H.R. 4912, the Taxpayer Protection Act of 2016

Title I. Protection of Taxpayers from Abusive Tax Collection Practices

Section 101. Repeal private tax-debt collection authorization.

This section repeals the IRS's authority to enter into contracts with private-sector companies to collect federal tax debts owed by taxpayers. Private-sector collection is likely to result in taxpayer harassment, including improper, and high-pressure collection techniques. Additionally, the use of nongovernmental employees is likely to make taxpayers more susceptible to identity thieves and confuse taxpayers as to who are legitimate points of contact for transacting their federal tax affairs. This provision is effective upon date of enactment.

Title II. Relief for Taxpayers

Section 201. Limited exclusion of discharge of indebtedness income.

The forgiveness or discharge of a debt generally gives rise to taxable income. This provision would provide a $10,000 lifetime exclusion from discharge of indebtedness income for taxpayers. The provision would be effective for discharges of indebtedness after date of enactment.

Section 202. Repeal suspension of statute of limitations during pending application for Taxpayer Assistance order.

Under present law, a taxpayer may request the assistance of the National Taxpayer Advocate for help in dealing with the IRS on a tax case. If the advocate agrees to assist the taxpayer, the statute of limitations for the taxpayer's case is suspended. This suspension is improper given the reason that the advocate would agree to assist a taxpayer—which is generally cases that cannot be resolved under usual procedures because those procedures have broken down. Additionally, IRS computer systems are not able to reliably track this suspension. This section would repeal the suspension of the statute of limitations. This provision would be effective upon enactment. This is a recommended legislative provision from the National Taxpayer Advocate's 2015 Report.

Section 203. Limitation on levies on retirement savings.

This section would provide statutory rules for when the IRS may levy defined contribution retirement accounts, such as 401(k) plans and IRAs. Existing IRS rules generally limit such levies to cases involving flagrant IRS conduct, which is undefined. This section would prohibit levies prior to attainment of the plan's normal retirement age (or age 65 if there is no defined normal retirement age) unless the taxpayer has engaged in flagrant conduct. Flagrant conduct is defined as filing a fraudulent tax return or engaging in tax evasion activity. Further, a levy against a retirement account would not be permitted upon attainment of normal retirement age if the levy would cause economic hardship to the taxpayer, unless the taxpayer has engaged in flagrant conduct. This provision would be effective January 1, 2017. This is a recommended legislative provision from the National Taxpayer Advocate's 2015 Report.

Section 204. Tolling of Limitation on Levy Recovery for Disabled Taxpayers.

Wrongfully levied money (and amounts received from the levy of property) generally must be returned to a taxpayer within 9 months of the levy. This provision would suspend this limitation during the period that a taxpayer qualifies as a financially disabled taxpayer. A financially disabled taxpayer is a taxpayer who cannot manage his or her financial affairs due to a medically determinable physical or mental impairment. This provision would be effective upon enactment. This is a recommended legislative provision from the National Taxpayer Advocate's 2015 Report.

Section 205. Expanded time period to withdraw frivolous return.

A taxpayer is subject to a $5,000 penalty for filing a frivolous tax return unless the taxpayer withdraws the return within 30 days of receiving IRS notice that the return is frivolous. This provision would expand the 30 day grace period to 60 days to allow taxpayers who are victimized by return preparers who take frivolous positions sufficient time to retain competent advice and representation. This provision would be effective January 1, 2017. This is a recommended legislative provision from the National Taxpayer Advocate's 2015 Report.

Section 206. Repeal of partial payment requirement on submissions of offers-in-compromise

Under current law, an offer-in-compromise to settle a tax liability for less than the amount owed must be accompanied by partial payment of the offered settlement amount. This applies for lump sum offers as well as installment payment offers. This provision would repeal the partial payment requirement, effective for offer submitted after date of enactment.

Title III. Assistance for Identity Theft Victims & Low-Income Taxpayers

Section 301. Right to notice of identity theft.

This provision would require the IRS to notify a taxpayer if the IRS has notice that there is unauthorized use of a taxpayer's identity, provided that such notice does not jeopardize an IRS investigation. Taxpayers would also be entitled to notice of any criminal charges that are filed on account of such unauthorized use of a taxpayer's identity. This provision would be effective immediately. This provision can be found in section 105 of H.R. 3981, introduced by Mr. Pascrell (D-NJ) (114th Congress).

Section 302. Single point of contact for identity theft victims.

Under this provision, the IRS would be required to set up a new, single point of contact for taxpayers who are victims of identity theft to communicate with the IRS. The provision would be effective 6 months from enactment. This provision can be found in section 102 of H.R. 3981, introduced by Mr. Pascrell (D-NJ) (114th Congress).

Section 303. Referrals to low-income taxpayer clinics permitted.

Currently, Treasury employees are prohibited from referring taxpayers to specific law firms or other businesses for assistance with the tax controversies. This provision would permit referrals to low-income taxpayer clinics. This provision would be effective upon enactment.

Section 304. EITC Outreach

This provision would require IRS to notify taxpayers who appear to be eligible for the EITC (based on their filed tax returns) but did not claim the credit that they may be eligible for the credit. This provision would be effective January 1, 2017.

Title IV. Ensure Taxpayer Access to Competent Tax Return Preparers

Section 401. Regulation of tax return preparers.

This section would give IRS the authority to regulate paid tax return preparers. Return preparers would be required to demonstrate their competency in advising and assisting taxpayers with return preparation. This provision is in response to a federal appeals court decision which held that the IRS does not have the authority to regulate tax return preparers. The provision would be effective upon enactment. This provision can be found in section 202 of H.R. 4128, introduced by Mr. Becerra (D-CA) and section 406 of H.R. 3981, introduced by Mr. Pascrell (D-NJ) (114th Congress).

Section 402. Authorization to publish sanctions.

Section 6103 of the tax code prohibits the disclosure of certain information relating to the filing of taxes. This section would amend the disclosure rules to permit the IRS's Office of Professional Responsibility to publish its final decisions relating to tax return preparer misconduct. Taxpayers and the tax return preparer community have a right to receive notice of return preparer misconduct. This provision would be effective upon date of enactment.

Title V. Increase Funding for Services to Taxpayers

Section 501. Funding for low-income taxpayer clinics.

The legislation increases the current annual funding for low-income taxpayer clinics from $6 million to $25 million. This provision would be effective upon enactment.

Section 502. Funding for IRS Taxpayer Services

This provision would provide $2.406 billion in funding for the IRS for providing taxpayer services for federal fiscal year 2017 (which begins October 1, 2016). IRS funding has been cut by over $1 billion in the last six years. While last year's IRS appropriations bill provided an additional $290 million to IRS for FY 2016 for measurable improvements in customer service, the IRS needs unconditional and dedicated revenue to provide taxpayers services.