering rules for certain existing preparers, specifies limits on the amount and type of annual education that may be required, and sets forth standards and procedures for the approval of qualifying courses and education providers. In addition, the provision requires the Secretary to publish lists of approved programs and other guidance necessary to implement and administer the preparer identification number requirements.

Authority to deny, suspend, revoke, or penalize

The Secretary is authorized to deny, suspend, or revoke an identifying number, and is authorized to impose monetary penalties, for failure to meet qualification requirements, repeated errors, disreputable conduct, tax delinquencies, criminal offenses, prior penalties or injunctions, or similar misconduct. Penalties of up to \$5,000, adjusted for inflation, may apply. A preliminary suspension of up to 180 days may be imposed to prevent serious harm. The Secretary is required to establish reinstatement procedures. Preparers are entitled to an appeal using procedures similar to those under Circular 230.

Publication and disclosure of final determinations

Final determinations involving suspensions or revocations of more than 180 days are required to be published on the IRS website, including the facts and reasons for the determination. Par-

²⁶⁶ Circular 230 applies only to these specified practitioners and does not govern unenrolled or uncredentialed paid preparers. 31 U.S.C. sec. 330.

allel publication rules apply to practitioner discipline under Treasury authorities, requiring the public posting of final disciplinary actions and related information in a manner consistent with the rules governing preparer identification number suspensions and revocations. Disclosure of return information is authorized to the extent necessary to support these publications, subject to required redactions and other safeguards to protect taxpayer privacy.

Identifying numbers for compensated offer in compromise preparers

The provision requires any offer in compromise prepared for compensation to include the preparer identifying number. A \$250 penalty, adjusted for inflation, applies for failure to include a valid identifying number, subject to an annual maximum and reasonable cause relief.

Reporting and publication requirements

The Comptroller General is required to conduct a study on information sharing between the IRS and State authorities regarding preparer identification numbers and preparer standards. The IRS is required to annually publish the ten most frequent preparer errors and the ten most common reasons preparers were penalized or disciplined.

Circular 230

The provision provides that nothing in the proposal requires the Secretary to eliminate or terminate (1) existing authority under 31 U.S.C. section 330 (implemented through Circular 230) permitting a tax return preparer who prepared and signed a return to represent the taxpayer before the Department of the Treasury, or (2) any existing IRS public database of tax return preparers who have satisfied the PTIN requirements.

EFFECTIVE DATE

The provision is effective 180 days after the date of enactment. Transitional rules apply for preparers and education providers participating in the Annual Filing Season Program, permitting continued participation for a phase in period while the new qualification, education, and program approval standards are implemented.

TITLE VI—APPEALS

1. Authorization for Office of Appeals to hire attorneys (sec. 601 of the bill and sec. 7803(e) of the Code)

PRESENT LAW

The Internal Revenue Service Independent Office of Appeals (“Appeals”) is headed by the Chief of Appeals. The Chief of Appeals is appointed by and reports to the IRS Commissioner.²⁶⁷ Appeals traditionally functions as the settlement arm of the IRS. In doing so, it reviews administrative determinations arising from both collection and examination activities and attempts to resolve them without the need for litigation. As a result, review of administra-

²⁶⁷ Sec. 7803(e)(2).

tive actions is generally available prior to payment of any tax underlying the controversy.

Office of Chief Counsel staff provide Appeals with legal assistance and advice concerning cases pending in Appeals. Chief Counsel is responsible for ensuring that the attorneys can provide independent advice. In doing so, to the extent practicable, staff assigned to answer inquiries from Appeals should not include those involved in advising the IRS employees working directly on the case prior to its referral to Appeals or involved in the preparation of the case for litigation.²⁶⁸

The Chief Counsel, who serves as the chief law officer for the IRS, is appointed by the President, by and with the consent of the Senate.²⁶⁹ The Chief Counsel reports to both the IRS Commissioner and the General Counsel for the Department of the Treasury.²⁷⁰ All personnel in the Office of Chief Counsel report to the Chief Counsel.²⁷¹

REASONS FOR CHANGE

Although Appeals must consider the “hazards of litigation” in settling cases without litigation, it is not authorized to hire its own attorneys. Instead Appeals relies on the legal analysis of attorneys who work for the IRS Office of Chief Counsel. Although these attorneys are prohibited from providing advice to both the exam and Appeals functions on the same case, they frequently provide legal analysis to the IRS enforcement functions and advocate for the Commissioner’s positions in court.

The Committee believes it would further enhance the independence of Appeals to grant the Chief of Appeals authority to appoint counsel who reports directly to the Chief of Appeals. The provision is not intended to change the role of Chief Counsel attorneys nor bar Appeals from continuing to receive advice from Chief Counsel attorneys.

EXPLANATION OF PROVISION

Under the provision, the Chief of Appeals is granted the authority to appoint counsel in Appeals to report directly to the Chief of Appeals. The provision further provides that any counsel appointed pursuant to this authority shall not report to the Chief Counsel and shall not represent the government in litigation. Further, any legal interpretation of counsel appointed pursuant to this authority is not binding on the Secretary.

EFFECTIVE DATE

The provision is effective on the date of enactment.

²⁶⁸ Sec. 7803(e)(6)(B).

²⁶⁹ Sec. 7803(b)(1).

²⁷⁰ Sec. 7803(b)(3) and 31 U.S.C. sec. 301(f) (General Counsel for Department of Treasury). See also, Treasury Department Order 107-04, providing that all attorneys whose duties include providing legal advice to officials in any office or bureau of the Department are part of the Legal Division under the supervision of the General Counsel, available at <https://home.treasury.gov/about/general-information/orders-and-directives/treasuryorder-107-04>.

²⁷¹ Sec. 7803(b)(4).

2. Authorization for Office of Appeals to direct hire certain individuals (sec. 602 of the bill and sec. 7803(e) of the Code)

PRESENT LAW

The Internal Revenue Service Independent Office of Appeals (“Appeals”), headed by the Chief of Appeals, traditionally functions as the settlement arm of the IRS. In doing so, it reviews administrative determinations arising from both collection and examination activities and attempts to resolve them without the need for litigation. As a result, review of administrative actions is generally available prior to payment of any tax underlying the controversy. All personnel in Appeals report to the Chief of Appeals.²⁷²

REASONS FOR CHANGE

The Committee believes that the independence of Appeals from IRS enforcement functions would be strengthened if the Secretary had authority to quickly hire qualified candidates who do not work for IRS enforcement functions.

EXPLANATION OF PROVISION

The provision authorizes the Secretary, without regard to any notice or preference requirements, to use direct hire authority to hire qualified applicants specifically for the Independent Office of Appeals who are not employees of IRS enforcement functions.

EFFECTIVE DATE

The provision is effective on the date of enactment.

3. Response to claims for refund required; appeal of claims for refund authorized (sec. 603 of the bill and sec. 6402 of the Code)

PRESENT LAW

Generally, a claim for credit or refund must be filed within three years of the time the return was filed or within two years of the time the tax was paid, whichever such period expires later.²⁷³ If no return was filed, the claim must be made within two years of when the tax was paid.

Before a suit for refund can be maintained in any court, a claim for refund must first be duly filed with the IRS.²⁷⁴ Further, no suit may be commenced within six months of the time the claim is filed unless the claim has been disallowed during that six-month period.²⁷⁵ Nor can a suit for refund be brought after the expiration of two years from the date of mailing by certified mail or registered mail a notice of disallowance to the taxpayer. Under present law, there is no time prescribed by which the IRS must respond to a claim for refund.

Interest is allowed and paid upon any overpayment of tax at the overpayment rate.²⁷⁶

²⁷² Sec. 7803(e)(6)(A).

²⁷³ Sec. 6511.

²⁷⁴ Sec. 7422.

²⁷⁵ Sec. 6532(a)(1).

²⁷⁶ Secs. 6611 and 6621.

REASONS FOR CHANGE

When a taxpayer files a timely claim for refund, the IRS is not required to respond. If the IRS does not respond within six months, the taxpayer may file a refund suit. This may require judicial resources to be expended before the IRS's exam or Appeals functions have had an opportunity to evaluate a claim. The Committee believes it is appropriate to establish a timeframe for the IRS to respond to timely claims for refund.

EXPLANATION OF PROVISION

The provision requires the IRS to examine timely claims for refund submitted in the form and manner required. The IRS must mail a notice of determination to the taxpayer's last known address within 12 months or such other date as agreed to by the parties (the "applicable date"). In the case of the disallowance of a refund claim (in whole or in part), the notice must include a detailed explanation for the disallowance, and, in the case of any taxpayer entitled to an appeal of such determination, instructions for appealing the disallowance to Appeals. Any disallowance of a refund claim may, within 30 days after the date such disallowance is mailed (90 days if mailed to an address outside of the United States), be appealed to Appeals. The two-year period for filing suit for refund is suspended during the period an appeal of the disallowance is pending before Appeals (and for 30 days thereafter).

In the case of any claim for refund for which the IRS fails to make a determination by the applicable date, the taxpayer may elect for such claim to be deemed to have been disallowed for purposes of appealing a disallowance to Appeals. Further, in the case of a failure to make a timely determination, the provision requires the IRS to pay additional interest (an increase in the overpayment rate by an additional one percent, up to \$500, annually adjusted for inflation) on any refund due.

Frivolous claims are not covered by the requirement to provide a detailed written explanation or access to Appeals. Instead, a written notification of the denial of such claim is to be mailed to the taxpayer by the applicable date. For this purpose, a "frivolous claim" is a claim for refund based on a position that a Federal court has determined to be frivolous and the Secretary has identified as frivolous under section 6702(c) (relating to frivolous tax positions). It also includes positions that are substantially similar to such positions.

EFFECTIVE DATE

The provision applies to claims for refund received after the date that is 12 months after the date of enactment.

4. Appeals of returned offers (sec. 604 of the bill and sec. 7122 of the Code)

PRESENT LAW

The IRS may compromise any civil or criminal liability arising under the internal revenue laws prior to a referral of a case to the

Department of Justice.²⁷⁷ An offer in compromise is an agreement between a taxpayer and the government that settles a tax liability for payment of less than the full amount owed.²⁷⁸

An offer in compromise has not been rejected until the IRS issues a written notice to the taxpayer or his representative, advising of the rejection, the reasons for rejection, and the right to an appeal. A taxpayer may administratively appeal a rejection of an offer in compromise to Appeals if, within 30 days commencing the day after the date on the letter of rejection, the taxpayer requests an administrative review in the manner provided by the Secretary.²⁷⁹

Before an offer can be considered, the IRS requires that a taxpayer (1) file all required tax returns the taxpayer is legally required to file, (2) have received a bill for at least one tax debt included in the offer, (3) make all required estimated tax payments for the current year, (4) if the taxpayer is a business owner with employees, make all required Federal tax deposits for the current quarter and the two preceding quarters and (5) include the fee and nonrefundable deposit or the first installment of a periodic payment offer (or an application for a fee and deposit waiver).²⁸⁰ If it is determined that the taxpayer has not filed all required tax returns, the IRS will apply any initial payment sent with the offer to the tax debt and return only the offer and application fee to the taxpayer.

When a determination is made to reject an offer, an independent administrative review of such rejection is required before the rejection is communicated to the taxpayer.²⁸¹ In contrast, when a determination is made to return offer documents because the offer to compromise was nonprocessable, the return of the offer does not constitute a rejection and does not trigger an independent administrative review before the nonprocessability determination is communicated to the taxpayer, nor does the determination entitle the taxpayer to appeal the matter to Appeals.²⁸²

REASONS FOR CHANGE

Although taxpayers can appeal a rejection of an offer-in-compromise to Appeals, they cannot appeal a determination that their offer is nonprocessable. This may result in rejection of offers that are sometimes processable. For example, offers may be returned as nonprocessable because the IRS believes the taxpayer has unfiled returns, when in fact the taxpayer was not required to file. The Committee believes that an independent review and Appeals con-

²⁷⁷ Sec. 7122.

²⁷⁸ IRM 5.8.1.2.1 (09-23-2008).

²⁷⁹ Treas. Reg. sec. 301.7122-1(f)(5)(i).

²⁸⁰ See, Sec. 7122(c); Internal Revenue Service, *Form 656 Booklet: Offer in Compromise*, Form 656-B (Rev. 4-2026) at page 3, available at <https://www.irs.gov/pub/irs-pdf/f656b.pdf> ("Before your offer can be considered, you must (1) file all tax returns you are legally required to file, (2) have received a bill for at least one tax debt included on your offer, (3) make all required estimated tax payments for the current year, and (4) if you are a business owner with employees, make all required federal tax deposits for the current quarter and the two preceding quarters. Note: If it is determined you have not filed all tax returns you are legally required to file, the IRS will apply any initial payment you sent with your offer to your tax debt and return only your offer and application fee to you. You cannot appeal this decision.") and IRM 5.8.2.4.1, Determining Processability (06-14-2024), https://www.irs.gov/irm/part5/irm_05-008-002 ("If the taxpayer does not qualify for the [waiver for low-income taxpayers] and did not provide an application fee or a TIPRA [Tax Increase Prevention and Reconciliation Act of 2005] payment, return the offer following procedures in IRM 5.8.2.5, Not Processable").

²⁸¹ Sec. 7122(e)(1).

²⁸² Treas. Reg. sec. 301.7122-1(f)(5)(ii).

sideration of offers deemed nonprocessable will assist taxpayers in resolving tax delinquencies.

EXPLANATION OF PROVISION

The provision requires the IRS to establish procedures for an independent review of any determination that an offer in compromise is not accepted for processing or is otherwise determined to be nonprocessable. This independent review is to take place before such determination is communicated to the taxpayer. The provision also provides that taxpayers may appeal a determination that an offer is nonprocessable to Appeals.

EFFECTIVE DATE

The provision is effective on the date of enactment.

5. Purposes and duties of Independent Office of Appeals; right of appeal clarified (sec. 605 of the bill and sec. 7803(e) of the Code)

PRESENT LAW

In general

The Internal Revenue Service Independent Office of Appeals (“Appeals”), headed by the Chief of Appeals, traditionally functions as the settlement arm of the IRS. In doing so, it reviews administrative determinations arising from both collection and examination activities and attempts to resolve them without the need for litigation. Section 7123(c)(1) specifically requires the Secretary to prescribe procedures under which an organization claiming section 501(c) status may request an administrative appeal of a determination to deny or revoke such status. Generally, when the IRS revokes an organization’s tax-exempt status or denies its application for exemption, it sends notice to the taxpayer of its right to appeal to Appeals.²⁸³ However, notice of the right to appeal is required only under IRS guidance, not under the Code.

The Code specifically provides that it is the function of Appeals to resolve Federal tax controversies without litigation on a basis which “(1) is fair and impartial to both the Government and the taxpayer, (2) promotes a consistent application and interpretation of, and voluntary compliance with, the Federal tax laws, and (3) enhances public confidence in the integrity and efficiency of the [IRS].”²⁸⁴ This resolution process is to be generally available to all taxpayers (the “right of appeal”).²⁸⁵

Exceptions to Appeals consideration

Treasury regulations set forth 24 numbered categories of exceptions to, or issues that are otherwise ineligible for, consideration by Appeals.²⁸⁶ If a matter or issue not eligible for consideration by Appeals is present in a case that otherwise is eligible for consider-

²⁸³ Rev. Proc. 2026–5, secs. 9 and 12, 2026–1 I.R.B. 258. An exception applies to organizations revoked under section 6033(j) for failing to file an annual return; such organizations do not have an opportunity for consideration by Appeals.

²⁸⁴ Sec. 7803(e)(3).

²⁸⁵ Sec. 7803(e)(4).

²⁸⁶ Treas. Reg. sec. 301.7803–2(c)(1)–(24).

ation by Appeals, the ineligible matter or issue will not be considered by Appeals during resolution of the case.

Procedures for protesting a denial of a request for Appeals consideration

If a taxpayer who has received a notice of deficiency requests a referral to Appeals and the request is denied, the Commissioner of Internal Revenue is to provide such taxpayer a written notice which (1) provides a detailed description of the facts involved, the basis for the decision to deny the request, and a detailed explanation of how the basis of such decision applies to such facts, and (2) describes the procedures for protesting the decision to deny the request. This requirement does not apply to a request for a referral to Appeals on the basis that an issue is a frivolous position (within the meaning of section 6702(c)).

REASONS FOR CHANGE

To help ensure Appeals has full authority to avoid litigation, the Committee believes it is appropriate to codify the requirement for Appeals to consider the hazards of litigation in all cases. The Code provides that access to Appeals shall generally be available to all taxpayers but the regulations provide significant exceptions to Appeals consideration. The Committee believes the core mission of Appeals is to resolve controversies concerning tax liabilities and that emphasizing access to Appeals for income, estate and gift, employment taxes, and determinations of tax-exempt status, will enhance voluntary compliance and confidence in the fairness and integrity of the tax system. While these four categories are specifically identified in the provision, the provision is not intended to prevent the Secretary from determining that additional tax matters are appropriate for Appeals consideration, or to preclude any existing access to Appeals.

EXPLANATION OF PROVISION

The provision provides that it is the function of Appeals to resolve Federal tax controversies without litigation on a basis that, without exception, evaluates and considers all hazards of litigation in resolving any case referred to Appeals.²⁸⁷

Except as otherwise provided in the Code, the provision makes the right of appeal available to all taxpayers with respect to any determination by the Secretary concerning a Federal tax controversy regarding subtitles A (income), B (estate and gift), or C (employment tax) of the Code and relating to (1) liability for, or any claim for refund of, any tax, (2) liability for, or any claim for refund of, any penalty or addition to tax, (3) eligibility for alternatives to collection of a tax liability, such as an installment agreement or compromise under section 6159 or 7122, (4) any determination by the Secretary to deny or revoke the tax-exempt status of an organization or (5) any exercise of discretion with respect to any determination in (1)–(4). In the case of a determination to deny or revoke an organization's tax-exempt status, the Secretary must pro-

²⁸⁷ For this purpose, "Federal tax controversy" means a dispute described in paragraph (2) or (3) of Treas. Reg. sec. 301.7803-2 (as in effect on the date of enactment of the Taxpayer Assistance and Service Act).

vide written notice to the organization of the availability of the Appeals resolution process. The provision does not limit Appeals consideration to only those matters specifically identified in paragraphs (1) through (5). Instead, the provision affirms that the right of appeal, subject to certain restrictions, is generally available for these matters.

The Secretary may, but is not required to, continue to restrict access to Appeals, with respect to any appeal

- which is solely based on the claimed unconstitutionality of any law, or the claimed procedural invalidity of any regulation, notice, or revenue procedure issued by the Secretary, unless there is a final and unreviewable decision from a Federal court that the item being challenged is unconstitutional or procedurally invalid,
- which is based on a position (or substantially similar provision) a Federal court has determined to be frivolous, and the Secretary has identified as frivolous for purposes of section 6702(c) (listing of frivolous tax positions), is substantially similar to such a position, or relates to any penalty imposed under section 6702 with respect to such position,
- which relates to any matter agreed upon pursuant to a closing agreement,
- during any period in which
 - a. the Secretary is actively investigating whether to refer the taxpayer to the Attorney General for criminal prosecution,
 - b. a recommendation made by the Secretary to the Attorney General for the criminal prosecution of the taxpayer for any offense connected with the administration or enforcement of the internal revenue laws is pending, or
 - c. any criminal prosecution of the taxpayer, or of any other person in a case in which the taxpayer is a witness, for any offense connected with the administration or enforcement of internal revenue laws is pending,²⁸⁸ or
- with respect to any issue in a case which, based on the relevant facts and circumstances of such case, the Chief Counsel for the IRS has designated for litigation and is prepared to proceed in a timely manner.

Finally, the provision provides that the Tax Court may direct the parties to request referral to Appeals in any case in which the Tax Court determines that such resolution process is appropriate.

EFFECTIVE DATE

The provision is effective on the date of enactment.

²⁸⁸ This exception to the right of appeal does not apply if the Chief Counsel of the IRS determines that resolution by Appeals would not interfere with the criminal prosecution of the taxpayer.

TITLE VII—WHISTLEBLOWERS

1. Standard and scope of review of whistleblower award determinations (sec. 701 of the bill and sec. 7623 of the Code)

PRESENT LAW

Whistleblower Office and awards

The Internal Revenue Service (“IRS”) may make payments it deems appropriate in order to obtain information leading to detection of underpayment of tax or to detection, trial, and punishment of persons guilty of violating internal revenue laws, where such payments are not otherwise provided for by law.²⁸⁹ In addition, if the IRS proceeds with administrative or judicial action as a result of such information received from an individual and the proceeds from that action exceed \$2 million from either an individual taxpayer whose gross income exceeds \$200,000 or any entity, awards are mandatory.²⁹⁰ Neither the discretionary nor the mandatory awards include interest.

The mandatory awards are for individuals who provide information against any entity or individual regarding violations of the tax laws to the Secretary of Treasury (“the Secretary”) and submit claims to the Whistleblower Office. That office was created in 2006 to administer such awards and provide annual reports to Congress on the use of section 7623 and recommendations for possible amendment or approval.²⁹¹ A claim for an award must be submitted in writing, under penalties of perjury. Generally, there is an award floor of 15 percent of the collected proceeds (including penalties, interest, additions to tax, and additional amounts) if the IRS moves forward with an administrative or judicial action based on information brought to the IRS’s attention by an individual. The maximum award available is 30 percent of the collected proceeds. The amount of the award varies within that prescribed range depending on the degree to which the information contributed substantially to the outcome.

In instances in which the IRS determines that the successful action depended on allegations (other than information provided by the individual) resulting from a judicial or administrative hearing, government report, hearing, audit, investigation, or from the news media, the IRS may award a lesser amount (but no more than 10 percent of proceeds), after taking the individual’s contribution into account.²⁹² If the IRS determines that the whistleblower planned and initiated the activities that resulted in the underpayment of tax, the award may be reduced or, if the whistleblower was convicted of criminal conduct as a result of such planning and initiation, denied entirely.²⁹³

Case status information

Section 6103 allows limited disclosure to whistleblowers of information about the taxpayer who is the subject of the whistleblower

²⁸⁹ Sec. 7623(a) (discretionary awards).

²⁹⁰ Sec. 7623(b) (mandatory awards).

²⁹¹ The Office was created in 2006. Sec. 406(b), the Tax Relief and Health Care Act of 2006, Pub. L. No. 109–432, December 20, 2006.

²⁹² Sec. 7623(b)(2) (less than substantial contribution).

²⁹³ Secs. 7623(b)(2) and (3) (participated in the noncompliance activity).

information, but only to the extent disclosure is necessary in obtaining information not otherwise available for the determination or collection of tax. In addition, section 6103 requires that the Secretary notify whistleblowers as to the status of their case not later than 60 days after (i) the case has been referred for an audit or examination; and (ii) the taxpayer makes a payment of tax with respect to the tax liability to which the information provided by the whistleblower relates.²⁹⁴ Subject to any requirements and conditions prescribed by the Secretary, upon written request by the whistleblower and so long as the disclosure would not seriously impair Federal tax administration, the Secretary is authorized to provide information on the status and stage of any investigation and, in the case of a determination of the amount of any award, the reasons for such determination. To ensure taxpayer information is protected, whistleblowers receiving information are subject to the general rule of confidentiality and criminal penalties for unauthorized disclosure of taxpayer information.

Tax Court review of a whistleblower award

A whistleblower whose claim for a whistleblower award is denied or whose award is less than requested may seek judicial review of the determination in the United States Tax Court (the “Tax Court”). The petition seeking review must be filed within 30 days of such determination. Review of an award determination may be assigned to a special trial judge.²⁹⁵ The Tax Court has promulgated special procedural rules to protect the privacy of both the whistleblower and the taxpayer about whom the whistleblower provided information to the IRS.²⁹⁶ The Tax Court reviews a denial or reduction of a whistleblower award on the basis of the administrative record and applies the abuse of discretion standard of review (that is, the Court defers to the Whistleblower Office unless an abuse of discretion is found) rather than the de novo review generally applicable to deficiency cases.²⁹⁷

Civil remedies for retaliation against whistleblower

A whistleblower who suffers retaliation from an employer may seek relief via a civil action.²⁹⁸ A person who alleges discharge or other reprisal by an employer may file a complaint with the Secretary of Labor (within 180 days after the date on which the violation occurs), and if the Secretary of Labor has not issued a final decision on such complaint within 180 days (and the delay is not due to the bad faith of the claimant), an action may be brought in the appropriate district court.²⁹⁹ The remedies provided are consistent with those currently available under the False Claims Act, including compensatory damages of reinstatement, 200 percent of back pay and all lost benefits, with interest, and compensation for

²⁹⁴ Sec. 6103(k)(13).

²⁹⁵ Sec. 7443A(b)(6).

²⁹⁶ See Tax Court Rule 345 generally, as well as Rules 27 and 103(a). The Tax Court Rules of Practice and Procedures are available at <https://ustaxcourt.gov/files/documents/Complete-Rules-of-Practice-and-Procedure.pdf>.

²⁹⁷ *Kasper v. Commissioner*, 150 T.C. 8 (2018); *Lissack v. Commissioner*, 125 F. 4th 245 (D.C. Cir. 2025), affg 157 T.C. 63 (2021).

²⁹⁸ Sec. 7623(d)(2).

²⁹⁹ *Ibid.*

other special damages including litigation costs, expert witness fees, and reasonable attorney fees.³⁰⁰

REASONS FOR CHANGE

The Committee is aware that there has been significant controversy regarding the appropriate scope of review and judicial standard of review of whistleblower awards before the Tax Court. Some advocates for whistleblowers have contended that the procedures adopted by the Tax Court unnecessarily limit discovery and are too deferential to the IRS. The Committee has concluded that the limitation of the scope of review to the administrative record, with certain exceptions, is appropriate but that the abuse of discretion standard of judicial review imposes an unduly high hurdle for the whistleblower seeking review.

EXPLANATION OF PROVISION

The provision specifies that the judicial standard of review by the Tax Court is *de novo* and the scope of such review is limited to the administrative record on which the original award determination was made, supplemented only by information previously unavailable or newly discovered.

EFFECTIVE DATE

The provision is effective for petitions filed under section 7623(b)(4) if either pending as of the date of enactment or filed on or after such date.

2. Exemption from sequestration (sec. 702 of the bill, sec. 7623 of the Code, and sec. 905 of Title 2 of the U.S. Code)

PRESENT LAW

Under the Balanced Budget and Emergency Deficit Control Act of 1985 (“Deficit Control Act”),³⁰¹ Congress authorized the Executive to enforce certain Federal spending limits and deficit reduction targets using sequestration orders. Section 255³⁰² of the Deficit Control Act identifies programs and activities that are exempt from sequestration. That list does not include the Whistleblower Program, resulting in reductions of IRS whistleblower awards at rates determined by Office of Management and Budget.³⁰³

For a description of present law relevant to whistleblowers, see the discussion above under Title VII.1, “Standard and scope of review of whistleblower award determinations.”

REASONS FOR CHANGE

The failure to include mandatory whistleblower awards in the list of programs or activities that are exempt from sequestration has resulted in reduction of awards every year, which is at odds with the intent to provide mandatory levels of awards. Because whistleblowers are a valuable source of information and failure to

³⁰⁰ Sec. 7623(d)(3).

³⁰¹ Pub. L. No. 99-177; 2 U.S.C. 900 *et seq.*; Sec. 104, Budget Control Act of 2011, Pub. L. No. 112-25 (repealed expiration date of the Deficit Control Act).

³⁰² 2 U.S.C. sec. 905.

³⁰³ See <https://www.irs.gov/pub/whistleblower/fy-2026-sequester-notice.pdf>, last accessed September 16, 2026).

provide awards on the terms described in section 7623 undermines that statute, the Committee favors adding the IRS whistleblower program to the list of programs exempt from sequestration orders.

EXPLANATION OF PROVISION

The provision amends section 255 of the Deficit Control Act to provide that awards made pursuant to Code section 7623 are exempt from any sequestration order.

EFFECTIVE DATE

The provision is effective for sequestration orders issued under the Deficit Control Act after the date of enactment.

3. Whistleblower privacy protections (sec. 703 of the bill and sec. 7623 of the Code)

PRESENT LAW

Proceedings in Tax Court are expected to proceed in open court.³⁰⁴ Whistleblower proceedings in Tax Court may be conducted anonymously, if the Court finds it appropriate to do so. To protect anonymity, the whistleblower must file a motion in which a sufficient, fact-specific case for anonymity is made, in accordance with Tax Court Rule 357.

For a description of present law relevant to whistleblowers, see the discussion above under Title VII.1, “Standard and scope of review of whistleblower award determinations.”

REASONS FOR CHANGE

The Committee believes that the present law requirement that the whistleblower seek permission of the Tax Court in order to proceed anonymously poses a hurdle that is not warranted.

EXPLANATION OF PROVISION

The provision requires that a whistleblower proceed anonymously in any Tax Court proceeding to review a determination regarding a whistleblower award, unless the Court finds that there is a societal interest in disclosing the identity of the whistleblower that exceeds the potential harm that disclosure could cause to the whistleblower.

EFFECTIVE DATE

The provision is effective for petitions filed under section 7623(b)(4) if either pending as of the date of enactment or filed on or after such date.

4. Modification of IRS whistleblower report (sec. 704 of the bill and sec. 7623 of the Code)

PRESENT LAW

Each year the Whistleblower Office is required to report to Congress on the use of section 7623 in the preceding year, including the results of such use. The report also is expected to include ad-

³⁰⁴ Sec. 7461.

ministrative or legislative recommendations for the program and its application.³⁰⁵

For a more detailed description of present law relevant to whistleblowers, see Title VII.1, “Standard and scope of review of whistleblower award determinations.”

REASONS FOR CHANGE

The Committee believes that the annual report of the Whistleblower Office would be of greater use to Congress if it provided more information about the nature of the tax avoidance activities revealed to the Whistleblower Office.

EXPLANATION OF PROVISION

The Whistleblower Office is required to include in its annual report a list of up to ten of the top tax avoidance schemes disclosed by whistleblowers during the year in question.

EFFECTIVE DATE

The provision is effective for reports for fiscal years ending after the date of enactment.

5. Interest on whistleblower awards (sec. 705 of the bill and sec. 7623 of the Code)

PRESENT LAW

At present, the IRS has no authority to pay interest on whistleblower awards made under section 7623.

For a description of present law relevant to whistleblowers, see the discussion above under Title VII.1 “Standard and scope of review of whistleblower award determinations.”

REASONS FOR CHANGE

The Committee is aware that significant time elapses between the initiation of a whistleblower claim and ultimate issuance of an award. To a large extent, the time lapse can be attributed to the length of time an examination, administrative review and any court review of the underlying tax case, but delays in issuing awards once proceeds from that underlying case are collected need to be avoided. Toward that end, the Committee believes that a requirement to pay interest in certain instances may reduce some delays.

EXPLANATION OF PROVISION

Under the provision, a whistleblower who is entitled to a mandatory award may also be entitled to payment of interest at the rate applicable to overpayments of tax if the IRS fails to give timely notice of a preliminary determination with respect to the claim for such award. The notice of such determination is due by an applicable date defined in the provision as a date that is both (1) at least 12 months after all proceeds are collected from the action taken based on the information from the whistleblower, and (2) after the

³⁰⁵ Sec. 406(c), the Tax Relief and Health Care Act of 2006, Pub. L. No. 109-432, December 20, 2006.

date on which the taxpayer no longer has a right to pursue a refund, either because the time has elapsed in which the taxpayer could claim a refund or initiate a refund suit or because the taxpayer reached a final settlement of the tax liability in question and waived any right to seek a refund. Interest accrues for the period from the applicable date until the date on which such notice is given. No interest accrues after such notification.

EFFECTIVE DATE

The provision is generally effective 180 days after the date of enactment. A special rule applies to a case in which the applicable date has passed with no notification from the IRS as of the effective date. In such cases, a new applicable date of one year after the effective date is deemed to apply.

6. Correction regarding deductions for attorney's fees (sec. 706 of the bill and secs. 62 and 7623 of the Code)

PRESENT LAW

In providing information to the IRS about a taxpayer's non-compliance and later pursuing an award for such cooperation, whistleblowers frequently retain legal assistance and incur fees, regardless of whether they seek review in Tax Court. The Code authorizes a deduction for attorneys' fees and costs paid by, or on behalf of, the individual in connection with any mandatory award for providing information regarding violations of the tax law, but not fees incurred with respect to a discretionary award. This deduction is allowed in computing adjusted gross income and is therefore subject neither to the limitation of miscellaneous deductions nor the requirement that the taxpayer itemize deductions.³⁰⁶ The amount that may be deducted in computing adjusted gross income may not exceed the amount includible in the taxpayer's gross income for the taxable year on account of such award (whether by suit or agreement and whether as lump sum or periodic payments). Attorney fees incurred in pursuing one of the remedies against retaliation or unlawful discrimination may also be deducted in computing adjusted gross income, up to the amount of the award or settlement.³⁰⁷

For a description of present law relevant to whistleblowers, see the discussion above under "Standard and scope of review of whistleblower award determinations."

REASONS FOR CHANGE

The Committee has learned attorneys' fees related to discretionary whistleblower awards do not receive treatment comparable to attorneys' fees related to mandatory whistleblower awards or retaliation litigation. The Committee believes that distinction is unwarranted.

EXPLANATION OF PROVISION

The provision changes the cross-reference to section 7623(b) in section 62(a)(21) to a cross-reference to the entire section, so that

³⁰⁶ Sec. 62(a)(21).

³⁰⁷ Secs. 62(a)(20) and 62(e).

attorneys' fees related to pursuing an award in the whistleblower program are deductible in computing adjusted gross income, regardless of whether the award was discretionary or mandatory.

EFFECTIVE DATE

The provision applies to taxable years ending after the date of enactment.

TITLE VIII—HOSTAGES

1. Postponement of tax deadlines for hostages and individuals wrongfully detained abroad (sec. 801 of the bill and new section 7511 of the Code)

PRESENT LAW

General rules establishing Code deadlines

The United States tax system generally relies upon self-reporting and assessment. For most individuals, that self-reporting is in the form of an income tax return. Persons required to file income tax returns³⁰⁸ must file such returns in the manner prescribed by the Secretary, with any payment due, in compliance with due dates established in the Code, if any, or by regulations. The Code includes a general rule that requires income tax returns to be filed on or before the 15th day of the fourth month following the end of the taxable year, but certain exceptions are provided both in the Code and in regulations.³⁰⁹

The Code also establishes the limitation periods within which the Internal Revenue Service ("IRS") must perform its various administrative duties, such as assessment of taxes, interest, and any additions to tax or penalties related to the taxes and collection of such taxes, interest and additions to tax. Taxes are generally required to be assessed within three years after a taxpayer's return is filed, regardless of whether it was timely filed.³¹⁰ Several exceptions may prevent the three-year limitation period from beginning, including failure to file a return or filing a false or fraudulent return with the intent to evade tax. In those cases, the tax may be assessed, or a proceeding in court for collection of such tax may commence without assessment, at any time.³¹¹ After the taxes are finally determined, whether it is through alternative payment methods, or enforced collection activity, the IRS must collect within 10 years from the date of assessment of tax.³¹² A refund or credit is authorized for a taxable year only if an overpayment exists, that is, if the amounts paid or deemed paid exceed the tax liability for that year and a claim for such amount is timely made.³¹³

³⁰⁸ Section 6012 provides general rules identifying who must file an income tax return.

³⁰⁹ Secs. 6072 (prescribing deadlines for filing income tax returns) and 6081 (authorization of extensions of time to file, provided tax estimated to be due is paid with the application for extension).

³¹⁰ Sec. 6501(a). Returns that are filed before the date they are due are deemed filed on the due date. See sec. 6501(b)(1) and (2).

³¹¹ Sec. 6501(c)(1), (2) and (3).

³¹² Sec. 6502.

³¹³ Secs. 6402 (authority for refunding an overpayment) and 6511 (limitations period for filing a claim, including both a timely filing requirement and a lookback period to determine amounts eligible to be refunded).

Special rules authorizing extensions of time for required events in the Code

In computing the time within which they must complete an action required or prescribed by the Code, persons who serve in the United States Armed Forces or in support of the Armed Forces are entitled to disregard their period of service while in designated combat zones³¹⁴ or serving overseas in a contingency operation designated as such by the Secretary of Defense,³¹⁵ and the 180 days succeeding such period. For this purpose, periods of hospitalization that result from such service are included in the time that may be disregarded. The period that may be disregarded by the taxpayer is also disregarded in determinations by the IRS of the amount of any underpayment interest, penalty, additional amount, or addition to tax, and the amount of any credit or refund. Special rules apply for the period a person is in missing status,³¹⁶ for certain limitations on refunds or collection actions³¹⁷ as well as application of this provision to the spouse of the taxpayer.³¹⁸

The Code specifies a number of actions for which the specified periods of time may generally be disregarded. These actions include those required of taxpayers as well as those performed by the IRS. The former include actions such as the filing any return of income, estate, gift, employment, or excise tax; filing a petition with the Tax Court for redetermination of a deficiency, or for review of a decision rendered by the Tax Court; and actions related to refunds, such as filing a claim or bringing suit upon such claim. Actions by the IRS for which a deadline is extended include the assessment of any tax and related notices, such as notice and demand for payment or collection of the tax; the allowance of a refund; and bringing suit by the United States in respect of any liability in respect of any tax. In addition, the statute includes a residuary clause that permits the Secretary to designate any other act required or permitted under the internal revenue laws as within the scope of section 7508(a).³¹⁹

Another provision of the Code, relating to disasters, mandates a 60-day extension and authorizes the Secretary to specify a period of up to one year that may be disregarded for performing various acts under the Code, such as filing tax returns, paying taxes, or filing a claim for credit or refund of tax, for eligible taxpayers. To qualify for this extension, an eligible taxpayer must be affected by a Federally declared disaster, a significant fire, or a terroristic or military action.³²⁰ The limited relief from deadlines under this disaster extension applies to the same list of actions for which the specified time is disregarded for persons in combat zones.

Present law regarding persons held hostage or wrongfully detained.

Neither the provision on service in a combat zone nor the rules on disaster relief address difficulties of persons who fail to meet a

³¹⁴ Sec. 112.

³¹⁵ Sec. 7508.

³¹⁶ Sec. 7508(d).

³¹⁷ Secs. 7508(b) and (e).

³¹⁸ Sec. 7508(c).

³¹⁹ Sec. 7508(a)(1). In addition, Revenue Procedure 2018-58 supplements the list of postponed acts in section 7508(a)(1) and Treasury Regulation section 301.7508A-1(c)(1) with an additional list of time-sensitive acts.

³²⁰ Sec. 7508A.

tax filing or payment deadline that arises while they are unlawfully or wrongfully detained abroad. Federal law provides a set of criteria for determining whether a United States national³²¹ is a wrongfully detained person. Such determination requires the involvement of the Hostage Recovery Fusion Cell, a multi-agency entity that addresses coordination of efforts to identify and recover those held hostage or wrongfully detained. Generally, if the person detained is held by a sovereign entity, determination of whether such person is wrongfully detained rests with the Secretary of State using prescribed criteria. Hostage status is determined by the Hostage Recovery Fusion Cell, under the leadership of the Federal Bureau of Investigation.³²²

REASONS FOR CHANGE

The Committee is aware of numerous incidents in which United States citizens or residents abroad are wrongfully detained or held hostage. When released from detention, they face many challenges in returning to their normal, daily life, and in some cases, face notices that they were subject to tax inquiries, penalties or interest based on delinquencies accruing in their absence they were unable to avoid. The Committee has learned that, while the IRS may work with the released hostage or detainee to abate or reverse some of those notices, the authority of the IRS to do so is limited, especially in cases in which the period of detention was lengthy. Most penalties based on delinquency can be abated based upon reasonable cause, for example, unless the limitations period for making corrections to a year has lapsed. Even if the limitations period is open, the Code narrowly restricts IRS authority to abate any interest that may have accrued for failure to pay income tax timely. In response, the Committee believes it is prudent to provide relief to wrongfully detained persons or hostages similar in scope and type to those deployed to combat zones or affected by a Federally declared disaster.

EXPLANATION OF PROVISION

The provision adds a new Code provision that extends due dates for hostages and persons wrongfully detained by providing that the period of detention is disregarded in determining deadlines, interest, penalties for the person, similar to the rules applicable to a person deployed in a combat zone, including incorporating the list of events to which the special rules apply from section 7508. Similar to that provision, it extends such relief to the spouse of the hostage or detainee. The class of applicable persons is defined by reference to provisions of Title 22 on wrongfully detained persons or hostages.

In the new relief statute, the period that may be disregarded in redetermining time limits is the entire period in which the person was held hostage or wrongfully detained during any taxable year ending after the date of enactment. That period is generally dis-

³²¹ 22 U.S.C. 1741e defines “United States national” to mean both citizens and certain noncitizens within the scope of 8 U.S.C. secs. 1101(a)(22) and 1408 as well as lawful permanent residents with significant ties to the United States.

³²² Secs. 302 and 304 of the Robert Levinson Hostage Recovery and Hostage-Taking Accountability Act, Pub. L. No. 116-260, div. FF, title III, sec. 301, Dec. 27, 2020, 134 Stat. 3091, codified at 22 U.S.C. 1741 through 1741f.

regarded for the events identified in the list in present law section 7508(a); however it is not disregarded for purposes of computing overpayment interest. In addition, special rules apply to ensure that the limitations period for claiming an overpayment remains open with respect to a return deemed to be timely under this provision.

The provision uses the term “applicable individual” to describe a person entitled to the extension. A person is an applicable individual if that person is either determined to be wrongfully detained under section 302 of the Robert Levinson Hostage Recovery and Hostage-Taking Accountability Act or is determined to be a hostage under findings of the Hostage Recovery Fusion Cell. The class of applicable individuals consists of persons who are identified on reports provided to the Secretary. The provision requires the Secretary of State to provide a list of persons wrongfully detained, together with any identifying information available. The Attorney General, through the Hostage Recovery Fusion Cell, is required to provide a similar list of persons believed to be hostages. The initial report is due January 1, 2027 with further reports due annually.

In addition to establishing a basis for relief from certain deadlines prescribed by the Code for taxpayers identified as applicable persons, the new provision also provides relief to persons from whom additional amounts, additions to tax, interest, or penalties were assessed or collected with respect to a tax liability for years ending during the wrongful detention but before the person was identified as an applicable individual. In such cases, the Secretary is directed to abate and refund any such amounts as overpayments in the same manner as would apply under section 6402.

Finally, the provision also requires the Secretary to ensure that databases and information systems are updated to permit proper tracking of deadlines and limitations periods applicable to persons within the scope of the relief contemplated in the provision.

EFFECTIVE DATE

The provision is generally effective for applicable individuals for taxable years ending after the date of enactment.

2. Refund and abatement of penalties and fines paid by eligible individuals (sec. 802 of the bill and sec. 6511 of the Code)

PRESENT LAW

For a discussion of present law, see discussion of present law above, “Postponement of tax deadlines for hostages and individuals wrongfully detained abroad,” above.

REASONS FOR CHANGE

For the same reasons supporting new section 7511 to ease administrative burden on returning detainees for taxable years after date of enactment, the Committee recognizes that U.S. citizens and residents released from detention in recent years would not receive the prospective relief and may already be outside the period for seeking relief. The Committee therefore supports a limited retroactive program for persons detained before enactment.

EXPLANATION OF PROVISION

The provision directs the Secretary, in consultation with the Secretary of State and the Attorney General, to initiate a program not later than January 1, 2027, under which persons who were detained during an applicable period may seek refunds of certain amounts assessed with respect to those tax years. The applicable period is the period beginning January 1, 2021, and ending before the date of enactment. This program is to be available to eligible individuals (persons who would have been applicable individuals but for the taxable years involved) as well as dependents and spouses of eligible individuals.

The eligible individuals are to be identified by the Secretary of State and Attorney General, acting through the Hostage Recovery Fusion Cell, in reports similar to those required with respect to applicable individuals. A person may be both an applicable individual with respect to a taxable year ending after the date of enactment and an eligible individual with respect to an earlier taxable year within the applicable period. Once such persons are identified, these individuals are entitled to notice of the potential relief within 90 days after their release from captivity, or, if release occurred prior to the date of enactment, within 90 days after the date of enactment.

After receiving notice of the program, eligible individuals are permitted to seek abatement of assessments of additional amounts, penalties, additions to tax or interest, or refund of such amounts assessed with respect to taxable years within the applicable period. The limitations period for filing a claim for refund or seeking abatement is extended, so that it expires no earlier than one year from the notice issued to the eligible individual. Furthermore, the look-back period for determining payments that may be within the scope of a refund claim is not applicable.

EFFECTIVE DATE

The special program for notifications, refunds or abatements to eligible individuals for the applicable period from January 1, 2021, through date of enactment, is effective for taxable years ending on or before the date of enactment.

TITLE IX—SMALL BUSINESSES

1. Implementation of voluntary withholding agreements for payments to independent contractors (sec. 901 of the bill and sec. 3402(p) of the Code)

PRESENT LAW

Independent contractors are not subject to wage withholding. Instead, independent contractors are required to make estimated tax payments during the year. The Secretary is authorized to issue guidance describing payments that do not constitute wages for which withholding under a voluntary withholding agreement would be appropriate and authorizing payors to agree to withhold income

tax on such payments if requested by the payee.³²³ However, the Secretary has not issued such guidance.

REASONS FOR CHANGE

The Committee recognizes that some independent contractors would prefer withholding from their earnings, instead of quarterly estimated tax payments. Although the Secretary already has authority to issue guidance on voluntary withholding arrangements, the Secretary has not done so. The Committee believes that a voluntary withholding option would simplify and improve tax compliance for independent contractors. The provision, therefore, expressly permits voluntary withholding and directs the Secretary to issue guidance within 18 months after the date of enactment.

EXPLANATION OF PROVISION

The provision expressly permits voluntary withholding on applicable non-wage remuneration. If, at the time a payment of applicable non-wage remuneration is made to any person, there is a voluntary withholding agreement in effect between the person making the payment and the person receiving the payment as non-wage remuneration, then for purposes of chapter 24 (and so much of subtitle F as relates to chapter 24), such payment is treated as if it were a payment of wages by an employer to an employee.³²⁴ “Applicable non-wage remuneration” means remuneration for services performed by an individual which, absent this provision, would not be considered wages. The provision also directs the Secretary to issue regulations or guidance, not later than 18 months after the date of enactment, as may be necessary or appropriate to carry out the provision, including guidance on the amount to be deducted and withheld and the types of payments considered to be applicable non-wage remuneration.

EFFECTIVE DATE

The provision is effective on the date of enactment.

2. Extension of mailbox rule to electronic submissions and payments (sec. 902 of the bill and sec. 7502 of the Code)

PRESENT LAW

In general

Present law defines when a return, claim, statement, or other document, or payment sent pursuant to the Code is considered timely.³²⁵ A document generally is considered timely filed and payment is considered timely made when the filing or payment is received by the IRS on or before the due date of the return. As discussed in further detail below, if the requirements of the Code are

³²³ Sec. 3402(p)(3) and Treas. Reg. sec. 31.3402(p)-1(c) (“The Secretary may issue guidance by publication in the Internal Revenue Bulletin (IRB) (which will be available at www.irs.gov) describing other payments for which withholding under a voluntary withholding agreement would be appropriate and authorizing payors to agree to withhold income tax on such payments if requested by the payee.”)

³²⁴ Chapter 24 relates to the collection of income tax at the source and subtitle F relates to procedure and administration.

³²⁵ Sec. 7502(a), Treas. Reg. sec. 301.7502-1(a).

met, timely mailing is treated as timely filing and timely paying, colloquially known as the “mailbox rule.”³²⁶

Under present law, if a document or payment is delivered by the United States Postal Service (“USPS”), the document or payment is considered timely if the postmark date falls on or before the prescribed due date, regardless of when it is deposited in the mail,³²⁷ and if it is properly packaged and addressed with prepaid postage.³²⁸ If the postmark is made other than by the USPS, the document or payment is timely if the postmark is legible and the agency receives it no later than it would normally receive mail of the same class sent through the USPS that is postmarked on the prescribed due date.³²⁹ If a document or payment is sent by registered mail, the dated registration statement is prima facie evidence of delivery and the date of registration is deemed the postmark date.³³⁰ If a document or payment is sent by certified mail, the postmark date is the date stamped on the receipt by the postal employee.³³¹ If a document or payment is sent by a private delivery service, the Secretary of the Treasury (the “Secretary”) may deem the delivery service as equivalent to the USPS for purposes of the mailbox rule, but only if the service is available to the general public, is as timely and reliable as USPS, records the date it receives mail for delivery, and meets criteria prescribed by the Secretary.³³²

Electronic filings and payments

The mailbox rule, as set forth in the Code and regulations, does not cover electronic payments or electronic filings made other than through an electronic return transmitter. Instead, the mailbox rule applies only to mail delivered by the USPS, unless otherwise authorized by the Secretary. For electronic delivery, the Code authorizes the Secretary to define the postmark date and evidence of delivery regarding electronic filings, but does not expressly address electronic payments.³³³ Acting under such authorization, the Secretary has promulgated rules in the specific case of electronic return transmitters, deeming the electronic postmark date the date that an authorized electronic return transmitter receives the transmission of a taxpayer’s electronically filed document on its host system, regardless of when it is received by the IRS.³³⁴

REASONS FOR CHANGE

The Committee recognizes that some taxpayers and their representatives use registered or certified mail to submit documents and payments to the IRS so they can be sure their submissions are treated as timely under the mailbox rule. The Committee believes that extending the mailbox rule to electronic submissions and payments will reduce uncertainty about timely filing and payment in

³²⁶ Sec. 7502.

³²⁷ Sec. 7502(a), Treas. Reg. sec. 301.7502-1(c)(1)(2).

³²⁸ Sec. 7502(a)(2)(B), Treas. Reg. sec. 301.7502-1(c)(1)(2).

³²⁹ Treas. Reg. sec. 301.7502-1(c)(1)(iii)(B).

³³⁰ Sec. 7502(c)(1).

³³¹ Treas. Reg. sec. 301.7502-1(c)(2).

³³² Sec. 7502(f), Treas. Reg. sec. 301.7502-1(c)(3). Additionally, special rules apply to deposits required to be made to a financial institution. Sec. 7502(e).

³³³ Sec. 7502(c)(2).

³³⁴ Treas. Reg. sec. 301.7502-1(d)(1), (3)(ii). The Commissioner may authorize specific electronic return transmitters to provide taxpayers with electronic postmarks to acknowledge the date and time that the electronic return transmitter received the electronically-filed document. Treas. Reg. sec. 301.7502-1(d)(2).

an electronic environment and encourage taxpayers and their representatives to submit documents and payments electronically. Documents and payments that are submitted electronically can be processed by the IRS more quickly, accurately, and at less expense. As more filings and payments occur electronically, the absence of a statutory mailbox rule tailored to electronic methods increases the risk of inadvertent penalties and inconsistent treatment. Establishing a clear safe harbor that parallels the traditional mailbox rule promotes fairness, simplifies administration, and provides certainty for taxpayers and practitioners. The Committee further believes that safeguards are necessary to ensure the rule is not used to intentionally delay the transfer of funds to the Treasury.

EXPLANATION OF PROVISION

The provision extends the timely mailing rule to certain electronic submissions and electronic payments. If a document or payment, including submissions made for appeals, that the Secretary permits to be filed or made electronically is authorized by the taxpayer to be submitted to the appropriate agency, officer, or office on or before the prescribed filing or payment date (including any applicable period), and the electronic submission or payment is received, or in the case of a payment, received and accounted for, no later than three business days after that prescribed date or period, the date of the taxpayer's authorization to submit electronically is treated as the date the document is filed or the payment is made.

The safe harbor does not apply to a payment if the Secretary determines that the taxpayer, or any intermediary used by the taxpayer, employed a system designed with a principal purpose of delaying the transfer of funds to the Treasury to obtain an economic benefit from the delay.

The Secretary is required to issue regulations or other guidance within one year after enactment to implement these rules, including guidance describing records or proof sufficient to establish the date of timely electronic submission.

EFFECTIVE DATE

The provision applies to any document or payment sent on or after the date that is one year after the date of enactment.

3. Specificity of third-party contact notices (sec. 903 of the bill and sec. 7602 of the Code)

PRESENT LAW

Under present law, the IRS may not contact any person other than the taxpayer regarding the determination or collection of the taxpayer's tax liability without first providing the taxpayer with reasonable advance notice that such third party contacts may be made.³³⁵ The IRS is also required to provide the taxpayer periodically, and upon request, with a record of persons contacted during the applicable period in connection with the determination or collection of the taxpayer's tax liability.

Present law does not require the IRS to identify in the advance notice the specific information it intends to request from a third

³³⁵ Sec. 7602(c).

party, nor does it require the IRS to state whether the information sought could reasonably be obtained from the taxpayer. The law likewise does not prescribe a minimum response period before the IRS may make third party contacts.

The advance-notice requirement does not apply in certain circumstances, including criminal tax investigations, situations in which collection is in jeopardy, cases in which the taxpayer has authorized the contact, or where the Secretary determines for good cause that providing notice may lead to reprisal against any person, cause the taxpayer to flee, or result in the concealment, alteration, or destruction of records or assets.

REASONS FOR CHANGE

The Committee believes that taxpayers should have meaningful notice and an opportunity to provide information before the IRS contacts third parties. Current law permits advance notice that is broad and general, limiting the taxpayer's ability to understand or respond to the IRS's information needs. Requiring specificity in the notice improves transparency, promotes voluntary resolution, and reduces unnecessary contacts with third parties. In addition, providing a clear minimum response window ensures taxpayers have adequate time to gather and provide the requested information. Expanding the "good cause" exceptions clarifies circumstances where notice would compromise enforcement efforts or risk harm.

EXPLANATION OF PROVISION

The provision modifies the rules governing the IRS requirement to notify a taxpayer before contacting third parties to obtain return or return information regarding the taxpayer. Under the provision, the pre-contact notice is required, in any case in which the information sought from third parties could reasonably be provided by the taxpayer, to identify the specific item of information that the IRS intends to seek from such third parties.

The provision also amends the requirement that taxpayers be given a reasonable opportunity to respond before the IRS makes third party contacts. As modified, the IRS is required to provide the taxpayer with a period of not less than 45 days (or more, if the taxpayer requests additional time and shows reasonable cause) to respond, including by providing the information identified in the notice.

The provision further modifies the existing exceptions to the pre contact notice requirement. Specifically, it clarifies that "good cause" for bypassing the notice includes a reasonable belief that providing notice will lead to attempts by any person to: (i) conceal, remove, destroy, or alter relevant records or assets; (ii) prevent other persons, through intimidation, bribery, or collusion, from communicating relevant information; or (iii) flee or otherwise avoid providing testimony or producing relevant records.

EFFECTIVE DATE

The provision applies to notices provided after the date that is 12 months after the date of enactment.

4. Modification of estimated tax rules for farmers and fishermen (sec. 904 of the bill and sec. 6654 of the Code)

PRESENT LAW

Individuals generally must make estimated tax payments on a quarterly basis unless an exception applies.³³⁶ Farmers and fishermen are subject to a special estimated tax rule under the Code.³³⁷ Under this rule, no addition to tax is imposed if the taxpayer files a return and pays the full amount of tax shown on the return by March 1 of the taxable year following the taxable year in question.

REASONS FOR CHANGE

The Committee believes that the existing March 1 deadline poses challenges for farmers and fishermen whose income patterns, recordkeeping cycles, and reliance on seasonal information make early-season filing more difficult. Aligning the deadline with the regular April 15 filing date simplifies compliance, reduces administrative burden, and provides taxpayers with additional time to gather necessary information without increasing the risk of penalty. The modification also improves consistency within the estimated tax structure while preserving the special rule's purpose.

EXPLANATION OF PROVISION

The provision modifies the special estimated tax rule for farmers and fishermen by extending the deadline for filing a return and paying the tax shown on the return without incurring an estimated tax penalty. Specifically, the provision amends the Code to change the filing and payment deadline from March 1 to April 15 of the taxable year following the taxable year in question.

EFFECTIVE DATE

The provision applies to taxable years beginning after the date of enactment.

5. Business child care liaison (sec. 905 of the bill and sec. 7803 of the Code)

PRESENT LAW

Dependent care assistance programs

Amounts paid or incurred by an employer for dependent care assistance provided to an employee are excludable from the employee's income if the amounts are furnished pursuant to a dependent care assistance program.³³⁸ A dependent care assistance program is a separate written plan of an employer for the exclusive benefit of the employees that provides dependent care assistance and meets certain other requirements under the Code, including requirements relating to non-discriminatory benefits, limits on principal shareholders, and information to be provided to eligible employees.³³⁹

³³⁶ Sec. 6654.

³³⁷ Sec. 6654(i).

³³⁸ Sec. 129(a)(1).

³³⁹ Sec. 129(d).

Dependent care assistance means the payment or provision of services that would be considered employment-related expenses under section 21(b)(2) (relating to expenses for household and dependent care services necessary for gainful employment) if paid for by the employee.³⁴⁰ Such employment-related expenses include expenses for the care of a qualifying individual. Qualifying individual is defined as (i) a dependent of the taxpayer³⁴¹ who has not attained age 13 or (ii) a dependent³⁴² or spouse of the taxpayer who is physically or mentally incapable of caring for himself or herself and who has the same principal place of abode as the taxpayer for more than one-half of the taxable year.³⁴³

The amount that may be excluded from an employee's gross income under a dependent care assistance program is limited to \$7,500 annually (\$3,750 in the case of a separate return by a married individual).³⁴⁴ The amount excludable for any taxable year cannot exceed the earned income of the employee or, if the employee is married, the lesser of the earned income of the employee or the earned income of the employee's spouse.³⁴⁵ Amounts attributable to dependent care assistance that are excludable from gross income are also excludable from wages for employment tax purposes.³⁴⁶

Dependent care flexible spending arrangements

A common type of dependent care assistance program is a dependent care flexible spending arrangement ("dependent care FSA"). A flexible spending arrangement ("FSA"), in general, is a benefit program that provides employees with coverage under which specific incurred expenses may be reimbursed (subject to reimbursement maximums and other conditions).³⁴⁷ An FSA offered under a cafeteria plan allows an employee to make salary reduction contributions for use in receiving reimbursements for eligible expenses.³⁴⁸ A cafeteria plan is a written plan maintained by an employer whereby all participants are employees who may choose among two or more benefits including qualified benefits (such as dependent care assistance) and cash.³⁴⁹ An FSA can also include non-elective employer contributions that the employer makes available for every employee eligible to participate in the employer's cafeteria plan, to be used only for certain tax-excludable benefits (but not as cash or a taxable benefit).³⁵⁰

Employer-provided child care credit (section 45F)

Taxpayers may claim a general business credit under section 45F for certain expenses associated with providing child care for their employees. The amount of the credit is equal to 40 percent of qualified child care expenditures (50 percent in the case of an eligible

³⁴⁰ Sec. 129(e)(1).

³⁴¹ As defined in sec. 152(a)(1).

³⁴² As defined in sec. 152, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B).

³⁴³ Sec. 21(b)(1).

³⁴⁴ Sec. 129(a)(2).

³⁴⁵ Sec. 129(b). The provisions of section 21(d)(2) apply in determining the earned income of a spouse who is a student or incapable of caring for himself. Sec. 129(b)(2).

³⁴⁶ Secs. 3121(a)(18), 3306(b)(13), 3401(a)(18).

³⁴⁷ Sec. 106(c)(2) and Prop. Treas. Reg. sec. 1.125-5(a).

³⁴⁸ Sec. 125 and Prop. Treas. Reg. sec. 1.125-5.

³⁴⁹ Sec. 125(d).

³⁵⁰ Prop. Treas. Reg. sec. 1.125-5(b). Another common type of FSA is a health FSA, which reimburses medical expenses.

small business) and 10 percent of qualified child care resource and referral expenditures for the taxable year.³⁵¹ The maximum total credit that may be claimed by a taxpayer cannot exceed \$500,000 per taxable year (\$600,000 in the case of an eligible small business), adjusted for inflation.³⁵² An eligible small business is a business that does not exceed a gross receipts threshold based on the five-year period preceding the taxable year.³⁵³

Qualified child care expenditures include costs paid or incurred: (1) to acquire, construct, rehabilitate, or expand property that is to be used as part of the taxpayer's qualified child care facility;³⁵⁴ (2) for the operation of the taxpayer's qualified child care facility, including training costs, scholarship programs, and increased compensation to employees with higher levels of child care training; or (3) under a contract with a qualified child care facility to provide child care services to employees of the taxpayer, or under a contract with an intermediate entity that contracts with one or more qualified child care facilities to provide the child care services.³⁵⁵ Qualified child care expenditures do not include expenses in excess of the fair market value of providing child care.³⁵⁶

A qualified child care facility is a facility with the principal use of providing child care assistance that meets all applicable State and local laws and regulations, including any licensing laws.³⁵⁷ A facility is not treated as a qualified child care facility with respect to a taxpayer unless: (1) its enrollment is open to the employees of the taxpayer; (2) at least 30 percent of the children enrolled in the center are dependents of the taxpayer's employees, if the facility is the principal trade or business of the taxpayer; and (3) use of the facility (or eligibility to use such facility) does not discriminate in favor of highly compensated employees of the taxpayer (within the meaning of section 414(q)).³⁵⁸ A facility does not fail to be treated as a qualified child care facility merely because it is jointly owned or operated by the taxpayer and other persons.³⁵⁹

Qualified child care resource and referral expenditures are amounts paid or incurred under a contract to provide child care resource and referral services to an employee of the taxpayer.³⁶⁰ These services must be provided (or be eligible for use) in a way that does not discriminate in favor of highly compensated employees of the taxpayer (within the meaning of section 414(q)).³⁶¹

³⁵¹ Sec. 45F(a). Section 45F was amended by Pub. L. No. 119-21 (2025) to increase the percent of expenses eligible for the credit and increase the maximum total credit, among other changes.

³⁵² Sec. 45F(b). The inflation adjustment begins for taxable years beginning after 2026.

³⁵³ The gross receipts threshold is as determined under section 448(c), except that the five-taxable-year period in section 45F(c)(4) applies in place of the three-taxable-year period in section 448(c). The threshold is \$32 million for taxable years beginning in 2026.

³⁵⁴ The property must be subject to depreciation or amortization and must not be part of the principal residence (within the meaning of section 121) of the taxpayer or any employee of the taxpayer.

³⁵⁵ Sec. 45F(c)(1)(A).

³⁵⁶ Sec. 45F(c)(1)(B).

³⁵⁷ Sec. 45F(c)(2)(A). If the facility is the principal residence (within the meaning of section 121) of the operator of the facility, it is exempt from the "principal use of providing child care assistance" requirement.

³⁵⁸ Sec. 45F(c)(2)(B).

³⁵⁹ Sec. 45F(c)(2)(C).

³⁶⁰ Sec. 45F(c)(3)(A).

³⁶¹ Sec. 45F(c)(3)(B).

REASONS FOR CHANGE

The Committee recognizes the importance of quality child care, not only to working families but also to businesses striving to hire and retain valuable workers. Federal tax laws offer incentives to help businesses provide child care for workers, but these incentives are underused. Therefore, the Committee wishes to build awareness of the Federal tax incentives and identify legislative or administrative changes that would improve the use of the incentives.

EXPLANATION OF PROVISION

In general

The provision requires the Commissioner of Internal Revenue (“Commissioner”) to appoint within the IRS a Business Child Care Liaison. The Business Child Care Liaison has the following duties:

1. acts as a liaison between the IRS, employer-provided child care benefit advocates, businesses considering providing or expanding child care benefits for their employees, state workforce boards, state economic development agencies, child care resource and referral agencies, tribal organizations,³⁶² and other stakeholders, including child development experts;
2. provides public education and assistance related to the expansion of employer-provided child care benefits through the establishment and maintenance of practices that promote employer-provided child care benefits, including the use of dependent care assistance programs such as dependent care FSAs, on-site or subsidized child care, child care stipends, near-site child care partnerships, shared and pooled child-care arrangements, backup child care, and resource and referral services;
3. issues a fact sheet for use by tax return preparers listing the different tax benefits for employer-provided child care and the appropriate rules for each such benefit;
4. helps facilitate communication between businesses and the IRS about the operational challenges and opportunities that exist to improve the use of Federally incentivized child care benefits such as dependent care FSAs and other dependent care assistance programs and the credit under section 45F;
5. in collaboration with the General Services Administration, establishes within 120 days after the date of the enactment a link on the SAM.gov homepage to a landing page that helps businesses understand and use dependent care FSAs, other dependent care assistance programs, and the section 45F credit, including the rules governing those programs and the potential effects on worker recruitment, retention, productivity, and well-being;
6. identifies and recommends to Congress potential legislative and administrative changes to increase practices that promote employer-provided child care benefits; and
7. coordinates with other Federal agencies and officials, including the Secretary, the Administrator of the Small Business Administration, the Secretary of Commerce, the Secretary of

³⁶² As defined in section 4(l) of the Indian Self-Determination and Education Assistance Act, Pub. L. No. 93–638 (1975).

Health and Human Services, the Secretary of the Interior, the Secretary of Labor, and the Secretary of Education, or the designee of any such individual, and State and local governments on outreach and education to inform employers and employees about the possibilities and benefits of employer-provided child care benefits and particularly reducing information barriers for small businesses.

The Commissioner must solicit advice and input from the Business Child Care Liaison in developing regulations or interpretations of the Code that relate to employer-provided child care benefits.³⁶³

Annual report

The Business Child Care Liaison must submit an annual report, no later than December 31 of each calendar year beginning after the date of enactment, on the liaison's activities during the fiscal year ending in that calendar year to the Committee on Finance of the Senate and the Committee on Ways and Means of the House of Representatives.³⁶⁴ The report must be made available and widely accessible to the public.

Each report must:

1. summarize the assistance requests received by the Business Child Care Liaison during the fiscal year ending during the calendar year of such report;
2. describe the activities conducted by the Business Child Care Liaison, including the activities described under paragraphs (2) and (6) above in the description of the Business Child Care Liaison's duties, and evaluate the effectiveness of the Business Child Care Liaison during such fiscal year;
3. describe any significant problems the Business Child Care Liaison has identified during such fiscal year and ways to mitigate such problems;
4. contain recommendations for any administrative or legislative action which may be appropriate to resolve barriers to, and to incentivize, practices which promote employer-provided child care benefits; and
5. describe progress related to employer-provided child care benefits in businesses in the United States, including data updated at least annually on the utilization of dependent care FSAs and other dependent care assistance programs and the credit under section 45F, in particular: (a) the number of employers utilizing these tax benefits, (b) a breakdown of the size of employers utilizing these tax benefits, and (c) other relevant information as deemed appropriate by the Business Child Care Liaison.

EFFECTIVE DATE

The provision is effective as of the date of enactment.

³⁶³ The Business Child Care Liaison is not treated as an appointment in competitive service or Senior Executive Service under title 5 of the United States Code. He or she is entitled to compensation at the same rate of basic pay as in effect for a position at level V of the Executive Schedule. 5 U.S.C. sec. 5316 (\$184,900 for 2026).

³⁶⁴ A copy of the report must also be submitted to the Commissioner of Internal Revenue and any other appropriate official by the same due date.

TITLE X—MISCELLANEOUS

1. Authority for redisclosure of certain tax information related to education loans to the Congressional Budget Office (sec. 1001 of the bill and sec. 6103(l)(13) of the Code)

PRESENT LAW

Returns and return information are confidential and cannot be disclosed except as authorized by Title 26. Upon written request from the Secretary of Education, the IRS discloses specific items of return information to the Secretary of Education for three Federal aid programs under title IV of the Higher Education Act of 1965: (1) determining eligibility for, or repayment obligations under, income contingent or income based repayment plans for existing student loans; (2) monitoring and reinstating loans under title IV of the Higher Education Act of 1965 that were discharged based on a total and permanent disability; and (3) eligibility for and determining amount of federal student financial aid pursuant to completion of a Free Application for Student Financial Aid (“FAFSA”) with consent to redisclose return information to designated institutions of higher education (i.e. schools and universities financial aid offices), State agencies of higher education and designated scholarship organizations.³⁶⁵ Among other specified purposes, the Department of Education also may use the information for the purpose of conducting analyses and forecasts for estimating costs related to the three programs.³⁶⁶

This provision of section 6103 was enacted by the Fostering Undergraduate Talent by Unlocking Resources for Education Act (the “FUTURE Act”) and implementation began in 2024.³⁶⁷ As a result, the return information obtained by the Department of Education from the IRS is confidential and can be disclosed only as authorized by section 6103. Prior to the enactment of the FUTURE Act, for purposes of its analyses and forecasts of the cost of student loan programs and Federal Pell grants, the Congressional Budget Office (“CBO”) would receive FAFSA and other relevant income information (information not subject to the restrictions of section 6103) from the Department of Education.³⁶⁸ After the enactment of the FUTURE Act, section 6103(l)(13) does not allow the Department of Education to disclose return information protected by section 6103 to the Congressional Budget Office.

REASONS FOR CHANGE

The enactment of the FUTURE Act ended CBO’s historical access to income information that the Department of Education now obtains directly from the IRS under section 6103(l)(13). The inability of CBO to obtain this income information from the Department of Education, in conjunction with other student data, impairs CBO’s ability to conduct its analyses, forecasts, and cost estimates of the

³⁶⁵ Sec. 6103(l)(13).

³⁶⁶ Sec. 6103(l)(13)(D)(i)(III).

³⁶⁷ Pub. L. No. 116–91, sec. 3, December 19, 2019.

³⁶⁸ Testimony of Phillip L. Swagel, Director Congressional Budget Office, Subcommittee on the Legislative Branch, Committee on Appropriations, U.S. House of Representatives hearing on “The Congressional Budget Office’s Request for Appropriations for Fiscal Year 2027” (March 18, 2026) at page 3 available at <https://www.cbo.gov/system/files/2026-03/62153-budget-request-testimony.pdf>.

Federal Pell Grant and student loan programs. Data from the Department of Education is an important component of CBO's modeling of these programs. The Committee believes it is important for Congress to have independent and accurate analyses and estimated costs of the student loan and Pell grant programs and related proposals that are informed by the best available information. By giving CBO narrowly tailored access to the same income information the Department of Education has available for its estimates under section 6103(l)(13)(D)(III), the Congress will be better positioned to evaluate the student loan and aid assistance programs and related proposals.

EXPLANATION OF PROVISION

The provision amends section 6103(l)(13)(D) to permit, upon written request from the Director of CBO, authorized persons of the Department of Education³⁶⁹ to redisclose return information received by the Department of Education to officers and employees of CBO. Such disclosure is allowed only to the extent necessary for the purpose of conducting analyses and forecasts for estimating costs related to the three Federal aid programs noted above (income-based and income contingent student loans, discharges of loans based on total and permanent disability, and FAFSA).

In order for the IRS to properly account for the disclosures of return information being made to CBO, the provision requires the Secretary of Education to annually submit a report to the Secretary of the Treasury regarding redisclosures made to CBO, including the number of such redisclosures and regarding any unauthorized use, access or disclosure of return information disclosed under section 6103(l)(13).

EFFECTIVE DATE

The provision applies to disclosures made after the date of enactment.

2. Authorization to require large partnerships to file on magnetic media (sec. 1002 of the bill and sec. 6011 of the Code)

PRESENT LAW

Section 6011(e) requires certain returns to be filed on magnetic media (which includes electronic filing). As a result of separate amendments made by the Taxpayer First Act³⁷⁰ and the SECURE Act,³⁷¹ section 6011(e) contains two provisions designated as paragraph (6).

Under the first paragraph (6), partnerships with more than 100 partners are required to file on magnetic media.³⁷² Present law does not include an asset-based requirement or a lower partner threshold.

The second paragraph (6) addresses unrelated filing requirements, resulting in a numbering conflict.³⁷³

³⁶⁹ The term "authorized persons" is specifically defined in section 6103(l)(13)(E).

³⁷⁰ Pub. L. No. 116–25, sec. 2301(b), July 1, 2019.

³⁷¹ Pub. L. No. 116–94, div. O, sec. 202(d), December 20, 2019.

³⁷² Pub. L. No. 116–25, sec. 2301(b), July 1, 2019.

³⁷³ Pub. L. No. 116–94, div. O, sec. 202(d), December 20, 2019.

REASONS FOR CHANGE

The Committee believes that modernizing the magnetic-media filing thresholds for partnerships will improve filing efficiency, increase the accuracy and timeliness of return processing, and better reflect the technological capabilities of contemporary partnerships. The existing threshold of more than 100 partners fails to capture many partnerships that already maintain electronic records and are capable of filing electronically. Adding an asset-based criterion ensures that partnerships of substantial size or complexity file electronically even if they have relatively few partners. The \$1,000,000 asset threshold also aligns with the existing threshold under which partnerships may be exempt from completing Schedule L (Balance Sheets per Books), thereby providing consistency across related filing requirements.

The Committee also believes that eliminating the numbering conflict created by two separate paragraph (6) amendments will improve clarity and reduce confusion in interpreting section 6011(e).

EXPLANATION OF PROVISION

The provision replaces the first paragraph (6) of section 6011(e) with a new provision requiring partnerships to file on magnetic media if, at the close of the taxable year: (i) the partnership has more than 50 partners, or (ii) the value of the partnership's assets equals or exceeds \$1,000,000, as determined under regulations. It does not change the requirement for partnerships filing at least 10 returns (not counting schedules such as K-1) to file on magnetic media.

The provision also redesignates the second paragraph (6) as paragraph (7) to eliminate the duplicate numbering.

EFFECTIVE DATE

The provision applies to returns filed on or after January 1 of the first calendar year beginning after the date of enactment.

3. Limitation period not extended for victims of preparer fraud (sec. 1003 of the bill and sec. 6501(c) of the Code)

PRESENT LAW

Section 6501 specifies the period of limitations for assessment of any tax imposed under the Code. In general, the limitations period is three years after the taxpayer files the return, increased to six years in cases of substantial omissions from the tax return. Exceptions to these rules include a fraud exception, permitting assessment of tax at any time “[i]n the case of a false or fraudulent return with the intent to evade tax[.]”³⁷⁴

Courts have addressed the issue of whether the fraud exception applies if the taxpayer whose tax liability is in question is not accused of fraud. In the United States Tax Court, the fraud exception is triggered if there is fraud on the return, regardless of whether the taxpayer was the fraudulent actor. In *Murrin v. Commissioner*,³⁷⁵ a taxpayer who filed a return that included fraudulent

³⁷⁴ Sec. 6501(c)(1).

³⁷⁵ *Murrin v. Commissioner*, T.C. Memo. 2024-10, aff'd 158 F.4th 527 (3d Cir. 2025), cert. denied Sup. Ct. Dkt. No. 25-988 (June 22, 2026). See *Bartenwerfer v. Buckley*, 598 U.S. 69 (2023),

information on advice of a paid return preparer was unsuccessful in contesting the timeliness of the government's assertion that the fraud exception applied due to the fraudulent intent of the preparer. Similarly, a taxpayer who signed a joint return was unsuccessful in challenging the timeliness of a notice of deficiency issued to that taxpayer based on the other spouse's fraudulent intent.³⁷⁶ In contrast, in the Court of Federal Claims, a taxpayer successfully argued that the fraudulent intent of an outside counsel was insufficient grounds for the government contention that the limitations period was tolled.³⁷⁷

REASONS FOR CHANGE

A finding of fraud by someone other than a taxpayer signing a return can result in an IRS notice of deficiency for an underpayment of which a taxpayer was unaware long after the fraudulent return was filed. For example, such cases may arise from fraudulent actions of return preparers or processors as part of a scheme to claim an inflated refund after the taxpayer has reviewed a return that did not make such a claim. The Committee believes that fairness requires that the fraud exception be limited to cases in which the fraud on which the exception relies is due to actions by a taxpayer who is a signatory to the return.

EXPLANATION OF PROVISION

The provision restricts the limitations period exception for false or fraudulent returns to cases in which the intent to evade tax is that of the taxpayer. However, in the case of a joint return under section 6013, the intent by either spouse to evade tax with respect to such return shall be treated as intent of both taxpayers, and the limitations period exception for false or fraudulent returns shall apply to both spouses.

EFFECTIVE DATE

The provision applies to assessments made and proceedings begun after the date of enactment.

4. Technical amendment related to the Disaster Related Extension of Deadlines Act (sec. 1004 of the bill and sec. 7508A of the Code)

PRESENT LAW

Section 7508A, as amended by the Disaster Related Extension of Deadlines Act, includes a subsection designated as subsection (f).³⁷⁸ Due to the structure of the prior amendment, this subsection was intended to be placed at the end of section 7508A, but its current placement results in a numbering inconsistency within the subsection sequence.

(passive voice in 11 U.S.C. sec. 523(a)(2)(A) requires attributing fraud based on the fraudulent event, not the intent of any one actor).

³⁷⁶ *Li v. Commissioner*, T.C. Memo. 2026-42.

³⁷⁷ *BASR Partnership v. United States*, 113 Fed. Cl. 181 (2013), aff'd 795 F.3d 1338 (Fed. Cir. 2015).

³⁷⁸ Pub. L. No. 119-64, sec. 2(a), December 26, 2025.

REASONS FOR CHANGE

The Committee believes that section numbering within the Code should be internally consistent and reflect the intended statutory structure. The erroneous placement and designation of subsection (f) in section 7508A may cause confusion for taxpayers, practitioners, and administrators referencing the provision. A correction is necessary to conform the subsection ordering to the structure intended by Congress.

EXPLANATION OF PROVISION

The provision corrects the numbering of section 7508A by redesignating subsection (f), as added by the Disaster Related Extension of Deadlines Act, as subsection (g). The provision makes no substantive change and serves only to align the subsection numbering with the intended statutory structure.

EFFECTIVE DATE

The provision takes effect as if it had been included in section 2(a) of the Disaster Related Extension of Deadlines Act.

5. Time for filing certain information returns (sec. 1005 of the bill and secs. 408 and 6071 of the Code)

PRESENT LAW

Under present law, information returns reporting dividends, interest income, retirement plan distributions, IRA distributions, certain miscellaneous payments, Social Security and railroad retirement benefit information used for IRS matching, payment card and third-party network transactions, and gambling winnings are generally required to be filed electronically with the IRS by March 31 of the year following the calendar year to which the return relates.³⁷⁹ Paper form submissions typically are required earlier, but many filers are required to file forms electronically.³⁸⁰ The corresponding statements furnished to recipients for these categories of income are typically required to be provided by January 31, creating a timing gap between the date payees receive income information and the date the IRS receives the associated third-party data.³⁸¹

REASONS FOR CHANGE

The Committee believes that aligning the IRS filing deadline for key information returns with the January 31 recipient-statement deadline will improve tax administration, reduce refund fraud, and strengthen IRS matching processes. Eliminating the timing gap ensures the IRS has third-party data at the same time taxpayers receive their statements, enabling earlier and more accurate

³⁷⁹ Sec. 6071(b). See, e.g., Treas. Reg. sec. 1.6042-2(c) (allowing information return preparers to file electronic submissions through March 31 with the IRS but requiring paper form submissions by February 28).

³⁸⁰ Forms are required to be filed electronically if a given filer is required to file 10 or more forms in a taxable year. Treas. Reg. sec. 301.6011-2.

³⁸¹ Sec. 6042(c) (dividends); sec. 6049(c)(2) (interest); sec. 6047(d) (retirement distributions); sec. 408(i) (IRA distributions); sec. 6041(d) (certain miscellaneous payments); sec. 6050F(b) (Social Security benefits); sec. 6050G(b) (railroad retirement benefits); sec. 6050W(f) (payment card and third-party network transactions).

verification of reported income and Federal income tax withholding. The change also simplifies compliance for filers by harmonizing reporting deadlines and improves the IRS's ability to detect identity-theft-related refund fraud and inconsistent claims at the start of the filing season.

EXPLANATION OF PROVISION

The provision accelerates the IRS filing deadlines for information returns reporting dividends, interest income, retirement plan distributions, IRA distributions, certain miscellaneous payments, Social Security and railroad retirement benefit information used for IRS matching, and payment card and third-party network transactions.

Under the provision, information returns for these categories of income are required to be filed with the IRS no later than January 31 of the year following the calendar year to which the return relates, thereby aligning the IRS filing deadline with the date the corresponding statements are furnished to recipients.

EFFECTIVE DATE

The provision applies to returns required to be filed with respect to calendar years beginning after December 31, 2027.

6. Modifications to penalties for unauthorized disclosures of taxpayer information (sec. 1006 of the bill and sec. 7213 and new sec. 7213B of the Code)

PRESENT LAW

General rule of confidentiality

Generally, section 6103 provides that returns and return information are confidential.³⁸² The definition of return information is very broad and includes any information received or collected by the IRS with respect to the liability under the Code of any person for any tax, penalty, interest, or offense.³⁸³ Returns and return information cannot be disclosed unless there is an applicable exception in the Code.

Disclosures to tax administration contractors

Present law provides a comprehensive confidentiality regime protecting returns and return information, subject to limited exceptions. One exception is provided by section 6103(n), which authorizes the Secretary to prescribe regulations allowing returns and return information to be disclosed to the extent necessary in connection with obtaining services for purposes of tax administration.³⁸⁴ Under the Treasury regulations, persons receiving returns and return information under the exception are obligated to comply with

³⁸² Sec. 6103(a).

³⁸³ Sec. 6103(b)(2).

³⁸⁴ Sec. 6103(n) ("Pursuant to regulations prescribed by the Secretary, returns and return information may be disclosed to any person . . . to the extent necessary in connection with the processing, storage, transmission, and reproduction of such returns and return information, the programming, maintenance, repair, testing, and procurement of equipment, and the providing of other services, for purposes of tax administration."). Officers and employees of the Treasury Department, a State tax agency, the Social Security Administration, and the Department of Justice are authorized to disclose returns and return information under the authority of the regulations issued under section 6103(n). Treas. Reg. sec. 301.6103(n)-1(a)(1).

certain safeguards. These safeguards include permitting an inspection by the IRS of their site or facilities and complying with all applicable conditions and requirements the IRS may prescribe for the purposes of protecting the confidentiality of returns and return information and preventing any disclosure or inspection of returns or return information in a manner not authorized by section 6103.³⁸⁵ The terms of any written contract or agreement for the acquisition of property or services are required to provide, or be amended to provide, that any person receiving confidential returns or return information comply with the prescribed requirements.³⁸⁶

If the IRS determines that there has been a failure to satisfy the prescribed requirements, the IRS may take any action deemed necessary to ensure that the prescribed requirements are or will be satisfied, including suspension or termination of any duty or obligation arising under a contract or agreement with the Treasury Department.³⁸⁷ For these purposes, the term “Treasury Department” includes the IRS, the IRS Office of the Chief Counsel, and the Office of the Treasury Inspector General for Tax Administration.³⁸⁸

Any person, or officer, employee, agent or subcontractor of the person, or officer or employee of the agent or subcontractor, who receives returns or return information under this authority is subject to the civil and criminal penalty provisions of sections 7431, 7213, and 7213A (discussed below) for the unauthorized disclosure or inspection of the returns or return information.³⁸⁹

Criminal penalties for the unauthorized disclosure or inspection of returns or return information

Unauthorized disclosure of information

Under the provisions of section 7213 described below, a person who engages in the unauthorized disclosure of returns or return information can be subject to a fine of up to \$5,000, up to five years of imprisonment, or both, together with the costs of prosecution.³⁹⁰ If the offense is committed by a Federal employee or officer, the employee or officer will be discharged from office upon conviction.

Under section 7213(a)(1), criminal penalties apply to the willful unauthorized disclosure of any return or return information by any officer or employee of the United States, or any person described in section 6103(n) (or an officer or employee of any such person) or any former officer or employee.

Similarly, criminal penalties also apply to State officers and employees and other persons receiving returns or return information under the provisions of section 6103 listed in section 7213(a)(2). Section 7213(a)(3) makes it unlawful for any person to whom any return or return information is disclosed in a manner not authorized by the Code to thereafter willfully print or publish in any manner not provided by law any such return or return information.

³⁸⁵ Treas. Reg. sec. 301.6103(n)-1(e)(1) and (2).

³⁸⁶ Treas. Reg. sec. 301.6103(n)-1(e)(3).

³⁸⁷ Treas. Reg. sec. 301.6103(n)-1(e)(4).

³⁸⁸ Treas. Reg. sec. 301.6103(n)-1(f).

³⁸⁹ Treas. Reg. sec. 301.6103(n)-1(c).

³⁹⁰ A fine of up to \$250,000 can be imposed pursuant to 18 U.S.C. sec. 3571. Section 3559 of Title 18 specifies that an offense with a maximum authorized term of imprisonment of “less than ten years but five or more years” is a “Class D felony,” and that an offense with a maximum authorized term of imprisonment of “less than twenty-five years but ten or more years” is a “Class C felony.”

Section 7213(a)(4) makes it unlawful for any person willfully to offer any item of material value in exchange for any return or return information and to receive as a result of such solicitation, any such return or return information. Finally, section 7213(a)(5) makes it unlawful for any person to whom a return or return information is disclosed pursuant to the provisions of section 6103(e)(1)(D)(iii) (*i.e.*, a person who is at least a one-percent shareholder of a corporation) to willfully disclose the corporation's return or return information in any manner not provided by law.

Unauthorized inspection of returns or return information

Under section 7213A, the willful and unauthorized inspection of returns and return information can subject Federal and State employees, any person described in subsection (n) of section 6103 (or an officer or employee of such person), and others to a maximum fine of \$1,000, up to a year in prison, or both, in addition to the costs of prosecution.³⁹¹ If the offense is committed by a Federal employee or officer, the employee or officer will be discharged from office upon conviction.

Civil damage remedies for unauthorized disclosure or inspection

If a Federal employee makes an unauthorized disclosure or inspection, under section 7431, a taxpayer can sue the United States in Federal district court. If a person other than a Federal employee makes an unauthorized disclosure or inspection, suit may be brought directly against such person. No liability arises with respect to a disclosure or inspection (1) which results from a good faith, but erroneous, interpretation of section 6103, or (2) which is requested by the taxpayer.³⁹²

Upon a finding of liability on the part of the defendant, a taxpayer can recover the greater of \$1,000 per act of unauthorized disclosure or inspection, or the sum of actual damages plus, in the case of an inspection or disclosure that was willful or the result of gross negligence, punitive damages.³⁹³ The taxpayer may also recover the costs of the action and, if found to be a prevailing party, reasonable attorney fees.

The taxpayer has two years from the date of the discovery of the unauthorized inspection or disclosure to bring suit.³⁹⁴ The IRS is required to notify a taxpayer of an unauthorized inspection or disclosure as soon as practicable after any person is criminally charged by indictment or information for unlawful inspection or disclosure.³⁹⁵ In addition, the taxpayer is also required to be notified if the IRS or a Federal or State agency (upon notice to the Secretary by such Federal or State agency) proposes an administrative determination as to disciplinary or adverse action against an employee arising from the employee's unauthorized inspection or disclosure of the taxpayer's return or return information. This notice to the taxpayer is required regardless of whether the underlying disclosure was criminally charged.

³⁹¹ A fine of up to \$100,000 can be imposed pursuant to 18 U.S.C. sec. 3571.

³⁹² Sec. 7431(b).

³⁹³ Sec. 7431(c).

³⁹⁴ Sec. 7431(d).

³⁹⁵ Sec. 7431(e).

REASONS FOR CHANGE

The Committee believes that the increase in criminal and civil penalties for the willful unauthorized disclosure of taxpayer information will enhance accountability and serve as a significant deterrent. The Committee also believes that IRS contractors who willfully fail to implement or maintain safeguards for taxpayer data and thereby cause a data breach should be appropriately penalized for that failure.

EXPLANATION OF PROVISION

The provision makes several changes to the criminal penalties and civil damage remedies for unauthorized disclosure.

Criminal penalties for unauthorized disclosure

With respect to the criminal penalties, the provision increases the specified maximum fine and maximum term of imprisonment in section 7213 from \$5,000 to \$250,000 and from five years to seven years.

Criminal penalty for failure of IRS contractors to maintain safeguards

The provision creates a new penalty for contractors of the IRS that willfully fail to implement or enforce any applicable requirement under section 6103, making such failure a felony if it results in the unauthorized disclosure of returns or return information. For this purpose, “contractors of the IRS” means persons receiving returns or return information pursuant to section 6103(n). Upon conviction, the provision imposes a fine of the greater of \$500,000 or 25 percent of what the IRS was or is obligated to pay for the specific contract under which the IRS provided the contractor with access to the returns or return information related to the unauthorized disclosure.

Civil damages for unauthorized disclosure or inspection

For purposes of the civil damages remedy in section 7431, the provision increases the statutory damages from \$1,000 to \$5,000 for each act of unauthorized inspection or disclosure.

EFFECTIVE DATE

The provision applies to disclosures or inspections made after the date of enactment.

III. BUDGET EFFECTS OF THE BILL

A. COMMITTEE ESTIMATES

In compliance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate and section 308(a)(1) of the Congressional Budget and Impoundment Control Act of 1974, as amended (the “Budget Act”), the following statement is made concerning the estimated budget effects of the revenue provisions of the Taxpayer Assistance and Service Act, as reported.

The bill is estimated to have the following effects on Federal budget receipts for fiscal years 2027–2036:

Fiscal Years 2027 - 2036

[Millions of Dollars]

Provision	Effective	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2027-36
I. TAX ADMINISTRATION AND CUSTOMER SERVICE												
A. Digitization of tax returns and correspondence.....	[1]						Negligible Revenue Effect					
B. Establishment of dashboard to inform taxpayers of backlogs and wait times.....	pha tdwi 12ma DOE						No Revenue Effect					
C. Expansion of electronic access to information about returns and refunds.....	DOE						No Revenue Effect					
D. Expansion of callback technology.....	DOE						No Revenue Effect					
E. Expansion of online accounts.....	DOE						No Revenue Effect					
F. Automation of refund offset bypass.....	oma tdwi 12ma DOE	--	-29	-30	-31	-32	-33	-34	-35	-36	-37	-297
G. Installment agreement fees eliminated for certain individuals.....	iaiea tdwi 12ma DOE	--	-7	-15	-23	-28	-27	-25	-23	-21	-20	-189
H. Individuals facing economic hardships informed of collection alternatives.....	nlt 24ma DOE						Negligible Revenue Effect					
I. Quarterly notices to certain taxpayers with delinquencies.....	24ma DOE						Negligible Revenue Effect					
J. Low-income taxpayer clinic funding unlocked.....	cyba DOE						No Revenue Effect					
K. Chief Counsel reviews of offers-in-compromise streamlined.....	oisopooa DOE						Negligible Revenue Effect					
L. Modification of procedural requirements for penalties and disallowance periods.....	nsatdwit 12ma DOE						Negligible Revenue Effect					
M. Return of amounts collected by IRS in excess of accepted offer-in-compromise amount.....	oicaa DOE	[2]	-1	-1	-2	-2	-2	-2	-2	-2	-2	-14
N. Extension of period for return of amounts subject to wrongful levy.....	[3]	--	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]
O. Reports to Congress.....	DOE						No Revenue Effect					
TOTAL OF TAX ADMINISTRATION AND CUSTOMER SERVICE.....		[2]	-37	-46	-56	-62	-62	-61	-60	-59	-59	-500
II. AMERICAN CITIZENS ABROAD												
A. Report on combined tax and foreign bank and financial account reporting.....	DOE						No Revenue Effect					
B. Study and reports on simplification.....	DOE						No Revenue Effect					

Provision	Effective	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027-26
C. Extension of time for persons outside of the United States to request abatement of death error.	nsa tdt 180da DOE	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	-1
D. Treatment of tax penalties	[12]											
E. Repeat of due date requirements for certain information returns relating to foreign trusts.	[12]											
TOTAL OF AMERICAN CITIZENS ABROAD.		[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	-1
<i>Estimate Included in Item 11.D. Above</i>												
III. JUDICIAL REVIEW												
A. Authorization of subpoenas before hearings to facilitate settlements.	DOE											
B. Clarification of Tax Court authority to order relief from a judgment or order.	DOE	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]
C. Authorization of special trial judges to hear additional cases and address contempt.	[4]	---	[5]	1	1	2	2	2	1	[5]	[5]	9
D. Disqualification of judges and special trial judges on claim of recusal.	DOE											
E. Notice and review with respect to multi-year bans on claiming credits.	[6]											
F. Authorization of de novo review of innocent spouse relief by the Tax Court and other courts.	partpoosa DOE	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	-3
G. Clarification of certain court filing deadlines.	cpoosa DOE	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	-4
H. Clarification of Tax Court jurisdiction to determine tax liability in collection due process appeals.	DOE	[2]	[2]	-1	-1	-1	-1	-1	-1	-1	-1	-8
I. Authorization of the Tax Court to issue refunds in collection due process cases.	cpoosa DOE	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	[2]	-3
J. Authorization of the Tax Court to hear suits for refunds or credits.	afa tdt 12ma DOE	---	-1	-1	-2	-2	-2	-2	-2	-2	-2	-15
K. Authorization to allow claims for refund in certain cases where full tax not paid.	alboa tdt 12ma DOE	---	[2]	-1	-1	-1	-1	-1	-1	-1	-1	-10
L. Adjustment of threshold for small disputes.	pea DOE	[2]	[2]	-2	-3	-2	-2	-2	-3	-4	-4	-34
TOTAL OF JUDICIAL REVIEW.												
<i>Negligible Revenue Effect</i>												
IV. OFFICE OF THE TAXPAYER ADVOCATE												
A. NTA authorization to direct fire attorneys.	DOE											
B. NTA authorization to make personnel decisions.	12ma DOE											
C. Access to Internal Revenue Service information, legal advice, and meetings.	DOE											
D. Repeat of limitation period suspension for taxpayers seeking assistance from TAS.	DOE											
E. Operations to assist taxpayers experiencing hardships during lapse in appropriations.	DOE											
TOTAL OF OFFICE OF THE TAXPAYER ADVOCATE.												
<i>No Revenue Effect</i>												
<i>Negligible Revenue Effect</i>												

Provision	Effective	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037-36
V. TAX RETURN PREPARERS												
A. Penalties for tax return preparers who improperly alter returns.	DOE rocfra											
B. Penalties for failure to provide valid preparer identification numbers.	tdwi 18ma DOE											
C. Penalties for improper tax preparation or misappropriation of refunds.	DOE	7	10	15	19	20	20	21	21	22	23	178
D. Authorization to deny, revoke, or suspend preparer tax identification numbers.	[7]	[5]	5	12	14	15	15	16	17	18	19	131
TOTAL OF TAX RETURN PREPARERS.		7	15	27	33	35	35	37	38	36	42	309
VI. APPEALS												
A. Authorization for Office of Appeals to hire attorneys.	DOE											
B. Authorization for Office of Appeals to direct hire certain individuals.	DOE											
C. Responses to claims for refund required; appeal of claims for refund authorized.	acfra tdwi 12ma DOE											
D. Appeals of returned officers.	DOE											
E. Purposes and duties of Independent Office of Appeals; right of appeal clarified.	DOE											
TOTAL OF APPEALS												
VII. WHISTLEBLOWERS												
A. Standard and scope of review of whistleblower award determinations [8].	proofoa DOE	-1	-3	-4	-4	-4	-4	-4	-5	-5	-5	-37
B. Exemption from sequestration [8].	soa DOE	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-25
C. Whistleblower privacy protections.	proofoa DOE											
D. Modification of IRS whistleblower report.	rryfa DOE											
E. Interest on whistleblower awards.	[9]											
F. Correction regarding deductions for attorney's fees.	tyea DOE	-1	[2]	[2]	[2]	[2]	[2]	[2]	[2]	-1	-1	-5
TOTAL OF WHISTLEBLOWERS		-7	-8	-9	-9	-9	-9	-9	-4	-5	-6	-67
VIII. HOSTAGES												
A. Postponement of tax deadlines for hostages and individuals wrongfully detained abroad.	tyea DOE											
B. Refund and abatement of penalties and fines paid by eligible individuals.	tyeoob DOE											
TOTAL OF HOSTAGES												

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Provision	Effective	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2027-36
IX. SMALL BUSINESSES												
A. Implementation of voluntary withholding agreements for payments to independent contractors.....	DOE											
B. Extension of mailbox rule to electronic submissions and payments.....	deposaa tdwi lya DOE											
C. Modification of estimated tax rules for farmers and fishermen.....	tyba DOE											
D. Specificity of third-party contact notices.....	npa ddti 12ma DOE											
E. Business child care liaison.....	DOE											
TOTAL OF SMALL BUSINESSES.....												
			-1	-4	-5	-6	-6	-6	-6	-6	-6	-46
X. MISCELLANEOUS												
A. Authority for redisclosure of certain tax information related to education loans to the Congressional Budget Office.....	dma DOE											
B. Authorization to require large partnerships to file on magnetic media.....	[10]											
C. Limitation period not extended for victims of preparer fraud.....	anopba DOE											
D. Technical amendment related to the Disaster Related Extension of Deadlines Act.....	[11]											
E. Time for filing certain information returns.....	mrcya 12/31/27											
F. Modifications to penalties for unauthorized disclosures of taxpayer information.....	doma DOE											
TOTAL OF MISCELLANEOUS.....												
			-31	-16	-1	-6	-3	2	3	1	8	-49
NET TOTAL.....												
Joint Committee on Taxation.....												

NOTE: Details may not add to totals due to rounding. The date of enactment is assumed to be October 1, 2026.

Legend and Footnotes for Table appear on the following page:

Legend and Footnotes for Table:**Legend for "Effective" column:**

acfra = any claim for refund received after	nlt = not later than	rocfrfa = returns or claims for refund filed after
afa = actions filed after	npa = notices provided after	rtfya = reports for fiscal years ending after
afboa = actions filed on or after	nra = notices sent after	rtfya = returns relating to calendar years after
anopba = assessments made or proceedings begun after	oiaaa = offers-in-compromise accepted after	soa = sequestration orders after
cpooa = cases pending on or after	oisopooa = offers-in-compromise submitted or pending on or after	tdi = the date that is
cyba = calendar years beginning after	oma = offsets made after	tdwi = the date which is
da = days after	parfopooa = petitions and requests filed or pending on or after	tyba = taxable years beginning after
dna = disclosures made after	pba = periods beginning after	tyea = taxable years ending after
doiaa = disclosures or inspections made after	pca = proceedings commencing after	tyeooa = taxable years ending on or before
dopsooa = any document or payment sent on or after	ppoofooa = petitions pending on or filed on or after	ya = year after
iaaia = installment agreements entered into after		
ma = months after		

- [1] Effective for individual income tax returns received on or after January 1 of the first calendar year beginning more than 180 days after date of enactment, for estate tax returns or gift tax returns received on or after January 1 of the first calendar year beginning more than 24 months after date of enactment, and for any other return or correspondence received on or after January 1 of the first calendar year beginning more than 18 months after date of enactment.
- [2] Loss of less than \$500,000.
- [3] Effective for money levied upon, or amounts received from the sale of property, after the date that is 12 months after date of enactment.
- [4] Generally effective on the date of enactment, except that the expanded authorization for special trial judges to render decisions is effective upon the Tax Court's adoption of relevant new rules.
- [5] Gain of less than \$500,000.
- [6] Generally effective for notices of deficiency mailed and court proceedings begun more than 36 months after date of enactment; effective for Tax Court petitions filed on or after date of enactment.
- [7] The proposal is effective 180 days after the date of enactment. Transitional rules apply for preparers and education providers participating in the Annual Filing Season Program, permitting continued participation for a phase-in period while the new qualification, education, and program-approval standards are implemented.
- [8] Estimate includes the following outlay effects:
- | | | | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|------|---------|
| Standard and scope of review of whistleblower award determinations..... | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2027-36 |
| Exemption from sequestration | 1 | 3 | 4 | 4 | 4 | 4 | 4 | 4 | 5 | 5 | 37 |
| Generally 180 days after date of enactment. In cases in which Internal Revenue Service has not made timely notice as of the general effective date, a new due date of one year after the effective date is deemed to apply. | 5 | 5 | 5 | 5 | 5 | --- | --- | --- | --- | --- | 25 |
- [9] Effective for returns filed on or after January 1 of the first calendar year beginning after date of enactment.
- [10] Effective as if included in section 2(a) of the Disaster Related Extension Deadline Act.
- [11] The proposal is generally effective on the date of enactment, except that the repeal of the off-Code reporting deadlines is effective for returns for taxable years beginning after December 31, 2026.
- [12] The proposal is generally effective on the date of enactment, except that the repeal of the off-Code reporting deadlines is effective for returns for taxable years beginning after December 31, 2026.

B. BUDGET AUTHORITY AND TAX EXPENDITURES

Budget authority

In compliance with section 308(a)(1) of the Budget Act, the Committee states that no provisions of the bill as reported involve new or increased budget authority.

Tax expenditures

In compliance with section 308(a)(1) of the Budget Act, the Committee states that certain provisions affect the levels of tax expenditures, as shown in the revenue table in Part A.

C. CONSULTATION WITH CONGRESSIONAL BUDGET OFFICE

In accordance with section 403 of the Budget Act, the Committee advises that the Congressional Budget Office has not submitted a statement on the bill. The letter from the Congressional Budget Office will be provided separately.

IV. VOTES OF THE COMMITTEE

Motion to report the bill

In compliance with paragraph 7(b) of rule XXVI of the Standing Rules of the Senate, the Committee states that, with a majority present, the Taxpayer Assistance and Service Act, as modified by the Chairman's modifications to the mark, was ordered favorably reported on July 30, 2026, by a roll call vote of 26 ayes and 1 nay. The vote was as follows:

Ayes: Crapo, Grassley, Cornyn, Thune, Scott (proxy), Cassidy (proxy), Lankford, Daines, Young, Barrasso, Johnson (proxy), Tillis, Blackburn (proxy), Marshall (proxy), Wyden, Cantwell, Bennet, Warner (proxy), Whitehouse (proxy), Hassan (proxy), Cortez Masto, Sanders (proxy), Smith, Luján, Warnock, and Welch.

Nay: Warren.

Amendment vote

An amendment by Senators Wyden, Cantwell, Bennet, Warner, Whitehouse, Hassan, Cortez Masto, Sanders, Smith, Luján, Warnock, and Welch, to prohibit the IRS and the Treasury from entering into, granting, making, or giving effect to any "covered instrument," which is defined as any agreement, order, waiver, release, addendum, or instruction that purports to affect any Federal tax matter involving the President, the President's family members, or related entities (the "Presidential Tax Accountability and Audit Integrity Act") was defeated by a roll call vote, 13 ayes, 14 nays, as follows:

Ayes: Wyden, Cantwell, Bennet, Warner (proxy), Whitehouse (proxy), Hassan (proxy), Cortez Masto, Warren, Sanders (proxy), Smith, Luján, Warnock, and Welch.

Nays: Crapo, Grassley, Cornyn, Thune, Scott (proxy), Cassidy (proxy), Lankford, Daines, Young, Barrasso, Johnson (proxy), Tillis, Blackburn (proxy), and Marshall (proxy).

V. REGULATORY IMPACT AND OTHER MATTERS

A. REGULATORY IMPACT

Pursuant to paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following statement concerning the regulatory impact that might be incurred in carrying out the provisions of the bill.

Impact on individuals and businesses, personal privacy and paperwork

The bill includes various provisions relating to taxpayer services, electronic filing, tax return preparer oversight, appeals procedures, whistleblower awards, and administrative processes within the Internal Revenue Service. The Committee expects that the provisions of the bill will improve taxpayer services, increase transparency, reduce burdens associated with paper submissions, and enhance the accuracy and security of tax administration. While certain provisions may impose additional compliance responsibilities on tax return preparers, electronic return originators, and financial institutions, the Committee does not anticipate any significant adverse impact on individuals or businesses.

The bill does not expand or alter the categories of taxpayer information collected by the IRS. To the extent the bill affects personal privacy, the Committee believes the changes strengthen taxpayer protections, including additional safeguards for information disclosed through online accounts, electronic filing systems, and whistleblower processes.

The bill includes provisions designed to reduce paperwork burdens by increasing electronic filing options, improving online access to tax documents, and modernizing document submission systems. Any increases in paperwork associated with enhanced preparer identification or administrative review processes are expected to be minimal and offset by the efficiencies gained through electronic systems.

B. UNFUNDED MANDATES STATEMENT

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

The Committee has determined that the reported bill contains no unfunded mandates on the private sector or on State, local, or tribal governments within the meaning of Public Law 104-4.

C. TAX COMPLEXITY ANALYSIS

Section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998 ("IRS Reform Act") requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service and the Treasury Department) 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 there are no provi-

sions that are of widespread applicability to individuals or small businesses.

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

In the opinion of the Committee, it is necessary in order to expedite the business of the Senate, to dispense with the requirements of paragraph 12 of rule XXVI of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill as reported by the Committee).

