Taxpayer Assistance and Service Act

Title I: Tax Administration and Customer Service.

Sec. 101. Digitization of Tax Returns and Correspondence. 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.

The provision requires the IRS to accept and process all returns and amended returns electronically. The IRS is also required to digitize both returns and correspondence using optical character recognition (or similar technology). This requirement does not apply if the Secretary determines an alternative process is faster or more reliable, and reports such determination to Congress within 30 days.

The provision is effective for individual income tax returns received during (or after) the calendar year beginning 180 days or more after the date of enactment; for estate or gift tax returns received during (or after) the calendar year beginning more than 24 months after the date of enactment; and any other returns or correspondence received during (or after) the calendar year beginning more than 18 months after the date of enactment.

Sec. 102. Establishment of Dashboard to Inform Taxpayers of Backlogs and Wait Times. This provision reduces unnecessary calls and letters to the IRS by requiring the IRS—to the extent practical—to establish a user-friendly real-time dashboard on IRS.gov. The dashboard provides taxpayers with information on call volume, backlogs, wait times, and the availability of callbacks. The same real-time information is available to third-party software applications.

The IRS is also required to provide monthly reports that summarize its telephone service, including the number and percentage of callers who indicated they received the answers or service that they were calling about. It is also required to screen out automated calls, which increase wait times for human dialers. In the week after a significant delay in processing returns, letters, or other submissions, the IRS is required to report the length of the delay on its website. This weekly disclosure will set expectations and discourage repeated calls. This provision is effective for periods beginning 12 months after the date of enactment.

Sec. 103. Expansion of Electronic Access to Information about Returns and Refunds. The provision reduces unnecessary calls and letters by requiring upgrades to the IRS's "Where's my Refund?" tool, "Where's my Amended Return?" tool, and Online Account (or any successor systems) by January 1 of the first calendar year that starts 12 months after the date of enactment. These upgrades will provide more individualized information to taxpayers about the status of their refunds, including whether their return has been suspended, and if so, what the IRS has requested, and how to provide the information.

Sec. 104. Expansion of Callback Technology. The IRS sometimes offers taxpayers the option to have the IRS call them back instead of waiting on hold. Taxpayers value this option. This provision clarifies that it is the sense of Congress that by 2028 the IRS should provide taxpayers

the option to receive a callback on all of its lines and extensions when calls are not answered within 5 minutes.

Sec. 105. Expansion of Online Accounts. Currently, a taxpayer can use their online account with the IRS to view their balance due, their tax transcript, and certain returns. They can also make payments and see whether certain notices were issued. A taxpayer may authorize certain tax professionals to access their online account, but such professionals can only view a subset of this information.

The provision requires the IRS to upgrade its online accounts after conducting focus groups with stakeholders. These upgrades will permit a taxpayer (including businesses) and certain representatives to view images of tax returns, documents, notices, and letters sent or received by the IRS (during a rolling 6-year period starting on the date of enactment), and provide responses to IRS inquiries through the online account.

The provision requires the IRS to give practitioners, return preparers with valid PTINS, and qualified reporting agents access to client accounts without requiring them to log in to each client's account separately. The IRS is also required to establish a program to prevent unauthorized disclosures by such persons and to publish an annual report on its activities. The IRS is required to implement such upgrades not later than January 1 of the first calendar year beginning more than 18 months after the date of enactment.

Sec. 106. Automation of Refund Offset Bypass. Under current law, the IRS generally offsets tax refunds against prior-year Federal income tax debts, but it may bypass such an offset and issue the refund (called an "OBR") if the taxpayer establishes an "economic hardship." A taxpayer is eligible for such a "refund offset bypass" if his or her income does not cover reasonable basic living expenses. Taxpayers may apply for an OBR during a narrow window after filing their return and before the IRS processes the offset. This significantly strains IRS resources during filing season and creates a procedural trap for uninformed taxpayers who do not know about the OBR process.

Separately, if the IRS is trying to collect a debt and it determines that it cannot collect the debt because the taxpayer is facing an economic hardship, it marks the account as "currently not collectible" (CNC) and stops most collection activity. It will continue to offset the taxpayer's refunds, however, unless the taxpayer applies for an OBR.

To reduce economic hardship and the volume of time sensitive OBR requests that the IRS must process during the filing season, the provision requires the IRS to automatically process an OBR with respect to the Earned Income Tax Credit for a taxpayer whose accounts the IRS has designated as CNC. This provision is effective for offsets made after the date which is 12 months after the date of enactment.

Sec. 107. Installment Agreement Fees Eliminated for Certain Individuals. The cost to the IRS of processing installment agreements (IAs) –especially those set up online – is lower than the cost of tax collection. Yet, the fee to set up an online payment agreement is $22 or $69, and the IRS requires an upfront payment of $43 from low-income taxpayers who do not have a bank

account (potentially reimbursed later). For those who cannot pay in full or who do not have a bank account, IA fees can pose a barrier to repayment. The provision would waive the fee for IAs that are set up online, and for any other IA requested by a low-income taxpayer. This provision is effective for installment agreements entered into more than 12 months after the date of enactment.

Sec. 108. Individuals Facing Economic Hardships Informed of Collection Alternatives. Many taxpayers who enter into "streamlined" installment agreements are experiencing an economic hardship. Those experiencing an economic hardship are generally eligible for collection alternatives such as a partial payment installment agreement, an offer-in-compromise, or having their account classified as "currently not collectible."

Beginning not later than 12 months after the date of enactment, the provision requires the IRS to inform a taxpayer who request certain types of installment agreements of other available collection alternatives if they have an outstanding tax liability and data indicates they may be experiencing an economic hardship. The provision also requires the Secretary, in consultation with the National Taxpayer Advocate, to report to Congress no later than two years after the date of enactment on the IRS's accuracy in identifying taxpayers with tax liabilities who have an economic hardship, the status of the liabilities, and whether its identification procedures could be used for other purposes.

Sec. 109. Quarterly Notices to Certain Taxpayers with Delinquencies. After an initial stream of notices, the IRS sends an annual notice to taxpayers who have tax delinquencies. Private sector creditors generally send bills more frequently (e.g., every month). Lenders must also generally disclose the cost of making minimum payments on accounts that charge interest.

The provision requires the IRS to send notices to taxpayers at least every quarter, except for those who have entered into a collection alternative or whose accounts the IRS has determined are not collectible. It would also require the IRS to disclose the cost of penalties and interest, which are accruing on the outstanding liability, and programs that may assist the taxpayer. This provision is effective 24 months after the date of enactment.

Sec. 110. Low-Income Taxpayer Clinic (LITC) Funding Unlocked. Under section 7526(c), an LITC can generally receive a federal grant of up to $100,000 and must find donors to match 100 percent of the grant. Section 7526(c) also purports to limit LITC funding to $6 million per year, but appropriations bills have provided funding above these limits.

To clarify that LITCs may access appropriated funds, the provision removes the obsolete $6 million per year cap and $100,000 per clinic limit. It also authorizes LITCs to match less than 100 percent of the grant (but not below 25 percent) if the Secretary determines that such lower percentage will increase service to taxpayers. This provision is effective for calendar years beginning after the date of enactment.

Sec. 111. Chief Counsel Reviews of Offers-In-Compromise Streamlined. The IRS Office of Chief Counsel is currently required to review and provide a legal opinion for every accepted offer-in-compromise (OIC) if the amount of unpaid tax (plus interest) is $50,000 or more, even

though very few OICs – including those above this threshold – present significant legal issues. This requirement delays OIC processing and diverts Counsel attorneys from performing core legal work.

The provision streamlines OIC processing by requiring Counsel to issue an opinion for OICs only in cases that the Secretary determines present significant legal issues. The provision is effective for OICs submitted or pending on or after the date of enactment.

Sec. 112. Modification of Procedural Requirements for Penalties and Disallowance Periods. Some penalties require supervisory approval under section 6751(b), but the statute leaves the timing of the required approval unclear. This ambiguity has generated litigation. There have also been disputes over who is a person's supervisor. In addition, although IRS procedures require supervisory approval of multi-year "bans" on claiming the Earned Income Tax Credit, the Child Tax Credit, and the American Opportunity Credit, these approval procedures are not always followed.

The provision clarifies that written approval is required by either a supervisor or the Office of Servicewide Penalties before the IRS sends the taxpayer a notice of the penalty that may be appealed to the IRS Independent Office of Appeals or in Federal court. The provision also extends the approval requirement to multi-year bans. These changes apply to notices sent 12 months after the date of enactment. The provision also requires the IRS to issue an annual report on penalties, the first of which must be published no later than 24 months after the date of enactment.

Sec. 113. Return of Amounts Collected by IRS in Excess of Accepted Offer-in-Compromise Amount. Before the IRS agrees to accept an offer-in-compromise, it generally calculates the maximum amount the taxpayer can pay. If, after the offer is accepted, the IRS collects more than the offer amount, it is generally not authorized to return the extra collection proceeds. This can happen, for example, if after the offer is accepted the IRS does not release a continuous levy on wages or a pension, the taxpayer sells property subject to a tax lien, or the taxpayer inadvertently makes an extra payment.

The provision requires the IRS to release levies when it accepts an offer and return amounts that it collects in excess of the offer amount, unless the agreement provides otherwise, or the taxpayer has defaulted on the offer. The changes apply to compromises accepted after the date of enactment.

Sec. 114. Extension of Period for Return of Amounts Subject to Wrongful Levy. The IRS is authorized under section 6343 to return money wrongfully levied upon if the taxpayer or third party requests the return within two years from the "date of levy." For paper levies delivered by hand or mail, the "date of levy" is the date the notice of levy was served. For levies delivered electronically, the "date of levy" is the date on which the IRS received the levied proceeds. Consequently, individuals subject to electronic levies may be able to recover wrongfully levied funds that those subject to paper levies may not recover.

The provision clarifies that the date of the levy is the date the funds were received by the IRS. This provision is effective with respect to any money levied upon or any amount of money received from the sale of property after the date which is 12 months after the date of enactment.

Sec. 115. Reports to Congress. Within 2 years after the date of enactment, the provision requires the Secretary to provide a report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate (after consultation with the National Taxpayer Advocate, the Treasury Inspector General for Tax Administration, and the Comptroller General of the United States) on the implementation of this title, including any recommendations to Congress.

It also requires the Secretary to provide an annual report to these committees on efforts to identify, prevent, and resolve tax fraud, including identity theft, beginning not later than 12 months after the date of enactment.

Finally, the provision clarifies that the IRS is required to return to its prior practice of reporting to Congress on the sources of complexity on an annual basis in a report, which is not combined with the National Taxpayer Advocate's reports to Congress.

Title II—American Citizens Abroad

Sec. 201. Report on Combined Tax and Foreign Bank and Financial Account Reporting. A person with a foreign bank account may have to report the account to the Financial Crimes Enforcement Network (FinCEN) on a Foreign Bank Account Report (FBAR) Form 114 and to the IRS on a tax return (e.g., Form 8938, Statement of Specified Foreign Financial Assets). The IRS enforces FBAR compliance but does not accept FBAR forms. FBAR forms must be filed with FinCEN. Many taxpayers face unnecessary burdens and confusion about these and other international financial information reporting requirements, which can result in errors and significant penalties.

Within 180 days of enactment, the Secretary must report to Congress, after consulting with the National Taxpayer Advocate and with U.S. citizens abroad, on the actions taken to combine and simplify reporting, eliminate duplicative requests for information, and to recommend legislative changes to simplify reporting.

Sec. 202. Study and Reports on Simplification. This provision requires the GAO to provide a publicly available report to the Treasury and Congress within one year after the date of enactment on the burdens of complying with federal tax laws on U.S. persons living abroad, including problems specific to low- and moderate-income persons, such as: filing returns and reports with the IRS and FinCEN in an affordable manner, understanding and responding to inquiries from these agencies, accessing financial products and services abroad, accessing affordable tax preparation services, and compliance burdens disproportionate to the amount of tax owed. Within one year of GAO's report, the Secretary is required to report to Congress on the actions taken by Treasury to address any problems identified by the GAO and any recommendations for legislation to address such problems.

Sec. 203. Simplification of Currency Exchange Rules. Transactions denominated in foreign currency can give rise to gain or loss for U.S. taxpayers resulting from a change in the value of foreign currency. U.S. citizens and resident aliens are generally subject to tax on foreign currency gains in excess of a $200 exemption for personal transactions. The provision increases the exemption for foreign currency gains from $200 to $1,000 and indexes it annually for inflation (rounded to the nearest $50).

When a taxpayer sells a home and pays off a mortgage denominated in a foreign currency, exchange rate losses cannot offset gains on the home and any loss on the sale of the home cannot offset foreign currency gains. The provision allows certain home mortgage currency gains and losses to offset gains and losses on a qualified residence, reversing the result in Rev. Rul. 90-79, 1990-2 CB 187. It also allows a taxpayer to refinance a mortgage on a qualified residence that is denominated in a foreign currency without recognizing gain or loss on the currency, provided the home is overseas.

When a taxpayer who works abroad is paid in foreign currency, U.S. taxable income is based on the value of the currency at the time it is received. The provision enables qualified individuals working abroad to use an average conversion rate for salary (and other income identified by the Secretary) received during the year instead of a different conversion rate for each payment. These changes are effective for taxable years beginning after the date of enactment.

Sec. 204. Increase in Threshold for Simplified Foreign Tax Credit Rules and Reporting. U.S. taxpayers are generally subject to tax on their worldwide income and receive credits for foreign taxes paid. Foreign tax credit rules are very complex and can be burdensome for taxpayers, including those residing abroad. Section 904(j) allows certain U.S. individuals who pay foreign income taxes on their investment income to elect to claim a "simplified" foreign tax credit of up to $300 ($600 in the case of a joint return) against their U.S. tax liability for the foreign income taxes, without applying complex limitation rules. This threshold was established in 1997. The provision increases the threshold to $1,000 ($2,000 in the case of a joint return) and indexes it annually for inflation (rounded to the nearest $50). This provision is effective for taxable years beginning after the date of enactment.

Sec. 205. Extension of Time for Persons Outside the United States to Request Abatement of Math Error. Taxpayers in the U.S. generally must respond to a math error notice within 60 days and to a deficiency notice within 90 days. U.S. taxpayers who reside abroad generally have 60 days longer to respond to a deficiency notice (i.e., 150 days), but no extra time to respond to a math error notice. The provision gives taxpayers who reside abroad an extra 60 days (i.e., 120 days) to respond to a math error notice. This provision applies to notices sent over 180 days after the date of enactment.

Title III— Judicial Review

Sec. 301. Authorization of Subpoenas Before Hearings to Facilitate Settlements. The Tax Court's pre-trial discovery powers are more limited than those of other federal courts. It does not have express authority to issue a third-party subpoena for the production of documents before or

in the absence of a hearing date. As a result, litigants sometimes attend pre-trial conferences solely to obtain books, records, and other key documents, increasing the likelihood that cases which would otherwise be settled must go to trial. The provision facilitates settlements (and trial preparation in the absence of settlement) by expressly empowering the Tax Court to authorize a third-party subpoena to require the production of documents and testimony before the hearing date. This provision is effective upon the date of enactment.

Sec. 302. Clarification of Tax Court Authority to Order Relief from a Judgment or Order. Once a Tax Court decision is final, it cannot be reopened. This finality rule, mandated by section 7481, has been described as "draconian" by a United States Court of Appeals because the Tax Court has less authority than district courts to make corrections. In some instances, the Tax Court has provided relief consistent with a district court's authority to provide relief under Federal Rule of Civil Procedure 60, but there is a lack of uniformity among the courts of appeals regarding the Tax Court's authority to provide such relief. The provision expressly authorizes the Tax Court to provide relief from a final judgment or order in certain circumstances where justice so requires, consistent with the power of district courts under Federal Rule of Civil Procedure 60. For example, the provision provides that mistakes, certain newly discovered evidence, and fraud are potential grounds for the court to set aside its judgment. The provision also clarifies the Tax Court's authority to correct clerical errors or oversights in orders or decisions that are not yet final. This provision is effective upon the date of enactment.

Sec. 303. Authorization of Special Trial Judges to Hear Additional Cases and Address Contempt. Nineteen presidentially appointed Tax Court judges, senior judges who are recalled to the court, and special trial judges, which are hired by the court, decide thousands of cases each year. Special trial judges are only authorized to hear certain types of cases. Empowering special trial judges to share more of the Tax Court's workload could increase the productivity and efficiency of the court.

The provision authorizes the parties in certain cases to consent to the assignment of the matter to a special trial judge and to the entry of a judgment. The provision also extends to special trial judges contempt authority in limited circumstances. The contempt provision is effective upon enactment. The consent procedures are effective when the Tax Court adopts rules to implement them.

Sec. 304. Disqualification of Judges and Special Trial Judges. Federal judges are generally subject to statutory disqualification standards. Tax Court judges, however, are not subject to disqualification standards that apply to other judges. The provision extends to Tax Court judges and special trial judges the same standards for disqualification that apply to other federal judges. This provision is effective upon the date of enactment.

Sec. 305. Notice and Review with Respect to Multi-Year Bans on Claiming Credits. If the IRS determines that a taxpayer improperly claimed the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), or the American Opportunity Tax Credit (AOTC), in certain circumstances, the taxpayer may be disallowed (i.e., banned) from claiming these credits for either two or 10 years. This is so even if the taxpayer otherwise meets the eligibility requirements in those future years. Given the potential taxpayer impact of these bans, it is

important that they are clearly described in notices of deficiency and subject to judicial review. Under current law, however, there is no requirement for the IRS to explain the ban in any written notice, and it is not clear if or when the Tax Court has jurisdiction to review bans. Although they operate like penalties for which the IRS has the burden of production under section 7491(c), and in the case of fraud, the burden of proof under section 7454(a), it is unclear if the IRS has the burden of production for 2-year bans, or the burden of proof for 10-year bans, which require fraud.

The provision requires the IRS to explain a ban in a notice of deficiency, provides that the Tax Court can determine and redetermine bans in connection with its review of a deficiency in the year the ban is imposed or proposed by the IRS, and clarifies that the IRS has the burden of production for 2-year bans and the burden of proof for 10-year bans in any such proceeding. Under a transition rule, the provision authorizes the Tax Court to redetermine certain bans determined in a prior year.

The provision requiring bans to be stated on notices of deficiency applies to notices mailed 36 months after the date of enactment. The provisions clarifying the Tax Court's jurisdiction to redetermine bans are effective upon the date of enactment. The provision regarding the standard of proof for bans applies to court proceedings beginning after the date that is 36 months after the date of enactment in connection with bans determined after that date. The transition rule, which authorizes the Tax Court to redetermine bans determined in a prior year, applies when the notice of determination for the taxable year for which the Secretary made the determination to impose the ban did not include the grounds for the ban and was mailed before 36 months after the date of enactment.

Sec. 306. Authorization of De Novo Review of Innocent Spouse Relief by the Tax Court and Other Courts. When the IRS assesses additional tax on a joint return, the "innocent spouse" is not required to pay the additional amount if granted "innocent spouse relief." The IRS has the discretion to grant "equitable" innocent spouse relief under section 6015(f). A taxpayer may request judicial review of the IRS's denial of innocent spouse relief in a "stand alone" case or in any case where a taxpayer's liability is at issue. Section 6015(e) provides for review of these determinations to be made "de novo by the Tax Court," but a taxpayer is generally prohibited from presenting evidence not previously presented to the IRS unless the evidence is "newly discovered." This is true even if the requesting spouse was subjected to domestic violence or psychological abuse that caused him or her not to present the evidence to the IRS. The limitation on introducing evidence can fall particularly hard on unrepresented taxpayers who did not understand this requirement when they were dealing with the IRS.

The provision revises section 6015 to allow courts to consider all relevant evidence in reviewing innocent spouse cases and clarify that the defense can be raised in tax cases before district courts and bankruptcy courts where the taxpayer's liability is at issue. These provisions are effective for petitions and requests filed or pending on or after the date of enactment.

Sec. 307. Clarification of Certain Court Filing Deadlines. The U.S. Supreme Court held in *Boechler* that the Tax Court has jurisdiction to waive the 30-day deadline for filing a petition in a collection due process (CDP) case when it is equitable to do so under common law (e.g., if a

taxpayer misses a filing deadline because he is temporarily incapacitated). The Tax Court held in *Hallmark* that it has no such jurisdiction to extend the deadline under section 6213(a) to file a petition in response to a notice of deficiency. In *Culp*, the Third Circuit Court of Appeals reached the opposite conclusion.

The provision clarifies that the Tax Court has jurisdiction to determine if the filing deadlines are extended in cases arising under sections 6213(a) (deficiency), 6330(d)(1)(A) (collection due process), or 6015(e)(1)(A) (innocent spouse). It also provides that the Tax Court's dismissal based on a determination not to toll the period is not a decision on the merits, which might otherwise prevent the taxpayer from raising substantive issues in another case or forum due to *res judicata*. Separately, the provision clarifies that the filing deadline is tolled if the filing location is inaccessible for part of a day when the petition is due. The provision applies to cases pending on or after the date of enactment.

Sec. 308. Clarification of Tax Court Jurisdiction to Determine Tax Liability in Collection Due Process Appeals. The IRS takes collection actions against some taxpayers who did not have an opportunity to challenge their tax liability in court. Section 6330(c)(2)(B) provides that a taxpayer may dispute the existence or amount of the underlying tax liability at a CDP hearing if the taxpayer "did not receive any statutory notice of deficiency for such tax liability or did not otherwise have an opportunity to dispute such tax liability." Regulations interpret this to mean that a taxpayer cannot dispute the underlying liability if the taxpayer had an opportunity to dispute the liability with the IRS Independent Office of Appeals, even if any such appeal could not be reviewed by a court. To get judicial review, the taxpayer's only option may be to pay the tax the IRS says they owe and then seek a refund. This imposes unnecessary burdens and costs on taxpayers.

The provision enables taxpayers to challenge the IRS-determined tax liability in a CDP hearing if they did not have a prior opportunity to dispute it in Tax Court. The provision is effective on the date of enactment.

Sec. 309. Authorization of the Tax Court to Issue Refunds in Collection Due Process Cases. When the Tax Court is reviewing a taxpayer's challenge to the IRS's determination of liability in connection with the appeal of a CDP hearing, the Tax Court has held that it does not have the authority to order a refund or credit. This imposes unnecessary burdens on taxpayers and creates judicial inefficiency by requiring the filing of multiple causes of action.

The provision authorizes the Tax Court to order a refund or credit in all CDP cases in which it has jurisdiction to determine a taxpayer's tax liability, subject to the limitations period under section 6511. This necessarily extends the Tax Court's jurisdiction to cases where the liability has been paid. The provision is effective for cases pending on or after the date of enactment.

Sec. 310. Authorization of the Tax Court to Hear Suits for Refunds or Credits. Under current law, taxpayers generally may litigate in Tax Court only if the IRS determines they owe more tax. When taxpayers are seeking a refund solely because they believe they overpaid their tax, they are barred from the Tax Court and must litigate in other, more formal, and more costly federal courts.

The provision expands the Tax Court's jurisdiction to determine tax liabilities and refunds in refund cases that could be reviewed by a district court or the Court of Federal Claims, provided the taxpayer is requesting $2,000,000 or less in refunds. It is effective for actions filed after the date that is 12 months after the date of enactment.

Sec. 311. Authorization to Use Deficiency Procedures for Certain Penalties. The IRS is authorized to assess some penalties, such as the penalty for substantial understatement of income tax under section 6662, only after issuing to the taxpayer a notice of deficiency under section 6212. These "deficiency procedures" give the taxpayer an opportunity to petition the Tax Court to review the penalty before it is assessed and collected. In contrast, the IRS is authorized to summarily assess and begin collecting "assessable penalties" under section 6201 before the taxpayer has had an opportunity to appeal or dispute them in court. The Tax Court held in *Farhy*, 160 T.C. No. 6 (2023), *rev'd*, No. 23-1179 (D.C. Cir. May 3, 2024), and in *Mukhi*, 163 T.C. No. 8 (2024), that the IRS is not authorized to assess or collect penalties under section 6038(b) for failure to file certain information returns because they are not "assessable penalties." Litigation continues in cases such as *Safdieh* and *Cauchon*.

The provision grants the IRS the authority to assess a civil penalty using deficiency procedures if it has identified the penalty as one that is not otherwise assessable under Title 26. If the IRS uses this authority it is prohibited from sending multiple deficiency notices with respect to the same act (or failure to act), except that it is authorized to send additional deficiency notices with respect to continuation penalties for a continuing failure to file certain international information return penalties. The provision is effective on the date of enactment.

Sec. 312. Authorization to Allow Claims for Refund in Certain Cases Where Full Tax Not Paid. In *Flora v. United States*, the Supreme Court held that 28 U.S.C. §1346(a)(1) requires the full payment of all assessed tax before a suit for refund can be maintained. After having made only a partial payment against an incorrect liability, a taxpayer is generally barred by *Flora*'s full-payment rule from filing a suit for refund. If the taxpayer must delay the filing of a suit while attempting to pay the tax in full using an installment agreement, the refund period may lapse. As a result, a court may lack authority to order a full refund of the incorrect tax collected. The taxpayer is only entitled to a refund of amounts overpaid within a two- or three-year look-back period. When contesting an estate tax liability, section 7422(j)(1) provides an exception to the full-payment rule if the liability is being paid in installments by reason of an election under section 6166.

The provision creates a similar exception to the full-payment rule for taxpayers who are paying their tax liability in installments (whether pursuant to an installment agreement or periodic payment offer in compromise) or whose account the IRS has determined is currently not collectible because they do not have the resources to pay, provided no other proceeding is pending which may lead to judicial review. The provision authorizes the court, upon a request by the Secretary, to dismiss the case (which may be refiled later) if the taxpayer stops making installment payments or is no longer in currently not collectible status. The provision is effective for actions filed 12 months after the date of enactment.

Sec. 313. Adjustment of Threshold for Small Disputes. Under section 7463, taxpayers with "small tax cases" (S cases) involving $50,000 or less may elect simplified procedures in the Tax Court. These cases are generally heard by a Special Trial Judge (STJ) appointed by the Tax Court and follow relaxed evidentiary and procedural rules. Such cases are typically resolved more quickly than regular Tax Court cases. Unlike regular Tax Court decisions, S case decisions are final and may not be appealed.

The provision doubles the dollar threshold for using S case procedures from $50,000 to $100,000 and indexes it for inflation. By increasing and indexing the threshold, the provision expands access to this streamlined process and helps more taxpayers resolve moderate-sized disputes efficiently.

Title IV—Office of the Taxpayer Advocate

Sec. 401. NTA Authorization to Direct Hire Attorneys. The National Taxpayer Advocate (NTA) has long employed attorneys to provide independent legal advice and to help fulfill her statutory duties. In 2015, the IRS denied the NTA's request to backfill these positions. It said the law requires all IRS attorneys to report to the IRS Chief Counsel. The NTA cannot promote attorneys or replace those lost to attrition.

The provision authorizes the NTA to direct hire attorneys in the Office of the Taxpayer Advocate who report directly to the NTA, rather than the IRS Chief Counsel. The legal interpretations of these attorneys are not binding on the Secretary. The provision does not change the role of IRS Chief Counsel attorneys or bar the NTA or the Office of the Taxpayer Advocate from continuing to receive advice from them. The provision is effective on the date of enactment.

Sec. 402. NTA Authorization to Make Personnel Decisions. To protect the independence of the Taxpayer Advocate Service (TAS), the tax code provides that the NTA has the authority to take independent personnel actions for employees of local TAS offices (and other IRS functions do not). This independence does not extend to national office employees, even though such employees who advocate for systemic changes in IRS practices and policies are likely to require similar personnel protection. The provision clarifies that the NTA has the authority to take independent personnel actions for all TAS employees, including those in the national office. The provision is effective 12 months after the date of enactment.

Sec. 403. Access to Internal Revenue Service Information, Legal Advice, and Meetings. The NTA reports that the IRS has occasionally declined to provide the NTA office with the timely information it needs to advocate for taxpayers or to produce reports to Congress (including privileged legal advice), and access to conferences between the IRS and taxpayers who have open TAS cases.

The provision clarifies that the IRS is required to give the NTA and its employees access to all of the information, including legal advice, the NTA determines is necessary to fulfill its statutory duties (e.g., assisting taxpayers and reporting to Congress on systemic problems and legislative solutions). The provision clarifies that providing such information or legal advice to TAS does not affect otherwise applicable privileges. It also allows TAS employees to participate in taxpayer conferences when requested by the taxpayer. While the provision establishes two weeks

as a default deadline for the IRS to provide such information or access, the parties may agree to longer or shorter deadlines based on the circumstances. The provision also requires the NTA to include in its Annual Report to Congress any failure by the IRS to provide such information or access. The provision is effective on the date of enactment.

Sec. 404. Repeal of Limitation Period Suspension for Taxpayers Seeking Assistance from TAS. When a taxpayer requests assistance from TAS in writing, section 7811(d) extends the period of limitations within which the IRS may assess or collect tax. The provision is intended to protect the IRS's interests, but the IRS has not implemented it since its enactment in 1988. Such an extension is unnecessary because TAS does not take actions that would cause these periods to lapse. In addition, the provision does not apply when a taxpayer requests assistance from TAS by phone. If implemented, taxpayers who request TAS assistance in writing and taxpayers who request TAS assistance by phone would be treated differently. The provision repeals section 7811(d). It is effective on the date of enactment.

Sec. 405. Operations to Assist Taxpayers Experiencing Hardships During Lapse in Appropriations. Automated enforcement actions may continue during a government shutdown. Unless the IRS determines that IRS employees are exempt from a furlough due to a lapse in appropriations, they are prohibited from assisting taxpayers, even those taxpayers who are experiencing economic hardships due to those automated activities.

The provision clarifies that during a lapse in appropriations, the IRS and the Office of the Taxpayer Advocate may incur obligations in advance of appropriations to the extent necessary to assist any taxpayer who is or may be experiencing an economic hardship within the meaning of section 6343(a)(1)(D) and to comply with any Taxpayer Assistance Order issued pursuant to section 7811. The provision is effective on the date of enactment.

Title V—Tax Return Preparers

Sec. 501. Penalties for Tax Return Preparers Who Improperly Alter Returns. A penalty applies to a tax return preparer who prepares a return that unreasonably understates a liability or who violates other rules under sections 6694, 6695, or 6695A. These penalties do not apply when a tax return preparer alters the taxpayer's return after it has been signed (e.g., to claim an unreasonably large refund or by altering the taxpayer's direct deposit information to have the refund deposited into the preparer's account). Preparer penalties do not apply because the altered submission is not considered a "return," and the preparer penalties only apply to the preparation of returns.

The provision expands the definition of a "return" for purposes of preparer penalties to include, among other things, a document that purports to be a return. The provision is effective on the date of enactment.

Sec. 502. Penalties for Failure to Provide Valid Preparer Identification Numbers. The penalty under section 6695(c) for failure to provide a preparer tax identification number (PTIN) does not clearly apply to a preparer who provides the taxpayer with the wrong PTIN, another person's PTIN, or a PTIN that has been suspended. Similarly, no penalty applies to an electronic

return originator (ERO) who provides the IRS with the wrong electronic filing identification number (EFIN), another person's EFIN, or an EFIN that has been suspended.

Unless a preparer had reasonable cause, this provision imposes a penalty of $250 for each failure to furnish a valid PTIN, up to a maximum of $75,000. It also imposes a $250 penalty each time an ERO provides the wrong EFIN, unless an ERO had reasonable cause. The Secretary is required to establish a program to help preparers and EROs avoid these penalties, including by giving them an opportunity to withdraw the return(s) or provide a valid number.

To deter "ghost" preparers who intentionally violate the rules, the provision makes it a felony, punishable by a fine of up to $50,000 ($100,000 in the case of a corporation) or 3 years in prison, or both, to willfully fail to furnish a PTIN, willfully furnish an invalid PTIN, or willfully furnish a PTIN assigned to another person. These provisions apply to returns or claims for refund filed after the date which is 18 months after the date of enactment.

Sec. 503. Penalties for Improper Tax Preparation or Misappropriation of Refunds. The provision would increase the following penalties under section 6695 to discourage improper behavior by tax preparers and to protect taxpayers:

Preparer Penalties	Current Law*		Proposal	
Failure to…	Per Offense	Maximum	Per Offense	Maximum
furnish a copy of a return or a claim for refund to taxpayer	$65	$33,000	$250	$50,000
sign a copy of a return or a claim for refund	$65	$33,000	$250	$75,000
furnish preparer's identifying number**	$65	$33,000	$250	$75,000
retain completed copy of prepared return or list of taxpayers for whom returns were prepared	$65	$33,000	$250	$50,000
file correct information returns identifying the return preparers employed by a person	$65 per item	$33,000	$250 per item	$75,000
refrain from endorsing or negotiating a check or misappropriating a transfer in respect of taxes***	Greater of $665 per check/transfer or amount	none	Greater of $1,000 per check/transfer or amount	none
comply with certain due diligence requirements	$665 per failure	none	$1,000 per failure	none

* Penalty amounts include inflation adjustments provided by sec. 4.54 of Rev. Proc. 2025-32.

**The civil penalty for failure to provide a valid PTIN is increased by section 502 but also listed here. A criminal penalty is established under section 503 for willful failures but not listed here.
***The penalty for negotiating a check under 6695(f) is expanded to cover misappropriation of refunds by a preparer who does so by altering direct deposit information on a return.

These changes are effective on the date of enactment.

Sec. 504. Authority to Deny, Revoke, or Suspend Preparer Tax Identification Numbers.

Current law

The IRS has the authority under section 330 of Title 31 of the U.S. Code (and regulations thereunder, called "Circular 230") to ensure those who "practice" before the IRS – attorneys, certified public accountants (CPAs), and enrolled agents (EAs) (practitioners) – are competent and fit to practice. As a result of a 2014 decision by the D.C. Circuit Court of Appeals in *Loving v. U.S.*, it has no similar authority with respect to paid tax return preparers who are not subject to Circular 230.

Studies by GAO, TIGTA, and others have consistently found that tax returns prepared by non-credentialed preparers have higher levels of inaccuracies than other returns. In addition, 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 are unaware that the preparer they utilized is offering incorrect or fraudulent advice. They may not understand the consequences of following such bad advice.

Non-credentialed preparers who voluntarily take 18 hours of continuing education (CE) each year, pass a knowledge-based comprehension test, and meet certain other requirements are listed on the IRS website as having completed the "Annual Filing Season Program" (AFSP). They may publicize this credential. If they meet certain requirements and agree to comply with Circular 230, the Secretary permits them to represent taxpayers whose returns they prepared before the IRS examination function.

Section 6109 requires that a return include the preparer tax identification number (PTIN) of any paid preparer. However, anyone who pays the PTIN fee can obtain a PTIN and charge customers to prepare returns. They are not required to have any tax-related expertise or knowledge. Demonstrating incompetence, defrauding taxpayers, or otherwise demonstrating a lack of fitness to prepare returns are not grounds for the IRS to deny, revoke, or suspend the preparer's PTIN.

There are serious concerns about the impact that incompetent or unscrupulous tax return preparers have on taxpayers and tax administration. This provision addresses these concerns in several ways.

Requirements to Obtain and Maintain a PTIN

The provision requires a paid, non-credentialed tax return preparer to demonstrate suitability to be a tax return preparer by providing information about the competence and character of the preparer, passing a criminal background and tax compliance check, taking up to 18 hours of CE each year, and demonstrating completion of the required CE.

The provision prohibits the IRS from requiring the preparer to take an exam or attend classes from any particular CE provider, so long as the CE includes written materials and meets minimum standards established by the Secretary. The Secretary is required to post on its website educational programs that meet its standards and the providers of such programs.

Before renewing a PTIN, the provision authorizes the Secretary to require a preparer to complete additional CE (but not more than the 18-hour maximum) on specific subject areas that are based on the errors identified on returns filed under the preparer's PTIN.

The Secretary may continue the AFSP program or an equivalent track, and continue to permit a tax return preparer who has met the program's requirements to continue to have limited rights to represent taxpayers before exam just like those with an AFSP certificate. The Secretary can also continue to offer to list participants on its website, provided they satisfy the requirements.

Circular 230 Practitioners and those Licensed by State Programs Exempt

The provision exempts from the suitability and CE requirements a licensed attorney, CPA, or enrolled agent (EA) who is authorized to practice before the Secretary under Circular 230 (a "specified practitioner") and any other return preparer licensed or registered by a state that has established comparable requirements to the provision. An individual licensed or registered by a state program that is comparable today will be exempt even if the program was not comparable when the individual was first admitted (e.g., because it did not require background checks). The Secretary also has authority to waive background checks for those who have already undergone one.

Persons Paid to Prepare Offers Required to Include Identifying Numbers

The provision requires that a person who is paid to prepare an offer-in-compromise must include an identifying number on the offer. Those that fail to do so may be subject to a $250 penalty (adjusted for inflation) for each offer up to a maximum of $75,000 (adjusted for inflation), unless the failure is due to reasonable cause and not willful neglect.

Sanctions for Violations

The provision also authorizes the IRS to deny, suspend, or revoke the PTIN of a preparer who does not meet the suitability or CE requirements, is incompetent or disreputable as defined by certain objective standards, is subject to Circular 230 and violates regulations prescribed thereunder, or if the Secretary determines that doing so would promote compliance and effective tax administration.

The Secretary's determinations to deny, suspend, or revoke a PTIN can be appealed to the same extent as specified practitioners may appeal discipline by the IRS under Circular 230. The Secretary may preliminarily suspend a PTIN for up to 180 days after notice and an opportunity to respond if doing so is necessary to prevent serious economic harm to taxpayers or serious impairment of federal tax administration, such as to prevent the filing of fraudulent returns or claims for refund. If an individual is preliminarily suspended 2 times during any 5-year period, the Secretary may not issue an additional preliminary suspension unless the Secretary has determined to suspend or revoke the individual's PTIN. The Secretary may reinstate a PTIN upon demonstration that the basis for the sanction has been resolved.

The Secretary may impose a penalty of up to $5,000 (adjusted for inflation) for each violation of the rules of this section. Any such penalty is reduced by the amount of any other preparer penalties imposed under sections 6694, 6695, 6700, 6701, 6702, and 6713 to avoid stacking.

Transparency

The provision requires that certain final disciplinary determinations with respect to a practitioner or preparer be posted on the internet within 30 days after redacting information that could identify third parties. It also requires the IRS to publish each year the 10 most frequent errors found on returns prepared by tax return preparers and the top 10 reasons that preparers were subject to penalties or discipline.

GAO Report

Within 18 months after enactment, the GAO is required to report on the sharing of information between the Secretary and state authorities regarding PTINs and return preparer minimum standards.

Effective Dates

The provision is effective 180 days after the date of enactment, except that preparers with an AFSP certificate on the date of enactment will be treated as satisfying the educational requirement for the year to which the certificate applies. Courses offered by providers approved to provide education for purposes of the AFSP are treated as meeting the requirements of this provision until the Secretary has established requirements as provided by this provision and published a list of approved educational programs.

Title VI—Independent Office of Appeals

Sec. 601. Authorization for Office of Appeals to Hire Attorneys. Although Appeals must consider the "hazards of litigation" in settling cases without litigation, it is not authorized to hire its own attorneys. It relies on the legal analysis of attorneys who work for the IRS Office of Chief Counsel (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 provision enhances the independence of Appeals by authorizing it to hire attorneys who report directly to the Chief of Appeals, rather than to Chief Counsel. Such attorneys do not represent the government in litigation and their legal interpretations are not binding on the Secretary. The provision does not change the role of Chief Counsel attorneys or bar Appeals from continuing to receive advice from them. The provision is effective on the date of enactment.

Sec. 602. Authorization for Office of Appeals to Direct Hire Certain Individuals. In the past, Appeals has had difficulty hiring qualified personnel, especially those who do not work for IRS enforcement functions. To address this challenge and to support Appeals' independence from the IRS enforcement functions whose decisions Appeals' employees review, the provision authorizes Appeals to use direct hire authority to quickly hire qualified candidates who do not work for IRS enforcement functions. The provision is effective on the date of enactment.

Sec. 603. Responses to Claims for Refund Required; Appeal of Claims for Refund Authorized. When a taxpayer files a timely claim for refund (within the period provided by section 6511(c)), the IRS is not required to respond. After 6 months, if the IRS has not responded the taxpayer may file a refund suit. Judicial resources may be expended before the IRS's exam function or Appeals have had an opportunity to evaluate the claim.

The provision requires the IRS to examine timely claims for refund submitted in the form and manner required and mail a notice of determination to the taxpayer's last known address within 12 months or such later date as agreed to by the parties. Any such notice must include a detailed explanation of the determination, and instructions for appealing the determination to Appeals. The taxpayer may appeal a disallowance within 30 days. If the IRS does not timely respond, the provision permits the taxpayer to treat the IRS's failure to timely respond as a disallowance, and triggers the taxpayer's right to appeal the denial to Appeals. In such cases, the provision requires the IRS to pay additional interest (an additional 1 percent, up to $500, annually adjusted for inflation) on any refund due. The period for filing suit is suspended during the pendency of any such appeal. Frivolous claims are not covered by the requirement to provide a detailed written explanation or access to Appeals. The provision is effective for claims received more than 12 months after the date of enactment.

Sec. 604. Appeals of Returned Offers. Section 7803(a)(3)(E) provides that taxpayers have the right to appeal a decision of the IRS in an independent forum. Although taxpayers can appeal the rejection of an offer-in-compromise to Appeals, they cannot appeal a determination that their offer is "non processable." Taxpayer advocates have observed that this is a de facto rejection of offers that are sometimes processable. They report, for example, that offers may be returned as non-processable because the IRS believes the taxpayer has unfiled returns, even if the taxpayer was not required to file. Without any clear way to appeal complicated processability determinations, taxpayers may have difficulty resolving tax delinquencies. The provision clarifies that taxpayers can appeal a determination that an offer is "non-processable" to Appeals. The provision is effective on the date of enactment.

Sec. 605. Purposes and Duties of Independent Office of Appeals; Right of Appeal Clarified. The mission of Appeals is to resolve tax controversies without litigation on a basis which is fair

and impartial, and in a manner that will enhance voluntary compliance and confidence in the integrity and efficiency of the IRS. To help ensure Appeals has full authority to avoid litigation, the provision clarifies that without exception, Appeals shall consider the hazards of litigation (i.e., the likely outcome if the dispute were litigated), if any, in disputes concerning a federal tax controversy, including disputes about a taxpayer's liability for tax, penalties, and additions to tax, the collection of any such liability, and the IRS's exercise of discretion in these areas.

Section 7803(e)(4) currently provides that access to appeals shall generally be available to all taxpayers, but regulations provide significant exceptions. The provision expands access to Appeals by emphasizing a taxpayer's right to access Appeals and codifying limited exceptions. The exceptions only include appeals:

(1) Of disputes that do not involve liability for tax, penalties, or additions to tax. Appeals' core mission is to resolve controversies concerning tax liabilities and not necessarily to resolve other types of controversies (e.g., disputes about the availability of certain administrative procedures such as Taxpayer Assistance Orders).

(2) Based solely on the argument that a statute, regulation, or other guidance issued by the Secretary is unconstitutional or otherwise invalid, unless there is an unreviewable decision from a federal court holding that the item is unconstitutional or otherwise invalid. A determination that such authorities are invalid should be addressed in a public court decision so that secret law does not develop. Appeals is also not well situated to definitively opine on the validity of tax laws or official IRS or Treasury guidance. In cases that implicate other factual or legal issues, however, Appeals will continue to consider the validity of any applicable law or guidance and the weight that a court would give to it.

(3) Of a position rejected in federal court and identified as frivolous by the Secretary (or an associated penalty). Evaluating frivolous submissions is not an efficient use of Appeals' limited resources.

(4) Of issues resolved by a closing agreement under section 7121. An agreement to resolve a matter is an alternative to seeking resolution at Appeals.

(5) Of a matter that could interfere with the criminal prosecution of a tax-related offense. As a matter of practice, criminal tax controversies are resolved before any civil controversies, in part, to prevent taxpayers from inadvertently incriminating themselves. It would be inappropriate to require Appeals to address civil claims prematurely.

(6) A case that Chief Counsel has designated for litigation and is prepared to litigate timely. Timely resolution of disputes in court can provide clarity to taxpayers and reduce litigation in other cases. The provision, however, does not authorize the designation of an entire class of cases for litigation, as doing so unnecessarily delays the resolution of disputes and does not appropriately account for factual and legal differences between cases.

The provision does not prevent Appeals from hearing cases or classes of cases that it is not required to hear. Nor does the provision affect other statutory provisions that expressly grant or deny taxpayers a review by Appeals. The provision is effective as of the date of enactment.

Title VII—Whistleblowers

Sec. 701. Standard and Scope of Review of Whistleblower Award Determinations. The current IRS whistleblower statute provides a whistleblower the right to appeal an IRS award determination to the Tax Court. The Tax Court has ruled in *Kasper v. CIR*, that it can only review IRS award determinations based on the highly deferential "abuse of discretion" standard. This provision clarifies that the Tax Court should review all such decisions "de novo," which will allow the Court to take a fresh look at the record and evidence introduced on appeal to determine the soundness of the IRS decision. Any such review is based on the administrative record at the time of the decision and any newly discovered evidence. The provision is effective for petitions pending on or filed on or after the date of enactment.

Sec. 702. Exemption from Sequestration. The Office of Management and Budget has determined that IRS whistleblower awards are subject to budget sequester which can reduce mandatory awards below the statutory floor of 15 percent. Other whistleblower award programs, such as the False Claims Act, are not subject to sequestration. IRS awards are necessarily paid out of collected proceeds or amounts that the government would not have received but-for the actionable information provided by the whistleblower. Those who risk coming forward and generate significant revenue to the Treasury should receive the full congressionally mandated awards under section 7623. The provision exempts section 7623 awards from budget sequestration. The provision is effective for any sequestration order issued after the date of enactment.

Sec. 703. Whistleblower Privacy Protections. The Tax Court has generally used its own discretion to allow IRS whistleblowers to proceed anonymously before the Court. However, the IRS has occasionally contested motions by a whistleblower to proceed anonymously. Disclosure of the whistleblower's identity puts the individual in jeopardy and deters other whistleblowers from coming forward to share actionable information. Further, identification of the whistleblower may lead to the identification of the taxpayer (who is not a party to the case). This provision clarifies that when appealing an award decision, the whistleblower will proceed anonymously before the Tax Court unless the court determines there is a heightened societal interest in knowing the whistleblower's identity that outweighs the potential harm of disclosure. The provision is effective for petitions which are pending on, or filed on or after, the date of enactment.

Sec. 704. Modification of IRS Whistleblower Report. The provision requires that the IRS Whistleblower Program's annual report to Congress list the top 10 areas where whistleblowers have identified tax avoidance schemes. This real-time information on violations will assist congressional tax writing committees in strengthening the tax laws. The provision is effective for reports for fiscal years ending after the date of enactment.

Sec. 705. Interest on Whistleblower Awards. Whistleblower claims can take years to go through the IRS review and award determinations process. Whistleblowers have expressed concerns that the IRS has sometimes delayed issuing awards even after the IRS has collected all proceeds. This provision is intended to ensure the IRS pays awards in a timely manner. Interest begins to accrue on an award if the IRS fails to provide notice of a preliminary award recommendation within 12 months after the first date on which all proceeds are collected and no opportunity remains for the taxpayer to contest the liability or seek a refund. In general, the provision is effective 180 days after the date of enactment. The provision requires interest on whistleblower awards beginning on the date that is 18 months after the date of enactment.

Sec. 706. Correction Regarding Deduction for Attorney's Fees. The 2006 amendments to section 7623 provided that whistleblower attorney's fees are not to be included in income under the new mandatory award program created under section 7623(b). However, similar treatment was not put in place for awards under the discretionary IRS award program described in section 7623(a). The provision ensures conformity of tax treatment of attorney's fees between the two IRS award programs and with other federal whistleblower award programs. The provision is effective for taxable years ending after the date of enactment.

Title VIII—Stopping Tax Penalties on American Hostages

Sec. 801. Postponement of Tax Deadlines for Hostages and Individuals Wrongfully Detained Abroad. Under current law, tax deadlines are postponed while an individual is serving in the U.S. Armed Forces or in support of such Armed Forces, in an area designated as a "combat zone" and during their hospitalization resulting from such service. However, individuals who are unlawfully or wrongfully detained or held hostage abroad are expected to meet their tax deadlines. Upon their release, some former hostages have reportedly returned to a stack of bills for tax, penalties, and interest.

The provision extends the tax deadlines of any applicable individual who is unlawfully or wrongfully detained or held hostage abroad (and the individual's spouse). On January 1 each year the Secretary of State and the Attorney General are required to send the Secretary of the Treasury a list of eligible individuals. Then the IRS abates and refunds any interest, penalty, or additional amounts assessed for the period that tax deadlines are postponed. The provision is effective for taxable years ending after the date of enactment.

Sec. 802. Refund and Abatement of Penalties and Fines Paid by Eligible Individuals. Under section 6511, a three-year limit on claiming refunds may bar refunds to some hostages and individuals unlawfully detained abroad who would otherwise be eligible for relief under section 801.

The provision extends the limitations period under section 6511 for claiming refunds of interest, penalties, and additional amounts attributable to periods between January 1, 2021, and the date of enactment until one year after the IRS provides the individual with notice that they may be entitled to relief. The provision also requires the IRS to send such notices. It is effective for taxable years ending on or before the date of enactment.

Title IX—Small Business

Sec. 901. Implementation of Voluntary Withholding Agreements for Payments to Independent Contractors. Under current law, independent contractors (ICs) face the burden of directly paying their estimated taxes on a quarterly basis. Some would prefer for their taxes to be withheld from their earnings. Businesses that receive services from both employees and IC**s** could withhold taxes for the ICs by adding the ICs' withholding to the taxes that they already remit for employees.

The Secretary is authorized by section 3402(p)(3) to provide for voluntary withholding by a business on payments if both parties agree. Oversight agencies such as GAO and TAS have recommended that the Secretary issue guidance to implement voluntary withholding agreements for ICs, but no such guidance has been issued.

To cut red tape for small businesses, the provision expressly permits voluntary withholding on non-wage remuneration. It also directs the Secretary to issue regulations or guidance on the amount to be withheld and the types of payments considered non-wage remuneration. It is effective on the date of enactment.

Sec. 902. Establishment of Failure-to-Pay Penalty Safe Harbor for Individuals. Taxpayers sometimes request extensions of time to file tax returns. These extensions allow individuals an additional six months – generally from April 15 to October 15 – to prepare the tax return, but do not extend the payment deadline. A failure to pay penalty applies to amounts not paid by the April deadline, even if the taxpayer needs a filing extension. Taxpayers who file an extension because they do not have the information they need to compute their tax liability still need to estimate how much to pay. While section 6654(d) provides that an individual can avoid an estimated tax penalty by making four equal estimated tax payments totaling 100 percent of the tax shown on the prior-year's return (or 110 percent for those with higher incomes), no similar safe harbor applies to the failure to pay penalty.

The provision waives the failure to pay penalty for individuals who timely pay (without regard to any extension) 125 percent of the amount of tax shown on the person's prior year return by the due date (without regard to extensions). This safe harbor does not apply to entities, those who have not fully paid when they file their return, or those who do not file their return and pay what they owe by the extended due date for filing. Nor does it apply to those who did not file a timely return during the prior year or those whose prior-year return covered less than a 12-month period. Interest continues to run on any unpaid tax during the period of extension. The provision is effective for taxable years beginning more than 12 months after the date of enactment.

Sec. 903. Extension of Mailbox Rule to Electronic Submissions and Payments. If the IRS receives a document or payment late, it is required by statute to be treated as timely if the taxpayer can show it was timely mailed using certain delivery services. This "mailbox rule" does not apply to most electronic submissions. For example, an electronic payment submitted through the Electronic Federal Tax Payment System (EFTPS) on the due date can be treated as late, but a check placed in the mail on the due date will be treated as timely if postmarked on that date. This

provides an incentive for taxpayers to use registered or certified mail to communicate with the IRS.

The provision extends the statutory mailbox rule to electronic submissions of documents and payments using any transmission method permitted by the Secretary, provided the documents or payments are received within 3 business days. This rule does not apply where the Secretary determines the system was designed with a principal purpose of profiting from delay in the transmission of transferred funds. The provision is effective for documents and payments sent one year or more after the date of enactment. It also requires the Secretary to issue implementing regulations by that date.

Sec. 904. Specificity of Third-Party Contact Notices. Because asking a third party for information about a taxpayer can damage the taxpayer's reputation or business, the IRS is required to provide advance notice of third-party contacts to taxpayers. However, the IRS is not required to tell the taxpayer what information it needs or to give the taxpayer a reasonable opportunity to provide the information so that the contact is unnecessary.

The provision requires the IRS to provide taxpayers with a notice that identifies the specific information it plans to request from a third party and give the taxpayer an opportunity to provide the requested information. This requirement does not apply if the taxpayer would not be expected to have the information the IRS needs (e.g., the IRS needs to verify information provided by the taxpayer) or if another statutory exception applies (e.g., if advance notice would jeopardize the collection of tax). This provision is effective 12 months after the date of enactment.

Title X—Miscellaneous

Sec. 1001. Authority for Redisclosure of Certain Tax Information Related to Education Loans to the Congressional Budget Office. The Congressional Budget Office (CBO) previously received from the Department of Education (ED) the income of student loan and Pell grant recipients, which ED obtained directly from borrowers. CBO needs this data for analysis that it conducts for Congress. As a result of the FUTURE Act, Pub. L. No. 116-91, ED is receiving income information from the IRS (rather than from borrowers), which is classified as federal tax information (FTI). FTI can only be disclosed to the extent authorized. CBO receives federal tax information for other purposes and is compliant with the IRS's security requirements but is not currently authorized to receive this borrower data.

The provision amends section 6103(l)(13)(D) to authorize CBO to continue to receive this data. It also requires the ED to submit an annual report to the Secretary of the Treasury regarding any authorized redisclosures, unauthorized redisclosures, and unauthorized use or access. The provision is effective for disclosures made after the date of enactment.

Sec. 1002. Authorization to Require Large Partnerships to File on Magnetic Media. A partnership is currently required to file electronically if it files at least 10 returns (not counting Schedules such as K-1) or has more than 100 partners. This requirement is subject to waivers based on undue hardship, religious belief, or if IRS systems do not support electronic filing.

Certain partnerships with significant assets or economic activity are not required to file electronically.

The provision authorizes the Secretary to require returns to be filed electronically by partnerships with assets of $1,000,000 or more or gross receipts of $250,000 or more during its taxable year. It does not change the requirement for partnerships with more than 100 partners or filing at least 10 returns to e-file. The provision is effective for returns filed on or after January 1 of the first calendar year beginning after the date of enactment.

Sec. 1003. Limitation Period Not Extended for Victims of Preparer Fraud. The provision clarifies that the exception to the general statute of limitation for fraudulent returns applies only when it is the taxpayer who seeks to evade their tax obligations. Misconduct solely by a third-party, such as the taxpayer's return preparer, can no longer indefinitely suspend the assessment limitation period. The change reinforces a taxpayer's right to finality under the Taxpayer Bill of Rights. The provision is effective with respect to assessments made or proceedings begun after the date of enactment.

Sec. 1004. Technical Amendment Related to the Disaster Related Extension of Deadlines Act. This provision makes a technical correction in code section 7508A.