1997-SE-011763

Bob:

(2)

I am faxing you the following:

1) one page from Ms. Lund's testimony (she is sometimes referred to as Ms. Hicks) that indicates that the IRS resolved her case after she wrote to Senator Roth. This is what I mentioned to you on the phone.

2) Selected pages from Mike Dolan's testimony at the hearings. I have starred the parts of each page that I would like you to see. You don't have to read all of each page. The total number of pages is 12.

The topics covered -- in the following order -- are:

a)His intention to share with you right after the hearings his assessment of how the 4 cases got bollixed up.
b)His pledge about the regional commissioners (you already have this in your briefing book or some place like that)
c)His pledge to discuss the cases in detail when he brings Senior IRS officials to town (he already brought them to town)
d)His Discussion with Senator Roth on finishing the four cases, especially the Jacobs case
e)A brief discussion about an earlier Justice letter that was introduced at the hearing regarding the Savage case. You need a more detailed briefing on this from someone.
f)His dialogue with Senator D'Amato, including a discussion about finishing the Jacobs case
g) Dialogue of Senator D'Amato and Ron Rhodes, IRS Assistant Commissioner of Collections about finishing the Jacobs case.
1)Mr. Dolan's Dialogue with Senator Roth on the Savage case.

3) I am also faxing you the written testimony of each of the four taxpayers. Three of them are very short. The fourth is a little longer. It would take you a short time to read the first three and not much longer to read the fourth. **I HIGHLY RECOMMEND THAT YOU READ THEM. NANCY'S HIGHLIGHTS VIDEO CAN'T FULLY CAPTURE WHAT THEY SAID IN THEIR TESTIMONY. ONE OF THE SENATORS COULD ASK YOU IF YOU SAW OR READ THE TESTIMONY. EVEN MORE IMPORTANT, IN MY VIEW, YOU WILL NOT BE ABLE TO UNDERSTAND THE EMOTIONS OF THE SENATORS AND ALL OTHERS WHO HEARD THE TESTIMONY UNLESS YOU READ IT OR SEE IT ALL YOURSELF. AS I SAID, IT IS NOT THAT LONG.**

Alan

Ms. Lund's Testimony

able to pay $3,500 and be done with it. So, that's what we did. We made a directed voluntary payment of $3,500. We put the rest of the money in a CD in case the IRS swooped in to destroy us unannounced. We waited.

Our lives are now forever altered. Joint tenancy, joint bank accounts, joint tax returns are no longer a part of our life. We will pay additional taxes every year as a result. Our confidence in the integrity of the IRS has been completely shattered. This year we got a refund on our 1996 taxes and sits in a CD as does the $3,500 that the IRS recently returned to us without any explanation. We don't dare cash refund checks anymore. My credit is completely destroyed, and my husband's credit is seriously damaged. We will suffer the effects of this IRS collection for the rest of our lives.

I originally wrote to you, Mr. Chairman, because the IRS should not be above the law. Couples should not have to divorce because of the IRS. Once you became involved, the IRS released all the liens and sent us back the $3,500. Senator Roth, your effort saved us from being forced to live apart, and preserved our ability to provide for our children. For this, we will be forever grateful. However, the conduct of the IRS remains the same, and for thousands of other taxpayers, there is no help. Ours is a hollow victory if the IRS is allowed to continue this type of conduct.

People tell us how terrified they would be to do what we have done. They are convinced that the IRS will target us for punitive audits. One person put it this way, when she learned we had written to Congress, "..that's like painting a bull's eye on your chest and giving the IRS a loaded gun...." She believes the IRS will never forget this and someday get back at us in retaliation. Mr. Chairman, she could very well be right. The IRS is judge, jury and executioner -- answerable to none. We do not believe that our experience is isolated. For over 10 years the IRS has conducted itself as a legalized extortion operation willing to commit

and for that, I have said earlier, and I say today, I am extraordinarily sorry. As I listen to the statements that both the members of this committee made and witnesses during the week made, it struck me that there were three basic themes that we sounded in the course of the week's hearings. The first one is clearly, as I said, individual cases were identified that were handled badly. They caused the affected taxpayers to suffer in ways they should not have.

DOLAN: We were part of disrupting their lives. And this is wrong. No excuse for it. It's not acceptable.

The second theme that I think I heard this week has to do about IRS culture. And I think the discussion...

ROTH: I'm sorry. I what?

DOLAN: The IRS culture.

ROTH: And as I've, at least, listened to the week's witnesses and tried to glean from what you've heard, it strikes me that those who have asked you to concentrate on the culture prompt the question of whether the IRS culture indeed causes us to deal with taxpayers in a callous form, an overaggressive form, or perhaps a form of even more seriousness.

The third witness -- the third issue that strikes me that came out in the course of the week was one where I would lump two kinds of concerns I heard.

One was on the basic fairness. And that got manifest in the form of several concerns about whether smaller taxpayers as contrasted with larger taxpayers were focused on disproportionately.

And the second part of that fairness issue, I think, had to do, Mr. Chairman, with something you mentioned in your opening. The business of quotas and goals.

And so, you probably could stack the week's testimony differently, but those are the three themes that I believe, at least from my listening, were ones that summarized some of the more crucial points. And that are the ones I would to address as I can this afternoon.

Maybe before I do that, I'll tell you something that I think you probably both know. In preparation for these hearings it's been real clear to me that both Secretary Rubin and Deputy Secretary Summers are vitally interested, not only in the hearings, but the issues that underlie the committee's attention.

They have had some considerable interest in the last several years with improving our customer service capacity, and treated it, actually, as one of their central priorities.

Upon the close of this hearing, I will clearly share with them both the assessments we've made of how cases got bollixed and, in addition, will talk to them about, on a forward-going basis, the things that need to be done.

With respect to the specific cases, you've heard from four taxpayers that

were legitimately frustrated by the way the IRS dealt with them. These taxpayers didn't receive the treatment that they deserved. And while each of the cases was different, the end result was indisputable.

We were wrong in the way we handled many aspects of the cases. And I appreciate that, at this stage in their ordeal, an apology does little to correct the frustration they felt. But I would hope that, perhaps, in apologizing for them they may take some solace in the fact that we will deal with their cases -- that the outcomes of their cases in a way that will hopefully result in others being kept from that same experience.

You said something, though, Mr. Chairman, at the beginning. And I think others have repeated it. I think, in all fairness to the work force of the IRS who succeed in doing a very complex job well, these hearings have to be placed ultimately in a larger context.

The context of the millions -- the millions of successful taxpayer interactions that IRS has each year.

And many of you urged that in your statements. And I know I appreciate it, and I know my colleagues appreciate it.

Notwithstanding that fact, I think there are a number of actions we've got to take immediately to try to preclude the kind of case incidents that you saw before this committee earlier this week.

And in preparing to come before you, a series of us have spent a lot of time with these cases. Perhaps not as much time as some of your staff, but a lot of time. And in so doing, we've, I think, gotten a very graphic sense for some of the frustration that taxpayers experienced in these instances.

And one of the things I think incumbent on me is to demonstrate, in some visible way, what the impacts of this frustration have been to the rest of our organization. So that the organization doesn't treat this as a set of three days of hearings and four taxpayers, but as a device by which find out how to do things differently. Find out how to not cause these problems to recur.

As a consequence, I am in the process of doing several things related directly to what this hearing has brought to bear.

DOLAN: In the first instance, what I am doing is asking each of the regional commissioners under whose jurisdiction those four cases reside to take a transcript of this hearing, to take the witnesses testimony, to take the case files we assembled and to take that back to the individual office in which this case originally arose. And to the extent that there was more than one office as there was in several of the cases, to take it, break the case down, understand from the first moment, what happened in the case, understand where the errors were made, and perhaps more importantly, identify the places at which somebody could have fixed it. Because, as I look at these cases, as objectionable in many instance as the original error was, perhaps more troubling was the opportunity that people had along the way to recognize something off the track or to recognize that there was the capability to fix it.

you've got two, both kind of instances at work there. ROTH: Are you aware of instances where IRS inspection employees had been used to intimidate or harass other employees? DOLAN: I'm not personally aware of that, no. As a matter of fact, I think my view of the inspection service is quite a lot different than what I heard this morning described and I was, that's part of what concerned me.

DOLAN: Because I -- I have known the Inspection Service to do a very good job of taking many serious allegations, and in the case where they are substantiated, helping us prosecute them. And in many other instances, they help exonerate the employees' conduct.

So, I -- I have come, over my career, to -- to respect the inspection...

ROTH: No...

DOLAN: ... service.

ROTH: I would point out that the employees this morning were under oath...

DOLAN: I understand that. I -- I don't belittle that for a moment.

ROTH: And, are you saying they were not being honest...

DOLAN: Not at all...

ROTH: ... in their...

DOLAN: I -- I'm repeating what I said at the outset, is, even where my understanding of the facts might differ from theirs, I'm going to treat their statements this morning and their concerns seriously and pursue them.

ROTH: Are you aware of IRS employees engaging in "whipsaw" efforts? That is, attempting to collect tax from someone they know does not owe the tax?

DOLAN: The -- -- The basic question is that we don't -- the employees -- I don't know about employees who are trying to collect taxes not owed. There is a -- there is a -- there is a -- the term "whipsaw" gets applied to a couple of different transactions, and to expect you'd like to pursue that further, I'd like to have either Tom Smith or John Dalrymple help me on that, so I'm happy to do that now, or in...

ROTH: My time is -- is running out, so we won't do that at this time, but Mr. Dolan, the taxpayers that testified yesterday need to move on with their lives and close the chapter that's relating to the IRS.

I'm sure you'll agree with me that they need to be treated equitably. Can you make a definitive statement that you will send a letter to the four taxpayers, equitably resolving their disputes with the IRS?

DOLAN: Mr. Chairman, I can tell you that, if -- if -- I'm going to be unequivocal about three, and I'm going to tell you that in the fourth case -- and I think you may be familiar with this -- in the fourth case, I have only limited disclosure authority.

I -- I -- I -- I feel certain that in two cases we are already there and I'd

have no trouble at all writing a letter. In the third case, we have offered to send to the taxpayer's residence one of our problem resolution officers, because the taxpayer believes there may still be an amount that was not correctly credited somewhere over a period of years.

And so, I will certainly commit to working to that sort of conclusion. I don't -- at this point, I'm not sure what me committing to you about "equitable." I mean, I -- I -- "equitable" -- if "equitable" means getting it to the right substantive result, I will certainly commit that.

ROTH: Let me ask you this, specifically. Is the IRS in a position to send the Hicks a letter indicating that they do not owe tax liability relating to Mrs. Hicks' 1983 joint tax return?

DOLAN: Such a letter is on its way, Mr. Chairman.

(OFF-MIKE)

(LAUGHTER)

ROTH: Fast, fast, but...

(UNKNOWN): ... through the Service.

(LAUGHTER)

ROTH: We've got about a hundred million more to write, while we want to... (OFF-MIKE) ... or whatever.

I would have to point out to my friend, the ordeal lasted 17 years.

DOLAN: I understand. I understand. I understand.

ROTH: And the Jacobs' case. How much money does the IRS owe the Jacobs? Has the entire amount been refunded with interest? If not, why? Does the IRS intend to make a prompt refund?

DOLAN: Could -- could -- if you don't mind, this would be the point where I have a couple of gentlemen who work these cases pretty closely. And I'd like not to misspeak on that, if I could invite them to the table?

(UNKNOWN): We need to swear them in.

ROTH: Anybody that's going to answer will have to be sworn in.

DOLAN: Mr. Chairman, can I make sure I understood your question because I think when we thought -- when I told the letter was on its way, I think we believe we resolved Jacobs in every facet. But, I want to make sure I'm not misunderstanding your question.

ROTH: He was asking about the Hicks in the case of the letter. I'm right on that, you asked about the Hicks being sent a letter. I was asking how much

money.

DOLAN: The Jacobs case is the case in which I mentioned that we believe it is solved. The Jacobs have suggested they believe that they possibly are due a refund. That's the one where we have asked a problem resolution person to go to their home and walk through any records that have not. We have a mountain of records we got to -- as a result of looking at those, so, I would say the Jacobs may still have a question and that's what we will seek to resolve. I'm told the Jacobs haven't decided whether they want us to come out or not.

(LAUGHTER)

ROTH: So, you don't know the answer.

DOLAN: I won't know the answers until we have a chance to talk to the Jacobs.

ROTH: Mr. Dolan, let me point out one of these things, because in talking about these cases, they're not merely statistics. They involve people.

DOLAN: Absolutely.

ROTH: And to me, it was shocking to sit here and listen to these cases, in the case of the Hicks, it went on, I think something like 17 years. Roughly the same for Jacobs. The emotional stress, what it does to an individual life is unbelievable. And there's no rationale or excuse for that kind of treatment.

DOLAN: You are absolutely right.

ROTH: So, it's important that we put these to a close. Now, I'd like to turn to the Savage case.

I would like to direct your attention to a letter relating to this case, which was discussed yesterday. The letter was written to the district council handling Mr. Savage's case. On November 1, 1993, by the chief of the civil trial section, Eastern region of the Justice Department. And the thrust of this letter is that the levy against Mr. Savage's business was wrong.

Let me read you what the Justice Department through Mr. Snyder wrote: "Specifically", he writes "after reviewing the complaint, the motion for summary judgment, your defense letter, and all the information forwarded by revenue office we believe that the levy in question was wrongful, even assuming the facts in their most favorable light, at the time of the levy, the IRS had assessed" -- and the point there they had not made a proper assessment. "No assessment existed against TSA or the alleged joint venture partnership. We do not believe that the IRS can levy on the partnership property for the unpaid federal employment tax liability of one of the partners".

And, it says, further on it says:"In fact, we read your defense letter to essentially concede that the levy was wrongful, and yet the levy was pursued, notwithstanding the fact that the U.S. Department of Justice Tax Division wrote that it was wrongful."

ROTH: But, what possible rationale is there for having proceeded in that case?

DOLAN: Mr. Chairman, I have to answer your questions two ways. The first, I believe you, or at least the staff, is conscious, this is a, this is a transaction that has more tax payers involved then Mr. Savage.

It's a transaction that when we first began to examine this, we ask for releases for all of the parties. We have only a release for Mr. Savage. I'm happy to do an executive session, a more thorough discussion of this, but I'm not able to do it in this setting with the limits on my disclosure ability.

Secondly, the issue to this letter, when this letter came up in Mr. Savage's testimony, I have asked the Justice Department to write me with their perspective on what this letter, what, what the context of the letter, and what they believed this letter should mean to me in the context of that case.

ROTH: I find that very difficult to understand. After the fact, of this late date, you're writing the Justice Department to give further explanation. I think this very clear...

DOLAN: On this letter, Mr. Chairman.

ROTH: ... the letter, without question, says that the action was wrongful. You don't need another letter to interpret that.

DOLAN: Mr. Chairman, what I...

ROTH: Let me just say...

DOLAN: ... certainly.

ROTH: ... that is what concerns me. It's no wonder a tax payer is feeling badgered, that he's not being dealt with fairly. In effect, you could almost call it extortion. Do you agree with that?

DOLAN: No, I don't agree with that, but let me...

ROTH: You think...

DOLAN: Mr. Chairman, let me just remake the case. I, we have spent months trying to work these cases and put everything we could on the table. This is a case that has at least two other parties.

I don't have the ability to talk about either of those two other parties, and so I can't explain what transaction might have, had this amount to something other that what it looks like on it's face.

(OFF-MIKE)

ROTH: For example, you say you need a release when the one party doesn't exist, the problem is that the agency tried to claim there was a partnership that did not in fact exist.

(UNKNOWN): Mr. Chairman, may I inquire about the rules of the committee here?

And -- and I'd suggest that anyone who paid just a little bit of time -- took the time to hear the witnesses yesterday would have to come to that conclusion. And not just with respect to the Savage case. And it almost appears to me that once again we are not participating in the kind of manner this is. Let's get down to the bottom of this.

What happened? Who is responsible? And how are we going to correct not only those cases that took place in the past, but set about a mind set and an attitude that we're not going to operate in that manner.

Every one of those cases, one of them more shocking than the other. More shocking than the other.

DOLAN: Senator, I...

D'AMATO: A simple, humble, optometrist. Now -- now let me say. You said to the chairman today, am I not right, when he asked you about -- to comment on the particular cases that you had directed. The district directors of each of these areas to report to you so that you could look into the file to ascertain what had taken place. Is -- is that right?

DOLAN: I said something a little bit different, Senator.

D'AMATO: Well, tell me what you said.

DOLAN: Sure. What I -- what I said was, we -- we in the context of the last five or six months -- have worked with the committee staff, and so we have assembled here, in each of the four cases at least, a fairly significant file. Worked that with the staff.

D'AMATO: Right.

DOLAN: Understand, here...

D'AMATO: Yes.

DOLAN: ... what went on. What I -- what I said I wanted the directors to do...

D'AMATO: Oh.

DOLAN: ... was take those files. In addition, I want them to do as you suggested. I want them to see the tape and I want them to read that -- the testimony of the taxpayers. So that, as they go back in their organizations and look at the ways they might have done it differently ...

D'AMATO: OK.

DOLAN: ... that -- that it's -- that it's used constructively.

D'AMATO: I -- I -- I have -- Here's -- here's the problem I have. As you said, these cases were not denoble (ph), they're not put forth newly to you for the first time. But indeed your staffs and the committee staff here had developed them. And knew about them, even before the members of the committee

had an opportunity to hear their stories.

I don't know which one was more chilling, to be quite candid with you. The story of Jacobs, the optometrist, I -- I found it just absolutely unconscionable. And it seems to me that if -- that you must have had, in the 17-year history of torturing those people, and that's exactly what took place, somebody had to have seen that there was another file and have known what was taking place in the course of that.

Now, one of the problems is accountability. And if you send out forms and you say, here's a lien, or, you owe so much, and no one signs. And -- and I can understand why you might not want a particular person's name because they might become a person who's harassed, but there should be some code, some number, A-26, so that in the organization, when a person calls and says, I got a letter and it was... don't you believe that that's necessary?

DOLAN: Senator, I agreed with an earlier question and I think that we do need to do more of that, yes.

D'AMATO: You see, now look, I feel totally inadequate as it relates to suggesting the kinds of things that can or should be done but it seems to me, in fairness to the committee and to the American public, that these are the kinds of things that you should be prepared today to have discussed with us and to sit -- let me tell you what we've learned.

Not only from these four cases, but I have to tell you, it doesn't take a rocket scientist, in listening to those four cases, to say, this is obviously one of the problems, accountability and we don't want to put our tax people in a position where they can be harassed.

So, I understand why you might not put a person's name and address and their home telephone but certainly there should be the ability for whoever is making a legitimate inquiry to know that they're just speaking to more than just a piece of paper that say's that you now have a tax liability of $2,752 and you better send the money in.

So that they can call and there's somebody that they can speak to and then after they had they know this is number 126-A or whoever that person is and so you can follow it.

That's one of the things that Monsignor Balwegg talked about, Jacobs, they never knew who they were talking about, Mrs. Hicks, in terms of her situation and so it seems to me, that even in your response, and I do not mean to personalize this, when you say, well, you know, we're sending these files back to the district office and telling them to look at this so that they can do better, I mean, that's incredible.

I mean, why, have you not analyzed each and everyone, of course you have, you've analyzed these cases, haven't you? I mean, your counsel was able to tell you well there's one party more, there's two people who haven't signed on, you've looked at them right?

DOLAN: Correct.

Today, we cross reference the social security number of the individual when they make application for identification number so that we end up assigning the original number. That is something that we've got in place.

D'AMATO: Let me go to this -- and I see the little red light is on -- and I'll come back to it. Have we figured out how much of a refund the Jacobs are entitled to at this point in time?

RHODES: I believe the Jacobs -- based on the information that we have, at this point, we've resolved the discrepancies in relationship to how much we believe that they owe and how much money we owe them.

What we're in the process of doing right now is attempting to offer to the Jacobs an opportunity to get with us, if they believe that there's other monies owe and due them, we're more than happy to sit down and work with them. Take a look at what information they have. Trace it back. Take whatever time that it has and to deal with any other question that they might have.

D'AMATO: Well, Mr. Chairman, you've been most indulgent and you've been here a long time and you got a General Accounting Office witness that is going to come up here. I think this makes the point though. Here these people have been going through 17 years and the fact is they still have not -- at least to their satisfaction -- I have to come down on their side -- had justice after they've gone through all kinds of incredible problems. Paying monies that they never had to pay to stay in business, worrying day and night. You couldn't help feel the sincerity of Mrs. Jacobs and the torture that her and her husband had to go through and no one there to really look at this and get this situation cleared up.

Even at the present time, the question is were refunds made to the proper taxpayers? We really don't know and I don't believe you're in a position to indicate that you know that. And how much was refunded and I would just commend to you that we undertake that even with this individual, at this late time. But I think all of their stories illustrate the very serious shortcomings -- very serious -- and certainly people have a right to know who they can to. Who did they last speak to? What number was it? Where was it?

You just can't send them out a piece of paper and nobody is held accountable for it.

And I think that's pretty basic, pretty basic. You shouldn't take this hearing. So, Mr. Chairman, I commend you. I think we're just scratching the surface. This is an enormous problem. I know it is complex and I think the American people in terms of some of the letters that I've gotten say accountability has been talked about, but it is time to put it into practice. And that's our obligation and also that of the service because we just can't legislate it as Senator Bryant has indicated. It's got to be part of the culture as well.

D'AMATO: Thank you.

ROTH: Thank you, Senator D'Amato. Senator Kerrey.

40,000 members of the IRS. And 35 years go by and we're down to an 83 percent voluntary compliance rate with 72,000 employees.

MOYNIHAN: Could I ask you, not off the top of your head, but if someone would think about that and give us a feeling for what may have happened, what may be the -- it speaks to a difficulty which can be complex, probably more than one thing. But I think we would like to know more about it as we proceed to the legislation that Chairman Kerrey, Senator Kerrey is talking about.

DOLAN: Senator I appreciate you kindness. I heard you frame the question this morning and I thought I was going to get an open book test here this afternoon and I would gladly you take you up on your offer of maybe giving you something more thoughtful than what I...

MOYNIHAN: Yeah...

DOLAN: ... would come up with off the top of my head this afternoon.

MOYNIHAN: Sure and would appreciate it very much. It's the kind of thing that I know you care about and maybe you half figure it out for us.

This will not be a simple answer I am sure.

DOLAN: Thank you.

MOYNIHAN: Thank you, sir.

ROTH: Mr. Dolan, you're almost at the end of your ordeal...

(LAUGHTER)

DOLAN: Thank you Senator.

ROTH: But, let me ask one final question on the Savage case. You started your testimony today by apologizing for the four cases we heard about yesterday. My question is, are you prepared to make restitution to Mr. Savage for taxes wrongfully collected from him? Now, I don't think that this question in any way violates Section 6103.

DOLAN: No, I don't think it does either, but I think there is -- I think there would be a need Senator to for me to understand better the theory by which Mr. Savage believes the restitution is due. I mean, I understand -- I don't for one second take back anything I said about the way these cases were handled and I understand and saw very graphically in him, in his testimony, as to how he felt about this. And so, the concern I have is that the settlement or the dollars
involved -- the dollars that flow to the government in this case, were dollars associated with the liabilities about which I'm not able to speak here.

I think the conclusion was that those dollars appropriately flowed there as a result of the court settlement and as a consequence, I'm hard pressed -- if restitution meant to reverse that, I think my answer at this point would have to be that I wasn't prepared to do that.

ROTH: Just let me make it very clear that I think it's outrageous what happened to him. Totally unfair, inequitable. You had a letter from the -- not your personally -- but the local IRS people had a letter from the Justice Department saying that the lien was wrongful. And that may have been the basis of the settlement.

DOLAN: Senator, if you would permit, I would -- when I get a response to the letter I, I mentioned earlier, I would clearly want to share that with you and with the staff when the Justice Department gives me that reaction.

ROTH: Well, I just think the facts are such that it's outrageous treatment of a very responsible taxpaying individual. I hope you will get back to me promptly.

DOLAN: I will, sir.

ROTH: I do want to thank you for being here today. I think these hearings are important, not only for the American taxpayer, but I think for the welfare and future of the agency and its employees.

I appreciate as I said, that you have agreed at least in part that there are some serious problems that have to be addressed.

ROTH: I can't tell you how important I think it is that we seek to work together. The secretary of the treasury, yourself, the House and the Senate, the administration in taking what steps are necessary to make this a service-oriented agency in fact, and not just in name.

DOLAN: Senator, I take your invitation very seriously and I know Secretary Rubin does as well.

ROTH: So, we will be -- in closing as far as you're concerned, I do want you to know that these oversight hearings will periodically continue. Because we think it's important that Congress makes certain that the agency is operated in a manner of the best interest to the taxpayer and the American government. So thank you very much for coming here today.

DOLAN: Thank you.

ROTH: Our final witness -- and we'll have to be relatively brief because I have other appointments -- but I am particularly pleased to welcome Ms. Lynda D. Willis, who is the director of tax policy administration issues for the General Accounting Office here in Washington. Ms. Willis, will you please come forward? I want to apologize to you. You've been shifted around from time to time in these hearings, it's not a lack of any interest or importance we attach to your work because the study you accomplished was most important. Would you raise your right hand? Do you swear you give will be the truth, the whole truth, and nothing but the truth, so help you God?

WILLIS: I do.

ROTH: Please be seated and proceed.

STATEMENT of Mrs. NANCY JACOBS
Before the
SENATE FINANCE COMMITTEE
OVERSIGHT HEARING ON THE
INTERNAL REVENUE SERVICE

Chairman Roth, and Senators of the Finance Committee, thank you for this opportunity to appear before you this morning to present my personal experience with the Internal Revenue Service.

I am Mrs. Nancy Jacobs. My husband, Dr. Fredric Jacobs, is a practicing optometrist from Bakersfield, California and we have operated an office for approximately 30 years.

When my husband first opened his practice in March 1965, in Stockton, California he was assigned an Employer Identification Number, or EIN, for reporting purposes to the IRS.

Between 1977 and 1979, my husband closed his practice, but in November 1979, he re-opened in a new office in Riverside, California. We applied for a new EIN number since he was re-starting the practice at a new site and knew we needed an EIN for tax reporting purposes. What neither of us knew at the time was that an EIN is like a social security number, it never needs to be changed or renewed. The original EIN had been assigned to us forever. However, when we requested a new EIN from the IRS, it complied with the request and the IRS provided us with a second number. But what we didn't know at the time was that the EIN the IRS provided to us in 1979 actually belonged to someone else, someone we would not be aware of until 1992.

By March of 1981, we were unexpectedly assigned yet a third EIN from the IRS, via a pre-printed label on a quarterly 941 tax return. However, we continued to use the number we were assigned in 1979 on all of our quarterly tax payments.

In June 1981, out of the blue -- without warning, the IRS placed a lien against us for $11,000 for unpaid payroll tax deposits. We couldn't find anyone with the IRS who would do us the courtesy of checking the lien against the EIN we had been using.

After attempting to deal with the IRS, my husband and I were so intimidated by the tactics used by the IRS that we agreed to pay the IRS $250 a week until the balance was paid. For anyone who has not had to deal with the IRS under such circumstances, you probably cannot understand why we would agree to pay $11,000 that we knew we did not owe. Only after you have experienced what my husband and I endured would you consider paying an IRS bill that you don't owe.

Even after the $11,000 was paid we continued to receive subsequent liens from the IRS. My husband and I were forced to comply with these IRS demands under the penalty of experiencing further enforcement actions with the possibility of the IRS closing down my husband's practice! We were forced into debt, our credit was damaged and the mental stress was overwhelming. During all this time we could not convince anyone at the IRS that we did not owe these taxes. In fact during one of our visits to the San Diego IRS Office we were flatly told by one IRS employee that she was too busy to help us anymore and refused any additional assistance in straightening out our account. We were then informed by her supervisor that this matter would be cleared up. It was a kind offer but that was all it was. Our nightmare continued. By 1987, we had received additional liens totaling roughly $15,000.

In 1982, we did seek the assistance of a Congressional representative. He contacted the IRS on our behalf requesting that the IRS stop all collection efforts, and for them to contact us in an effort to straighten out the problem. We did hear from the IRS in 1982. We met with someone from the Laguna Nigel office who told us that we had received four refund checks. We assured him that we had only received one for approximately $3,600. He promised that he would get copies of the other checks, but unfortunately he never did.

The only other consistent occurrence over the course of the years was the occasional appearance of the original EIN number on notices we received from the IRS, while all the others reflected my second EIN number. My husband and I began to wonder exactly where the taxes were going that we had been faithfully paying. No one with the California IRS offices that we contacted could explain it either, but they were adamant that whatever the reason, **we owed those taxes!**

By 1987, we again contacted a Congressional representative seeking intervention on our behalf. This time we did hear from the IRS but that, too, lead to another dead end.

In 1992, a patient of my husband's, a tax attorney, agreed to review our case and was the one who discovered the confusing EINs going back to 1979. Someone with a name quite similar to my husband's but with an entirely different social security number shared the EIN. Back in 1979, had the IRS employee properly informed us that we didn't need a "new" EIN, or at least checked the status of the number, this 17 year nightmare would have been avoided.

Mr. Chairman, since 1992, when we first discovered the mistake IRS had made, my husband and I have been trying to get our money back from the

IRS -- money that was wrongly taken from us by the IRS -- but to no avail. We have never received the money from the IRS as we had been promised. We estimate the IRS still owes us over $10,000, if not more, plus interest, stemming from their wrongful liens, penalties and interest.

Only in 1994, in an encounter with the IRS' Bakersfield Office did we meet the first truly helpful IRS employee who was willing to work with us and investigate the cause of our problem. We were informed that our problem was indeed due to a clear case of an erroneous Employment Identification Number. Unfortunately, this employee became ill and our case file was apparently "lost."

After yet another Congressional inquiry on our behalf in 1996, we learned that our "lost" case file was really not "lost" at all but had been referred to an IRS employee at the IRS' Fresno Service Center. Unfortunately, she was not responsive to our case and almost another year languished without satisfaction. Out of sheer frustration, my husband and I went to our local newspaper, and told our story.

Roughly 2 hours after the story appeared, that same IRS employee was on the telephone informing us that, "..We discovered that you were right..." and proceeded to discuss how our money would be returned to us.

We then received a fax from her stating that all liens had been lifted and the IRS was at fault for the incorrect EIN. However, when this IRS employee extended her "..sincere apologies...," in writing, she did not mention a refund of the money the IRS unfairly took from us. She did state, however, "..The Liens previously filed under Employer Identification Number XXXX were not correct and should not have been on Dr. & Mrs. Jacobs' account. The liens were not for their liabilities. Within the next 6 to 8 weeks, Dr. & Mrs. Jacobs will be in full compliance on all taxes both individual and

business...."

Mr. Chairman, both my husband and I are certainly pleased and greatly relieved that this 17 year confrontation with the IRS is almost over. But we cannot agree with the IRS that it is completely over. We would appreciate receiving our refund with the same enthusiasm and speed with which the IRS collected it. However, the real reason I am here this morning is to bring to light what my husband and I feel is an attitude that permeates the IRS. It is one of manipulation and control of the taxpayer. Both my husband and I were met with indifference when dealing with the IRS Offices. IRS employees were not interested in listening to us, much less investigating our assertions. They assumed we were guilty -- that we owed the money! The IRS is beyond the law. Congressional inquiries on our behalf met with only limp responses. Mr. Chairman, an agency with this type of power over American citizens requires someone to rid it of such abusive conduct. My husband and I commend you for your effort here today to accomplish that goal.

Thank you.

STATEMENT OF MONSIGNOR LAWRENCE F. BALLWEG
Before the
SENATE FINANCE COMMITTEE
OVERSIGHT HEARING ON THE
INTERNAL REVENUE SERVICE

Good morning Chairman Roth and Members of the Senate Finance Committee. I am Monsignor Lawrence F. Ballweg. I have been a priest in the Catholic Church for over 57 years. I was retired in 1990 at the mandatory retirement age of 75. My mother, Elizabeth Ballweg, died in August 1988 and, in her will, established a Trust -- the benefits of which go to charity. In the will I was named the Trustee and since her death I have faithfully and conscientiously performed my duties as Trustee. I have submitted an annual report of the Trust's activities to the IRS each year without any problems. During the year 1995, I made more numerous transactions than in previous years. In order to record all the income of the Trust, I listed the various items on separate sheets entitled Statement 1, Statement 2, etc., and then placed the totals in the appropriate spaces on the IRS Form 1041. I did this more for the convenience of the IRS than for my own convenience. Since I did not pay a professional to prepare the Trust's return, I spent hundreds of hours collecting the necessary papers and balancing the figures. I asked for an extension of time for 1995 so that I could be more confident that the report was as accurate as possible. Two months later the return that cost me so much time and effort was returned requesting that I put all my figures on the appropriate forms that were enclosed. My second report was done hurriedly and returned on July 7 to make sure that it reached the IRS office in the few days that were allowed. In my hurry to return this report on time, it may not have been done as perfectly as the first although all the figures were the same.

I spend six months in Florida and six months in New York. The day after I arrived in Florida (November 4, 1996) I received a letter from the IRS Atlanta office stating that I owed more than $18,000 in taxes and penalties. Since I had left a copy

of my final report in New York, I asked that a copy be sent to me. I was informed that I first had to request an application for a copy of my report and then return the application with a check for $14.00. When the application arrived I filled it out and enclosed the check. About 6-8 weeks later, I received a form that indicated that I could not receive the copy since my name, Lawrence F. Ballweg, was different from the name of the Trust which was Lawrence F. Ballweg Trustee U/W Elizabeth D. Ballweg, and reflected on line 1 of Form 1041, Elizabeth D. Ballweg, my mother who had died 8 years before. I wrote a long letter, dated January 6, 1997, explaining that I had submitted annual reports since 1988 and that my name was the signature on each report. At the same time I submitted another request for a copy of my file. My request was ignored. Instead I received a "Final Notice", dated January 20, 1997, in which I was told that the IRS intended to take steps to take my bank account, auto or other property if they had not already done so. I have read several stories about how threats of that kind have caused extreme physical and mental suffering to taxpayers in the past. I now began to understand what those stories meant.

I must confess that I spent sleepless nights thinking of the possible consequences and not knowing where to turn since by this time I was certain that I would get no help from the IRS.

Mr. Chairman, it was at this time that I heard of your investigation into the conduct of the IRS. I immediately wrote to you and received prompt action. CNN presented my case on television and the next day I received a call from an IRS Taxpayer Advocate, received a copy of my file and was advised how to make the necessary adjustments. On March 24, 1997, I received notice from the IRS' Atlanta Office that I did NOT owe any tax.

For eight months I lived in constant worry, if not fear, that the Trust that my dear mother had established to help the poor would be penalized because of what I can only call the unprofessional, calloused, and indifferent behavior of IRS employees who

are devious enough never to sign their names to any notices that they send out. The taxpayer is dealing with people who can do inestimable harm but cannot even be identified. I can only thank you, Senator Roth and the Senate Finance Committee, for trying to correct such abuses and I pray that, as a result, conscientious citizens will be spared the humiliation, embarrassment, fear and anxiety that I have experienced.

STATEMENT of TOM SAVAGE
Before
SENATE FINANCE COMMITTEE
OVERSIGHT HEARING ON THE
INTERNAL REVENUE SERVICE

Good morning/afternoon. My name is Tom Savage. I run a small construction management company in Lewes, Delaware, which my wife and I own. I want to thank the Committee for the opportunity to share my story which has been no less than a true "horror story" for my wife and me.

We were unfortunate to have been the subject of a zealous, unrelenting, and abusive pursuit by an IRS Revenue Officer with the assistance and complicity of attorneys, and particularly the lead attorney at the Department of Justice, who were charged with advising the IRS. They were in a position to stop the abuse and yet permitted it to continue, perhaps even causing much of it. In the interest of time, I will simply say that the emotional damage done to my wife and me outstrips the financial damage we suffered, which was not insubstantial. There were many sleepless nights. Believe me, when the sources of the government are unleashed on you, you are in trouble, no matter how good your case. Few people know what it is like to be in the cross-hairs of the IRS. We unfortunately do.

I am here today in the hope that by telling my story, and participating in these hearings, I might help bring about real and lasting change at the IRS. For the sake of other taxpayers, I hope that this happens.

The nightmare began when a subcontractor of Tom Savage Associates or TSA, my own company, fell behind in paying its employment taxes. The case ended with intense litigation in the United States District Court, which

TSA was forced to bring in order to recover a payment check issued by the State which had been wrongfully seized from it by the IRS. In order to keep my company afloat, we had to settle the case, much as this offended our desire to "stand on principle." We allowed the IRS to keep $50,000 of the check that was seized in order to get the case over, since the litigation was bankrupting our company financially and us emotionally. We regret not having pursued the case to the end but we had to save our business. The government had endless resources to drag the case out. We did not. In settling the case, the government extorted $50,000 before giving back the check. The government attorneys knew that it was going to cost an additional $50,000 to litigate the case and used it to leverage the IRS' position.

In brief, the subcontractor had tax problems that surfaced during the period it was working for my company, TSA, on a project for the State of Delaware. Unknown to TSA, the subcontractor had not been paying its employment taxes for approximately one year before the project commenced. TSA, with the subcontractor's assistance, was building a women's correctional facility. The subcontractor performed the construction while TSA oversaw the project and provided the performance bond for the project. Toward the end of the job, the subcontractor's tax problems came to light. The IRS investigated the subcontractor, but quickly concluded that the amount of taxes due were uncollectible. Since the IRS was unable to collect the money from the subcontractor, the Revenue Officer, in his zeal, set his sights on TSA. First he attempted to hold me **personally** responsible for the unpaid taxes, asserting that I was a "responsible person" representing the subcontractor. This approach failed when my tax advisors filed a legal memorandum explaining the severe deficiencies with this theory, so the IRS then went after my company. The IRS now asserted, falsely, that TSA and the subcontractor were partners and that the employees of the subcontractor working on the project were actually employees of this fictitious association between TSA and the subcontractor. My tax

advisors pressed the Revenue Officer for some authority for asserting the existence of this fictitious "partnership" that he had established between TSA and the subcontractor. The Revenue Office pointed to a non-tax Delaware case that was totally inapplicable.

Undaunted by challenges to provide authority in support of the fictitious "partnership," the Revenue Officer caused the IRS to issue a "30 day letter," which proposed as assessment against the fictitious "partnership." We immediately filed a written protest with the IRS Appeals Office and eagerly awaited the Appeals Conference to put the case behind us. As things turned out, we were never given an opportunity to present our case to the Appeals Office. While waiting for the Appeals Conference to be scheduled, the IRS seized a large check paid to our company by the State of Delaware for the project. At the time of the seizure, and this is significant, there was **no** assessment entered against either TSA or the fictitious "partnership" between TSA and the subcontractor. Even if one were to assume that the partnership existed, which is a generous assumption even for the sake of argument, the only assessment on the books allowing the IRS to enforce collection was against the subcontractor. The seizure of the check thus constituted a "wrongful levy." Open and shut. Existing IRS revenue rulings clearly hold that the assets of a partnership or another partner may not be seized to satisfy the tax debts of another partner.

It is a fundamental principle of the tax law that the government may not seize any taxpayer's property, or undertake any type of enforcement action against a taxpayer until there has been an assessment entered against the taxpayer. For those of you not versed in tax procedure, an assessment is the administrative equivalent of a judgment. In our case, the right to be free of government collection action until such time as an assessment has been entered was flagrantly violated. Not only was this right violated, as will be explained

in a moment, the IRS would later attempt to sweep this fact under the rug in the US District Court. Indeed, the government attorneys were so hell bent on "winning" that they waged a behind-the-scenes campaign during the proceedings in District Court to sanitize the record presented to the judge. The government requested an extension of time to respond to the plaintiff's brief in support of its motion for summary judgment and then, during the extension, entered an assessment against the fictitious "partnership" between TSA and the subcontractor by hand delivering a "notice of demand" the Saturday before the government's answering brief was due. The government attorneys then had the audacity to argue in their answering brief that an assessment had been entered against the fictitious partnership. No mention was made in the government's brief that the assessment was entered 25 weeks after the IRS seized the check and literally days before the answering brief was filed. And these were the attorneys we though would stop the abuse!

When we instituted the suit, we were convinced that the case would be resolved quickly, that the government would concede the case once it got into the hands of a competent attorney. We guessed wrong. The government had my money and was not going to give it up without a fight. Faced with this "win-at-all-costs" attitude, we were clearly in for a protracted battle with the IRS. As much as it offended my wife and me, we chose to settle the case and permitted the IRS to keep $50,000 of the proceeds. We wanted to pursue the case to the end, but to do so would have destroyed our business.

On top of the $50,000 that the IRS kept, I had other financial losses. Although my attorneys reduced their fee substantially in encouraging me to settle the case, their fees were substantial. We spent $51,000 in legal fees in connection with the case. We lost approximately $600,000 in business during the proceedings with the IRS and in its wake. And finally, we lost our sense of well being, confidence, and freedom from government intervention.

I believe the IRS, the Revenue Officer, the District Counsel attorneys, and the attorneys with the Tax Division of the U.S. Department of Justice should be held accountable for their conduct. Unless abuses of this type committed by the IRS and its representatives are met with strong response, including legislation to compensate victims of IRS abuse, they will continue.

I thank the Committee for the opportunity to be here today.

STATEMENT OF KATHERINE LUND
Before the
SENATE FINANCE COMMITTEE
OVERSIGHT HEARING ON THE
INTERNAL REVENUE SERVICE

Chairman Roth, and Members of the Senate Finance Committee, thank you for allowing me this opportunity to appear here this morning to relate to you my experience with the Internal Revenue Service.

Like many women who have gone through a divorce, I was the one stuck with the tax bill for our last joint return for tax year 1983. The IRS assessed that return for additional taxes of $7,000, but sent all the notices to my former spouse. Unfortunately, it took him over a year to notify me of the assessment. I immediately contacted the IRS. The IRS had ceased to be willing to examine my records and was demanding that I pay them $16,000 instantly. At the time, my former spouse was earning in excess of $40,000 a year as a glazier and had no dependents. My income was approximately $15,000 a year as a newly hired bank employee with a dependent 14 year old daughter. For the two years following my divorce, I was financially destitute. I had just managed to get an apartment -- a real home for the two of us.

I mention this to remind you good people that when an IRS collection procedure gets out of control, the victim of that collection still has to deal with all the other traumas of their life. An honest collection by the IRS, with no snafus, of an amount actually owed is incredibly stressful in itself. Therefore, it is critical that the IRS not be allowed, whether by design or accident, to pursue taxpayers for erroneous debts. At present, there are no effective protections against this.

In my case, I had to file a Tax Court Petition to force the IRS to examine my records, which I did in 1988. This is not unusual if the IRS does not get a response to early requests for records, and I did not feel resentful or persecuted. However, it did cause problems and added to my stress. I had to use my rent money to pay the accountant and lawyer, and so I lost my apartment. My daughter and I were reduced to sharing a rented room. I consoled myself with the thought that we had survived worse and we would get another apartment later.

It is important to note here that my ex-husband was not a party to this petition in tax court. We settled out of court and the IRS agreed to a reduced tax from $7,000 to $2,709, a reduced total demand from about $16,000 to approximately $3,500. I went to the meeting in July 1988 to sign the agreement and, check book in hand, prepared to pay the amount in full at that time.

The IRS refused my payment until they had sent me a bill because they would not have anywhere to credit the money without the bill and they claimed they needed time to calculate the exact interest due. I wanted the payment properly credited. I wanted this to go well and to be permanently resolved. I thought, in a few weeks, I'll have a bill. But, the IRS said that the bill would take six months to prepare and arrive no later than January 1989. Six months! I recall asking if I was going to be charged interest for the six month waiting period and the IRS attorney, through my accountant, said no The interest would be calculated through the date of the agreement and as long as I paid it right away in January, there would be no additional interest. He said it would be about $3,500 total I never understood why they could not just whip out their calculator and tell me what I owed right then and get this whole thing over with.

The bill never came and in February 1989, I started calling the IRS asking

where it was. I called the Fresno office and they suggested I also call Laguna Niguel. Both offices had no record of any taxes owed by me. I found this hard to believe. I wanted to be absolutely certain they were correct. I wanted to remarry and I did not want to bring this tax bill into the marriage. I called both offices again in March and again before July. I was told the same thing, that I owed nothing for 1983. I asked for a receipt or something to show this was paid because I was simple minded enough to believe this was as a reasonable request. The IRS employees all said that they "don't do that." I had to take the word of the IRS that I owed nothing. In this, I had no choice. At the time, I was not aware that my account had been set up on a separate bookkeeping system to which the IRS employees with whom I spoke did not have ready access.

It works like this: when you file a tax return, it is recorded in a Master-File. This is what the IRS clerks pull up on their computer when you call and ask if you owe money. However, at some point in 1989, the IRS "split" the Master-File of our joint 1983 return and transferred separate assessments into two Non-Master Files, in each of our individual names and respective social security numbers. This was due to the fact that I had gone to tax court and my ex-husband had not. Since my ex-husband and I had taken separate actions with regard to this matter, the IRS had to handle our files separately.

These Non-Master Files <u>do not</u> show up on the computer when the IRS clerks check a taxpayer's social security number for a balance owed. According to the attorney who explained this to me in 1997, the Master-File continues to exist, but may show as a zero balance, until the IRS recombines those accounts. It will then reflect the correct amount owed according to the agreement. Until that happens, every time the IRS clerk pulled up my or my joint signer's social security number, they will see a zero balance and conclude that no taxes are owed. To add to the confusion, there is no notation in the Master-File that it

matched. Still, I had no independent records to prove either one. I requested his payment records from the IRS in 1988, records to which I learned I was not entitled at that time. I made a second request for those records in 1997. The IRS has refused me these records or even a statement as to their content. Why, if my joint signer has never paid anything on this tax, is the IRS hiding that information from me? How can I know, for certain, what my liability is without the records of my joint signer? Perhaps he has paid nothing, but if that is so, then their refusal to share that information with me makes no sense.

Mr. Chairman, I did everything humanly possible to obtain correct information. I made every attempt to get this tax paid and every conceivable request for some kind of record to evidence what the IRS was telling me. I know of nothing else I could have done.

So, after being wrongfully informed that there was nothing owed, I remarried in July 1989. I carried on business with the IRS without incident and my new husband and I filed a joint return in 1990 and received a refund. We were now convinced, of course, that if I owed any money to the IRS, the IRS would never have issued a refund, so now we were confident that the IRS information was correct. It was not.

In September 1990, without any notice and without our knowledge, the IRS filed a tax lien against me.

On December 19, 1990, the first lien holder on our home sued us as a result of that Federal Tax Lien in the sum of $6,161.41. The lender threatened to call our loan if we did not immediately get the IRS lien released. We would have lost our home. A home, by the way, that my new husband bought for himself 6 years before he met me. So, the real damage was being done to him, an entirely innocent spouse.

All of this, after I had been so careful to pester the IRS repeatedly for as a bill and been repeatedly told that no money was owed!

Worse than that, the lien did not reflect the terms of our earlier settlement agreement! The tax lien reflected an assessment nearly twice that of the IRS agreement and the IRS refused to discuss that fact with me. Meanwhile, while the assessment was 'ripening' it had gone up to over $8,000!

I tried to reopen my tax case and was told that the Federal Tax Court did not enforce out of court settlements made with the IRS! How convenient this is! Only the taxpayer is held to the agreement, not the IRS! I was adamant that this was just morally wrong! I was very upset!

I fought this collection for two reasons: (1) because, based on information provided by the IRS itself, I sincerely believed I owed nothing and (2) because I believed the IRS, even if they intended to collect twice, was obligated to calculate my collection in accordance with our agreement.

My new husband contacted the Revenue Officer who had filed the lien. The Revenue Officer informed my husband, and later me, that he had my former spouse's file "..right here on my desk..." and he knew that my former spouse "..had paid the taxes..." but that it was not "..relevant..." because these were separate collections. He insisted that if we wanted my former husband's payments to offset my liability, we would have to produce those records, otherwise we would have to pay it again. The duplicate payment would balance the IRS books and he would help us file for a refund of the overage.

Imagine my new husband's frustration at the prospect of effectively paying $8,000 dollars that we believed had already been paid.

At this point, which was early 1991, I requested a Problems Resolution Officer who, after some inquiry into my account, came to the conclusion that I, indeed, did not owe anything for the 1983 taxes and that, once she got a written confirmation of this from the Fresno office she could get everything "abated to zero." Meanwhile, she said, the IRS agent should stop collection activity -- which he did not. However, I thought, "Great! This is all going to get straightened out soon!" I was wrong. A few days later she called me and informed me that the IRS Fresno Office had changed its mind about providing her with the necessary documents and, without those, there was nothing she could do.

I made one final attempt at reasoning with the collection agent. He merely repeated that he knew the tax had been paid, and he knew I didn't owe the money, but it didn't matter. The only way to get rid of the tax lien was to pay the $8,000 whether we owed it or not.

The collection agent then offered to assist us with regard to the refund application. He knew we were being sued by the bank because the IRS was a co-defendant. So, he just refused to do anything and let the bank force us to pay what we did not owe. With the bank about to call the loan, we had no choice but to pay the IRS demand in full.

Mr. Chairman, although I am giving you a rather general description of these events for the sake of overall continuity, it is important for me to tell you that both my husband's and my own physical and emotional well being suffered tremendously under the constant strain of these repeated attempts to get the IRS to honor their agreement and collect only what I owed. It was physically exhausting. We almost never slept. Every conversation had to be memorialized in a letter. There were the visits to the attorneys and the accountants, their bills and their depressing advice, "pay it, it's cheaper than fighting" and the very real prospect of loosing our home to the bank if they called the loan. You don't eat, you don't

sleep, you're afraid to talk too much to each other for fear you'll take it out on your spouse. If you do talk, it's about the IRS. We were newlyweds! I cannot describe the guilt, knowing that I had brought my new husband into this.

My parents became so concerned for my health that they cashed in a retirement CD and loaned us the money to pay the IRS. Since they were living on a fixed income, this was a big deal for them to do. I know they made sacrifices to do this. It was as a selfless act of love.

On February 21, 1991, we handed a cashier's check for the entire amount they demanded, $8,194.73. Please keep in mind the original underlying tax was $2,709 and that the original amount due was supposed to be no greater than $3,500. The balance was interest that accrued from July 1988 to February 1991, a period of 18 months. In that time frame, the "bill" that I could not get anyone to give me to pay nearly tripled from the original amount! I was forced to pay $4,500 for their mistakes!

In exchange for this payment, we were given a Certificate of Release of Federal Tax Lien. My cashier's check reflected my name, my social security number, the tax year to which it was being applied -- 1983, as well as my tax court docket number. In other words, the IRS had everything it needed to properly credit the payment. I could not have made it any clearer where to apply the proceeds of the check.

In February, 1992, a letter arrived from the IRS office in Maryland signed by a woman with the authoritative title of "Chief, Accounting Branch." The letter said the IRS had received a payment and, if we had made this payment, please send the IRS a copy of the check with an explanation, which we did. We also asked her in that letter not to refund the money or any portion of it unless she first made sure neither of us owed any money anywhere for any year.

In March 1992, we received an unsigned IRS form letter indicating that the payment had been applied to our 1990 joint return. I actually telephoned the IRS and asked about this and was told simply that, if the Accounting Branch determined that there were no taxes owed for any year, the only way to refund the money was to credit it to the most recent tax year.

In other words, they could not credit the payment to my 1983 tax year unless there was a balance due. Therefore, we logically concluded that the Accounting Branch did what we asked, checked out our taxes, found nothing owed and was merely refunding us the overpayment in accordance with their own bookkeeping system. We had absolutely no reason to think that the refund was in any way erroneous.

In November of 1996, nearly 5 years later, out of the blue without so much as one prior notice, we received a certified letter from the IRS containing a Notice of Intent to Levy. The particulars of the tax being levied were identical to the particulars of the tax lien that had been released in 1992. For reasons unknown to us, they changed their mind and wanted more money again. Why? I telephoned the agent who sent the letter and was told it was a different assessment because, even though everything else was identical -- the tax year, the amount, the assessment date -- there was an "N" after my social security number on this assessment and therefore, I had to pay it again. The "N", I later learned, is a tag for "Non-Master" File. Remember those? The separate collections that nobody seems to know about? Well, this was one of them. Whether the IRS failed to close it at the time we paid it in 1991, or whether they reopened it because they wanted to get the refund back they gave us in 1992 doesn't really matter much to me. Whichever one occurred, the fact remains, the IRS had made yet another error. Once again, they demanded that I balance their books and pay for their mistakes. How many times was this going to happen, I wondered?

determination, the county refused to comply with the second levy and my husband's income was safe. However, his retirement fund was not. That was community property and we fully expected the IRS to swoop in the next day and take the whole thing. So, on the 5th of February 1997, I filed bankruptcy to stop the IRS long enough for us to figure out what to do about this.

My bankruptcy notice was hand delivered the same day. The following day the IRS notified me that my schedule C's for 1993, 1994 and 1995 were "questionable," and asked me to reconsider them. We took this as a thinly veiled threat to punitively audit our returns.

The IRS refiled the lien for which I had a release. We discovered this in March of 1997. I am informed that this is common practice. The liens threatened my husband's residence which was his separate property but the IRS ignores this in community property states. I have been informed that the liens would survive the bankruptcy, as all liens do. So even though this was his sole and separate property, it was possible.

My now widowed mother could not bear watching us go through this and took out a loan against her retirement so we could pay the IRS and get this over with. However, my husband and I knew that paying the demand would never resolve this. We tried that in 1991. They would screw this payment up too and in a few years be back for more "with interest." We needed closure, some way to end this forever.

Since the real problem occurred back in 1989, and the IRS never correctly set up my account for $3,500, and because every penny over that amount was a result of that error, we determined that under the Taxpayer's Bill of Rights provision that the IRS could not make us pay interest for their mistakes. We should not owe more than $3,500. If we could get the IRS to correct their errors we should be

able to pay $3,500 and be done with it. So, that's what we did. We made a directed voluntary payment of $3,500. We put the rest of the money in a CD in case the IRS swooped in to destroy us unannounced. We waited.

Our lives are now forever altered. Joint tenancy, joint bank accounts, joint tax returns are no longer a part of our life. We will pay additional taxes every year as a result. Our confidence in the integrity of the IRS has been completely shattered. This year we got a refund on our 1996 taxes and sits in a CD as does the $3,500 that the IRS recently returned to us without any explanation. We don't dare cash refund checks anymore. My credit is completely destroyed, and my husband's credit is seriously damaged. We will suffer the effects of this IRS collection for the rest of our lives.

I originally wrote to you, Mr. Chairman, because the IRS should not be above the law. Couples should not have to divorce because of the IRS. Once you became involved, the IRS released all the liens and sent us back the $3,500. Senator Roth, your effort saved us from being forced to live apart, and preserved our ability to provide for our children. For this, we will be forever grateful. However, the conduct of the IRS remains the same, and for thousands of other taxpayers, there is no help. Ours is a hollow victory if the IRS is allowed to continue this type of conduct.

People tell us how terrified they would be to do what we have done. They are convinced that the IRS will target us for punitive audits. One person put it this way, when she learned we had written to Congress, "..that's like painting a bull's eye on your chest and giving the IRS a loaded gun...." She believes the IRS will never forget this and someday get back at us in retaliation. Mr. Chairman, she could very well be right. The IRS is judge, jury and executioner -- answerable to none. We do not believe that our experience is isolated. For over 10 years the IRS has conducted itself as a legalized extortion operation willing to commit

abusive acts to collect money, even that which they know is not owed.

An agency of the United States Government, allowed such sweeping authority as that granted to the IRS, should be held to the highest standards of honesty and integrity. The IRS is not. Those of us subject to that authority should be guaranteed an accessible and effective remedy for its abuse. We are not.

It is a disgrace to our nation that an arm of our democratic government is allowed to behave as if it were an extension of a police state. I hope that Congress can act to end this national shame.

Thank you for allowing me this time.

FYI

****
*** ACTIVITY REPORT ***
****

TRANSMISSION OK

TX/RX NO.	1502
CONNECTION TEL	82128612597
CONNECTION ID	
START TIME	11/01 09:02
USAGE TIME	10'32
PAGES	22
RESULT	OK

(N)

1375

Watch faxed to NEK
(without checking with
NCC or Sarah F)

NCC cc to Sarah F

Watch cc to NF

Please log IN and
file

****
*** ERROR TX REPORT ***
****

TX FUNCTION WAS NOT COMPLETED

TX/RX NO.	1497
CONNECTION TEL	82128612597
CONNECTION ID	
START TIME	11/01 00:40
USAGE TIME	00'58
PAGES	1
RESULT	NG 1 #001

****
*** ERROR TX REPORT ***
****

TX FUNCTION WAS NOT COMPLETED

TX/RX NO.	1498
CONNECTION TEL	82128612597
CONNECTION ID	
START TIME	11/01 00:43
USAGE TIME	09'28
PAGES	17
RESULT	NG 17

1997-SE-012827

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

December 1, 1997

MEMORANDUM FOR SECRETARY RUBIN

FROM: Charles O. Rossotti
Commissioner of Internal Revenue

SUBJECT: The IRS and Clinton-Gore Administration Priorities

Per our conversation yesterday, here is the letter to Frank Raines on the above-referenced subject. Please forward if you feel it is appropriate.

Attachment

cc: Lawrence H. Summers
Nancy Killefer
Alan Cohen

EXHIBIT 1

ACSI
American Customer Satisfaction Index
UPDATE

1997 SECOND QUARTER RESULTS

Based on data collected between May 8 and June 30, 1997, the second quarter of 1997 provides a fourth measure of two sectors: Manufacturing/Durables and Public Administration/Government. The industries measured under these sectors are:

Manufacturing/Durables

- Automobiles, vans, and light trucks
- Personal computers
- Household appliances/washer, dryer, stove, refrigerator, and dishwasher
- Consumer electronics/TV and VCR

Public Administration/ Government

- Internal Revenue Service
- Solid waste/central city (metro)
- Solid waste/suburban (metro)
- Police/central city (metro)
- Police/suburban (metro)

This second quarter 1997 update is based on representative samples of 12,186 customers of 44 companies in 9 industries, including aggregates of customers using police and solid waste disposal services.

FIGURE 1. QUARTERLY HISTORY FOR MANUFACTURING/DURABLES & THE PUBLIC ADMINISTRATION/GOVERNMENT SECTORS

SECTOR/INDUSTRY	1994 ACSI (Baseline)	1995 ACSI (1st Quarter 1995)	1996 ACSI (1st Quarter 1996)	1997 ACSI (1st Quarter 1997)	% CHANGE FROM 1996 to 1997
MANUFACTURING/ DURABLES	79.2	79.8	78.8	78.4	-0.5
Household appliances	85	82	82	80	-2.4
Consumer electronics/TV and VCR	83	81	81	80	-1.2
Automobiles, vans, and light trucks	79	80	79	79	0.0
Personal computers	78	75	73	70	-4.1
PUBLIC ADMINISTRATION/ GOVERNMENT	64.3	61.9	59.2	62.4	+5.4
Solid waste/suburban (metro)	74	78	76	77	+1.3
Solid waste/central city (metro)	74	75	76	73	-3.9
Police/suburban (metro)	65	66	63	67	+6.3
Police/central city (metro)	61	59	59	63	+6.8
Internal Revenue Service	55	54	50	54	+8.0

THE MANUFACTURING/ DURABLES SECTOR

Overall, satisfaction for the Manufacturing/Durables sector is down slightly (0.5%) from the same time one year ago (from 78.8 to 78.4). Satisfaction with Manufacturing/Durables is marked by four years of stability for automobiles, vans, and light trucks, and relative stability the last three years for consumer electronics/TV and VCR.

Satisfaction with household appliances and personal computers has dropped again this year however. Since 1994 there has been a downward trend in customer satisfaction with major household appliances and with personal computers.

In the last year, satisfaction with the personal computer industry has dropped 3 points (4.1%). Between 1994 and 1997, the PC industry declined 8 points, despite its recent efforts to offer greater value to customers by introducing products with increased capabilities for the same or lower prices and dropping prices on older models. The decline in satisfaction may be related to the extensive growth the PC industry has experienced, with U.S. shipments up 19% in the second quarter of 1997. This growth means that the customer mix is different from what it was four years ago. There are also more household customers who may be less experienced users and are not capable of fully using the product, or being able to differentiate between hardware and software problems.

For the Manufacturing/Durables sector, Perceived Overall Quality, the major driver of satisfaction, is measured as a composite index (0-100 scale) that is made up of Perceived Product Quality and Perceived Service Quality. The PC customers rated the quality of the service they received lower than the quality of the product itself.

Customer satisfaction with automobiles, vans, and light trucks remains unchanged since last year, but customers rate the quality of products higher than the quality

(cont. on p. 2)

EXHIBIT 2

FY 1999 IRS BUDGET
(Dollars in Millions)

	IRS Appeal		Commissioner's Minimum Level	
	BA	OL	BA	OL
Total IRS	$8,563	$8,387	$8,439	$8,263
PAM	$3,332	$3,325	$3,246	$3,240
TLE	$3,310	$3,307	$3,272	$3,268
IS	$1,580	$1,531	$1,580	$1,531
ITI Account	$ 198	$ 81	$ 198	$ 81
EITC	$ 143	$ 143	$ 143	$ 143

FY 1999 OMB PASSBACK--ADJUSTED FOR PRESIDENTIAL INITIATIVES*

	BA	OL
Total IRS	$8,158	$7,856
PAM	$3,062	$3,052
TLE	$3,234	$3,227
IS	$1,396	$1,353
ITI Account	$ 323	$ 81
EITC	$ 143	$ 143

FY 1998 BUDGET

Total IRS	$7,804	$7,384
PAM	$2,926	$2,824
TLE	$3,143	$3,153
IS	$1,272	$1,277
ITI Account	$ 325	$ 0
EITC	$ 138	$ 130

*Presidential Initiatives total $164M--$73M for PAM and $91M for TLE.

ATTACHMENT

Explanation of IRS Budget Requirements and Implications

What Has Happened

The amount of money available to the IRS for current operations, net of costs for the Year 2000 conversion, has declined from $7.482 billion in FY 95 to $6.957 billion in FY 98. This is a drop of 7% in nominal dollars and 13% in real dollars in a period when the number of returns processed increased by 8% and the amount of money collected increased by 22%. In addition, the budget has absorbed $36 million in costs for increased physical security in the wake of the Oklahoma City bombing. The trend in the budget and in workload is shown in EXHIBIT 3.

The reduction of the operating budget was even larger than intended, since the costs of the Year 2000 conversion were underestimated by about $306 million at the time that the FY 98 President's budget was prepared. The Year 2000 program, although expensive and essential, provides no current and minimal long-term benefit to IRS programs. Because it is merely a renovation of old technology, it will still be old technology when the project is completed.[1] In the meantime, it absorbs major amounts of management and staff capacity as well as money.

These large budget reductions in the fact of increased workload were not achieved by productivity improvements except for modest improvements in support functions. Instead, they were achieved by:

a. *Cutting 9.5% of the full-time work force, amounting to 9,200 people, and a 19% decrease in the part-time work force.* These cuts were made entirely by attrition, early outs and buyouts. Thus, the most marketable people in the geographic areas with the strongest economies tended to leave, exacerbating the maldeployment of the work force, particularly in compliance.

b. *Nearly eliminating the technology investments in FY 97 and FY 98.* In these two years combined only $67 million was available for current technology investment, including routine hardware and software replacement.

c. *Cutting "discretionary" costs such as training and supplies disproportionately.* For example, in FY 96 training costs were cut by 50% and even in FY 98 have not

---

[1] The Year 2000 conversion will provide some new terminals and desktop computers as well as new data entry equipment and will allow for consolidation of some mainframes into fewer locations. These will provide some internal savings in the IS operations accounts in the future. As they are simply one-for-one replacements of hardware with no systems improvements, the impact on the IRS operation will be minimal.

recovered to levels of three years earlier. This is in a time of the largest tax law change in a decade.

The Result Today

As a result of the actions necessary to meet the budget cuts and absorb the Year 2000 costs, the IRS today has a work force that is maldeployed in relation to the current economy. Fast growing economic areas such as Las Vegas and Atlanta have seen the largest reductions in work force, because the demand for IRS people was strongest in these areas and therefore it was easiest to reduce the work force. The opposite has occurred in places like Buffalo and Hartford. EXHIBIT 4 shows the contrasts in growth rates of the economy and the IRS work force in selected areas.

The work force is also undertrained, even by comparison with previous IRS standards. This factor shows up markedly in employee surveys and is an important factor in quality, employee satisfaction and customer service.

The need to reduce the work force to meet budget targets has absorbed major amounts of time of top management and of union officials, has stopped progress on some positive initiatives designed to improve quality, and has become a principal topic of conversation and concern among the employees.

While reducing the work force in the face of increasing workload, the IRS continues to have an extremely deficient base of technology which is continuing to deteriorate, not improve. EXHIBIT 5 summarizes the IRS's most important systems, indicating their extremely old origins and diverse, incompatible platforms. Most of the IRS front-line employees are dependent on these systems for their daily tasks, as almost all employees who work with taxpayers in any capacity must have access to information and must manipulate information.

Most communication with taxpayers, except for paper notices, occurs by telephone, with an estimated 111 million phone calls in FY 99, still well below the demand. These calls depend on *both* the computer systems and the telephone system. Also as shown in EXHIBIT 5, the IRS's voice communications technology is extraordinarily deficient in almost every respect compared to that of any large-scale telephone-based service organization.

Because of the near total elimination of even routine investment funds in FY 97 and FY 98, the technology base is continuing to deteriorate. For example, the computers available for the 14,000 revenue agents who deal directly with taxpayers on audits are well beyond their normal life, leading to some becoming inoperable and all being unable to support current standard software. Only about two thirds of the 7,000 revenue officers who collect overdue money even have computers, the rest depending on paper carried in briefcases. Similarly, the customer service representatives who must answer tax law inquiries depend on large, three-ring binders full of paper.

This lack of technology for front-line employees increases employee frustration and leads to increased time to complete transactions with taxpayers, which is one of the single biggest sources of taxpayer dissatisfaction.

It is important to understand the role of the technology modernization blueprint and the special Information Technology Investment account that was first established in FY 98. The IRS basic technology infrastructure is so deficient that there is no viable long-term option but to replace it almost entirely. The technology modernization blueprint produced in 1997 is an important and essential step to accomplishing this modernization.

But, even with the best of management, adequate funding, and highest quality support from experienced contractors, this is a very large, complex program that will take most of a decade to complete. To control risk it must be done cautiously and in increments. According to the latest estimates, the very first subreleases will be deployed in the Fall of the year 2001. Therefore, while this blueprint and the funding that goes with it are essential for the long-term viability of the IRS, *it will provide no improvement in support of current operations for at least four more years.* In the meantime, the highest priority technology investments and replacement purchases must be made.

What Is Needed to Begin the Turnaround

To begin the turnaround, a minimum level of resources can be derived from five assumptions:

1. *The full-time work force must at least be stabilized at the 1998 level.* Ideally, the work force would grow with workload. Returns processed will grow 1.6% in 1998, workload will increase more than that due to the major tax law changes, and there has been minimal technology investment for two years. The IRS appeal to OMB assumes an FTE increase of 1/2% from 1998 in full-time positions. However, if we kept the full-time work force stable at the 1998 level, we would at least have some flexibility to redeploy people and to fill vacant positions. By contrast, the OMB number would continue to reduce the full-time staff by 1,500 positions, essentially eliminating all flexibility, continuing to divert management and employee attention to downsizing and worsening the service and fairness problems.

2. *We must add 1,700 FTEs to the part-time work force, and add some outside services, to accomplish the near-term service improvements recommended by NPR.* The OMB number funds less than half of the requirement.

3. *We must make some near-term investments in information systems, to provide computers to front-line workers and to fund the highest priority systems projects.* The OMB number reduced the Information Systems budget by $184 million, essentially eliminating near-term IT investments for the third straight year.

4. *We must begin modernizing the organization and business practices of the IRS.* This is an absolute prerequisite for carrying out service and fairness improvements, as well as for successful modernization of the technology base. This will require money for redeployment, buyouts, recruitment, retraining, and analysis. Based on experience in other organizations, a sum of $80 million is required to begin this process, none of which is provided in the OMB number.

5. *We must continue work on the long-term technology modernization blueprint, but at a cautious pace.* The IRS request is for $198 million in budget authority in FY 99, $125 million less than the OMB number. However, because spending in this account lags more than a year, this difference in budget authority makes no difference in FY 99 outlays.

The results of these assumptions in terms of budget authority and budget outlays for FY 99 are shown in EXHIBIT 2. The column labeled "IRS Appeal" is more fully described and justified in the detailed memo submitted to Treasury in response to the OMB passback. The column labeled "Commissioner's Minimum" represents a lower number consistent with the above five assumptions. This column is a realistic set of numbers that allow the turnaround to begin. The OMB numbers will not provide sufficient resources to cope with the growing workload, the tax law changes, the highly complex Year 2000 project, near-term service improvements and the start on addressing fundamental changes needed for achieving the Administration's major goals of service and fairness.

EXHIBIT 3

IRS Budgets
FY 1995 - 1999

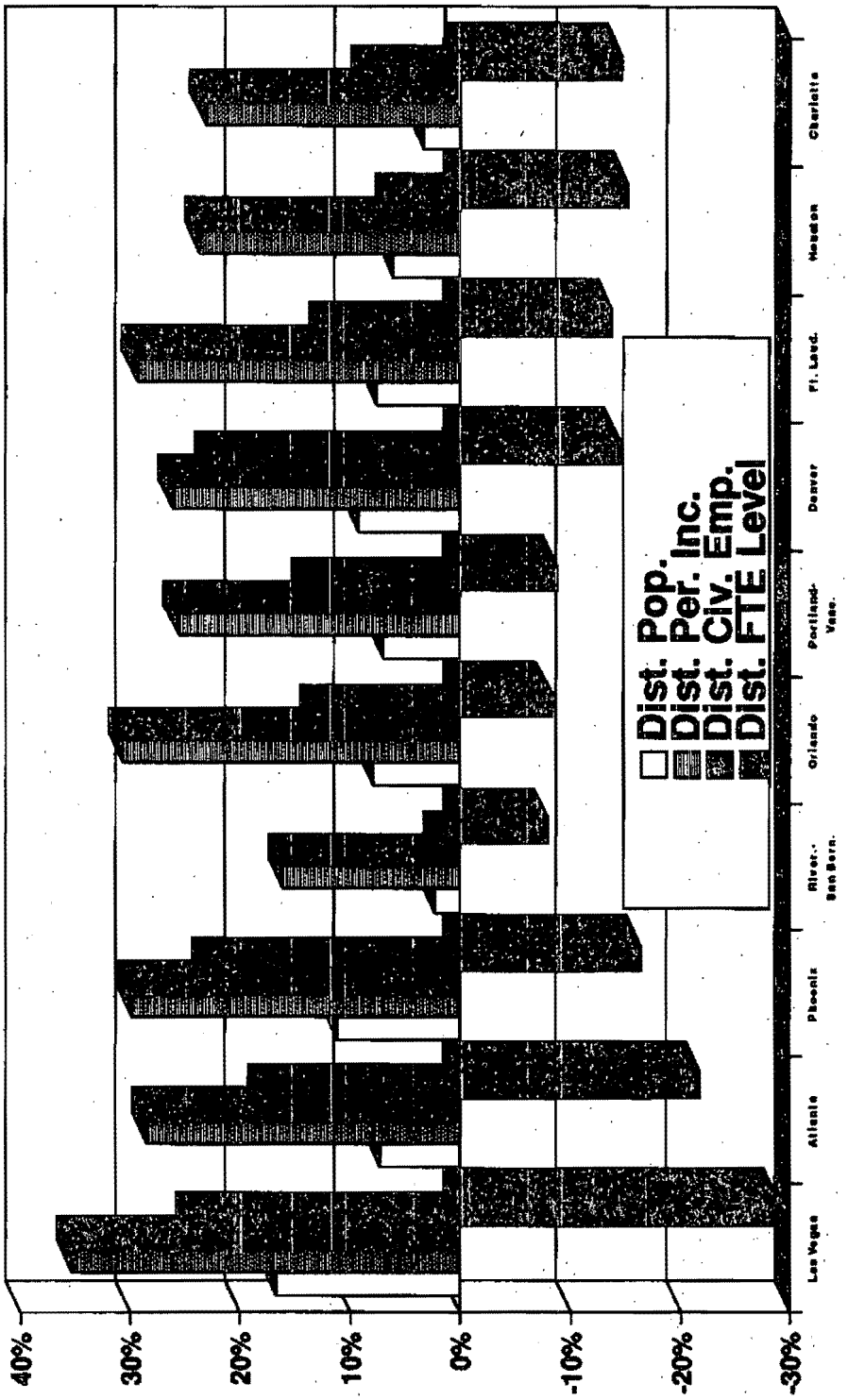
	Appropriations				OMB Passback*	Appeal	Minimum
	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY1999	FY 1999
Processing, Assistance & Management	$1,704	$1,724	$2,882	$2,926	$3,062	$3,332	$3,246
Tax Law Enforcement	$4,390	$4,097	$3,036	$3,143	$3,234	$3,310	$3,272
Information Systems	$1,388	$1,527	$1,287	$1,272	$1,396	$1,580	$1,580
Total Operating Appropriations	$7,482	$7,348	$7,205	$7,341	$7,692	$8,222	$8,098
Less: Y2K Costs	----	----	$175	$384	$234	$234	$234
Total Operating Appropriations Less Y2K							
Nominal Dollars	$7,482	$7,348	$7,030	$6,957	$7,458	$7,988	$7,864
Constant Dollars 1995	$7,482	$7,195	$6,716	$6,478	$6,768	$7,249	$7,137
Workload:							
Net revenue collected	$1.270T	$1.376T	$1.502T	$1.550T	$1.608T	$1.608T	$1.608T
Primary returns processed	193.9M	196.2M	204.2M	208.4M	211.8M	211.8M	211.8M
Information System Investment	---	---	---	$325	$323	$198	$198
Earned Income Tax Credit	---	---	---	$138	$143	$143	$143
Total IRS Appropriations	$7,482	$7,348	$7,205	$7,804	$8,158	$8,563	$8,439

* Includes Presidential Initiatives of $164 million --- $73 million for PAM and $91 million for TLE

EXHIBIT 4 (1)

Highest Growth District

1993 - 1996



Lowest Growth District

1993 -1996

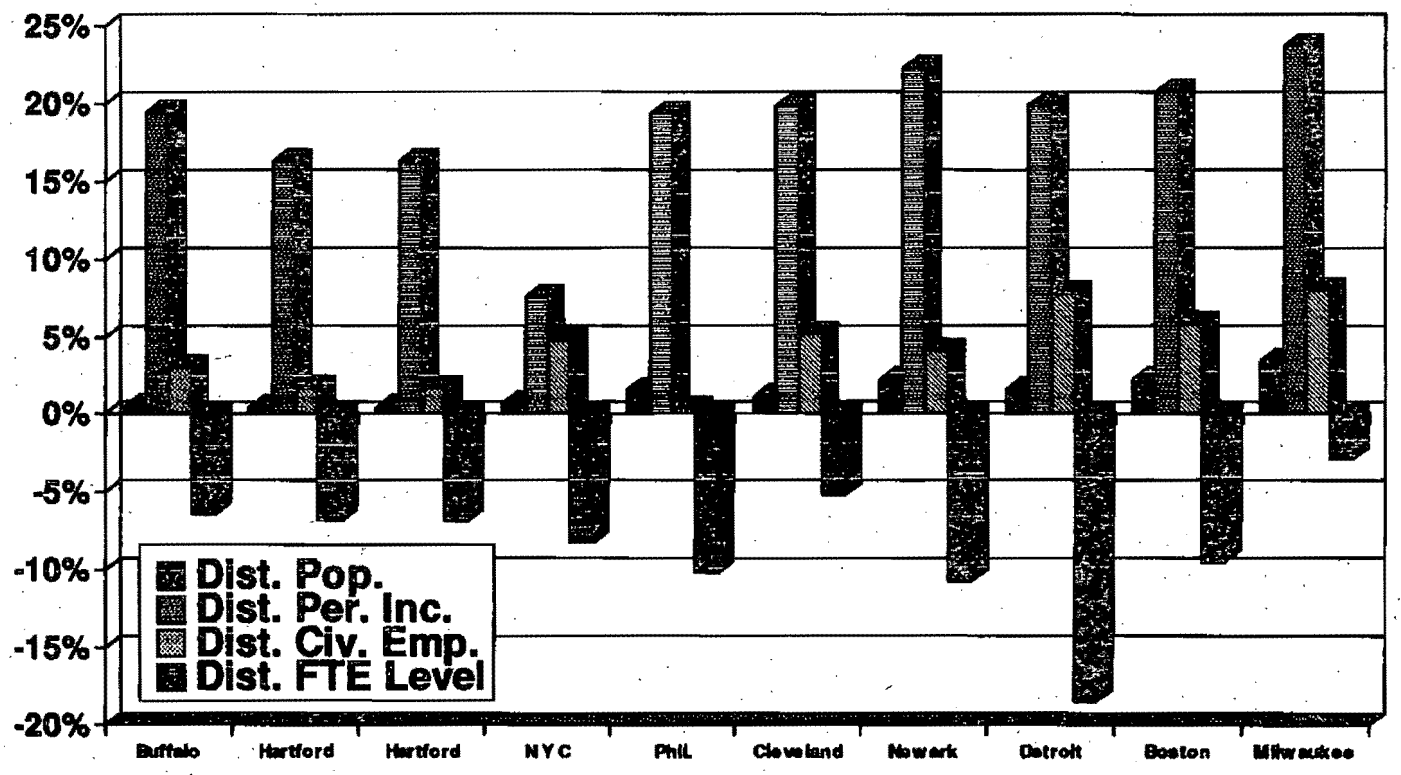


EXHIBIT 4 (2)

EXHIBIT 5

IRS Principal Systems

Computer Systems	Vintage	Technology Platform
Master Files (Taxpayer Records)	1965	IBM - Tape Files
Integrated Data Retrieval (On-line access/customer service)	1978	UNISYS
Automated Collection System (Telephone collections)	1985	IBM
Revenue Agents' Personal Computers	1990/91	DOS laptops
Revenue Officers' Personal Computers	1/3 Paper 2/3 1996/97	UNIX laptops
Customer Service Rep Tax Law Information	Paper	3-ring binders

Telephone System: Manual call routing

No screening voice response unit

Limited voice messaging

Circuitry bottlenecks due to design flaws

Minimal systems management capacity

No predictive dialing

ADMINISTRATION HISTORY APPENDIX
CHAPTER EIGHT: COIN AND CURRENCY, THE IRS, AND THE TREASURY BUILDING

TAXPAYER BILL OF RIGHTS

1996-SE-006751

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

July 29, 1996

SECRETARY OF THE TREASURY

MEMORANDUM FOR PRESIDENT CLINTON

FROM: Robert E. Rubin R.E.R.

SUBJECT: Taxpayer Bill of Rights 2

Tomorrow, there will be a signing ceremony for the second Taxpayer Bill of Rights ("TBOR"). The first Taxpayer Bill of Rights was enacted in 1988. Since then, a second round of taxpayer rights initiatives have been pursued, and a few versions have been passed by Congress, only to be vetoed for other reasons (e.g., H.R. 11, which President Bush vetoed in 1992, and the 1995 budget bill you vetoed). Senators Pryor and Grassley and former Rep. Jake Pickle have been closely associated with these efforts.

A fairly narrow, stand-alone version of TBOR 2, H.R. 2337, has now passed both Houses of Congress unanimously, and it has been enrolled and transmitted to you for signature. Rep. Nancy Johnson, Chair of the Ways and Means Committee's Oversight Subcommittee, has been the lead proponent for passage of this bill.

The Administration worked closely with Congress in the development of this bipartisan bill, and we have publicly supported its passage. This legislation represents an important step in our ongoing effort to improve the tax collection system from the point of view of the consumer, the American taxpayer. And perhaps most importantly, it shows that, working together we can improve taxpayer service, protect taxpayer rights and make tax collection fairer for all Americans.

Contents of legislation

The current version of TBOR 2 consists almost entirely of consensus items, such as:

- Increasing the powers of the IRS Ombudsman (renamed the "Taxpayer Advocate");
- Changing certain rules governing liens and levies, installment agreements, and other IRS collection actions;
- Limiting the use of designated summonses to large corporations;
- Making it easier for taxpayers to obtain attorneys fees;
- Creating a right of contribution between "responsible persons" assessed penalties for employment taxes.

The IRS and Treasury initially proposed some of these items, and others were drawn from earlier versions of the bill.

The $198 million cost through 2002 of the package is offset by two non-controversial items that were included in the Administration's FY 1997 budget:

- Modification of the penalty for failure to file tax returns; and
- Intermediate sanctions on insiders of tax-exempt organization who violate private inurement prohibitions.

Administration action

Treasury has strongly supported TBOR 2, while expressing some reservations about a few provisions. The Statement of Administration Policy, (copy attached) reflects this position. One problematic provision would generally prohibit retroactive regulations, but we obtained enough exceptions that it should not impose significant tax administration obstacles. Another pair of provisions would expand the IRS's power to abate interest when delays were due to its own managerial actions and give the Tax Court jurisdiction to review the Service's failure to abate interest (under an "abuse of discretion" standard). This authority will be useful for the IRS, but it may also cause some unnecessary litigation.

After the 1995 veto, Treasury decided to implement administratively as many TBOR 2 proposals as we had power to accomplish. On January 4, 1996, IRS announced the items that would be implemented (roughly one-third of TBOR 2's provisions), along with other taxpayer rights initiatives that were in the process of being developed. We issued a statement on April 16, 1996, announcing that all of these items had been undertaken. We also developed a simple, 8-item "Declaration of Taxpayer Rights," which the IRS will include at the front of Publication 1, the pamphlet that goes to all taxpayers who are examined or have other controversies with the IRS.

Enclosures
Statement of Administration Policy
Talking points
Fact sheet on TBOR 2 provisions

cc: Laura Tyson

Search term "Internal Revenue Service" 11/16/2000 3:06:31 PM

Admin

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
141868	Toder, Eric J.	01/23/1995 56-98-1	01/23/1995 Box 2	01/23/1995	Internal Revenue Service Collection Procedures For Delinquent
141895	Toder, Eric	01/23/1995 56-98-1	01/24/1995 Box 2	01/23/1995	Internal Revenue Service Levies And Seizures
144347	Munoz, George	03/28/1995 56-98-1	03/28/1995 Box 4	03/28/1995	Internal Revenue Service (IRS) Early Alert Report
148416	Munoz, George	07/25/1995 56-98-1	07/25/1995 Box 17	07/25/1995	Follow-up on Internal Revenue Service (IRS)
152917	Beerbower, Cynthia	12/01/1995	12/04/1995	12/04/1995	Final Regs. Under Section 597 & 7507 Re Treatment Of Transactions In Which Federal Financial Assistance In Provided
153220	Samuels, Leslie B.	12/12/1995	12/12/1995	12/12/1995	Final Regulations For Expedited W-2 Filing Under Section 6011
154691	Noble, Ronald	01/29/1996 56-98-19	01/29/1996 Box 2	01/29/1996	National Commission On Restructuring The Internal Revenue Service
154936	Munoz, George	02/05/1996	02/05/1996	02/05/1996	SES Reassignment - Internal Revenue Service
1996-SE-002251	Munoz, George	04/01/1996	04/11/1996	05/02/1996	SES Appointment - Internal Revenue Service
1996-SE-002340	Munoz, George	04/04/1996	04/16/1996	05/06/1996	SES Appointment - Internal Revenue Service
1996-SE-007049	Brown, Ted F.	08/01/1996	08/09/1996	08/09/1996	Internal Revenue Service Narcotics And Money Laundering Investigations
1996-SE-007057	Mader, David A.	08/08/1996	08/09/1996	08/09/1996	Internal Revenue Service Support Of Statistics Of Income (SOI)

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1996-se-007491	Munoz, George	08/16/1996	08/28/1996	09/06/1996	SES Pay Increase - Internal Revenue Service
1996-SE-007612	Munoz, George	08/16/1996	08/30/1996	02/12/1997	National Commission On Restructuring The Internal Revenue Service
1996-se-007781	Hernandez, Ida	08/21/1996	09/05/1996	09/20/1996	Proposed Rule Amending 31 CFR 1.36 To Exempt An Internal Revenue Service Privacy Act System of Records From Certain Provisions of the Privacy Act
1996-SE-008204	Munoz, George	08/09/1996	09/10/1996	09/10/1996	Internal Revenue Service Reduction-in-Force (RIF) Plan
1996-se-008487	Munoz, George	09/13/1996	09/24/1996	09/23/1996	SES Actions - Internal Revenue Service
1996-SE-008720	Munoz, George	09/17/1996	09/27/1996	02/12/1997	National Commission On Restructuring The Internal Revenue Service
1997-SE-000219	Smith, Michelle	12/26/1996	01/10/1997	01/10/1997	Wire Story of the Magazine Piece - Auditing the Internal Revenue Service
1997-SE-002262	Lau, Valerie	03/03/1997	03/03/1997	03/03/1997	Internal Revenue Service Chief Inspector
1997-SE-002918	Hernandez, Ida	03/06/1997	03/21/1997	04/16/1997	Final Rule Amending 31 CFR 1.36 To Exempt An Internal Revenue Service Privacy Act System Of Records From Certain Provisions Of The Privacy Act
1997-SE-005411	Munoz, George	05/15/1997	05/20/1997	05/20/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended May 16, 1997

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1997-SE-005684	Munoz, George	05/28/1997	05/28/1997	05/28/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ending May 23, 1997
1997-SE-005888	Munoz, George	06/03/1997	06/03/1997	06/03/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended May 30, 1997
1997-SE-006204	Munoz, George	06/11/1997	06/10/1997	06/10/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended June 06, 1997
1997-SE-006487	Munoz, George	06/17/1997	06/17/1997	06/17/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended June 13, 1997
1997-se-006851	Munoz, George	06/25/1997	06/26/1997	06/26/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended June 20, 1997
1997-SE-006940	Munoz, George	06/25/1997	07/10/1997	07/01/1997	Temporary Order For The Internal Revenue Service
1997-SE-007055	Munoz, George	07/01/1997	07/02/1997	07/02/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended June 27, 1997
1997-SE-007242	Munoz, George	07/07/1997	07/08/1997	07/08/1997	Internal Revenue Service-GAO Weekly Highlights For The Week Ended July 3, 1997
1997-SE-007545	Munoz, George	07/15/1997	07/15/1997	07/15/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ending 7/11/97

4

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1997-SE-007546	Dolan, Michael P.	07/11/1997	07/18/1997	07/18/1997	Tax Analysts, et al, v. Internal Revenue Service, et al
1997-SE-007996	Munoz, George	07/22/1997	07/23/1997	07/23/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended July 18, 1997
1997-SE-008151	Munoz, George	07/29/1997	07/29/1997	07/29/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ending July 25, 1997
1997-SE-008481	Munoz, George	08/05/1997	08/05/1997	08/05/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended August 1, 1997
1997-SE-008782	Munoz, George	08/12/1997	08/12/1997	08/12/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended August 8, 1997
1997-SE-008817	Knight, Edward	08/13/1997	08/22/1997	08/26/1997	Administration Internal Revenue Service Reform Legislation
1997-SE-008874	Comstock, Neal	08/08/1997	08/15/1997	08/15/1997	Deputy Secretary Summers Daybook for 8/8/97- Package in Files- Tarullo Meeting on US/European Issues- Greenspan Meeting, Meeting with Bill Reinsch re Encryption National Journal- One More Try, Electricity Deputies Meeting, G-7 Daily Briefing for 7/31/ and 8/1-4-6-7, "India Next Fifty Years, Domestic Greenhouse Gas EmissionsTrading Program, Administration Internal Revenue Service Reform Legislation,,

5

Flexibility for IRS, Thailand, Provide Above-the-Line Deduction for Expen

1997-SE-009020	App, Steven O.	08/15/1997	08/19/1997	08/19/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended August 15, 1997
1997-SE-009269	App, Steven O.	08/26/1997	08/26/1997	08/26/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended August 22, 1997
1997-SE-009325	Dolan, Michael P. (Acting Commissioner)	08/25/1997	08/28/1997	08/28/1997	Internal Revenue Service Weekly Update For The Week Of September 1 - September 5, 1997

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1997-SE-009365	Dolan, Michael P.	08/28/1997	08/29/1997	08/29/1997	IRS Comments On Treasury Draft Legislation 'Internal Revenue Service Improvement Act Of 1997'
1997-SE-009499	App, Steven O.	09/03/1997	09/03/1997	09/03/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ending August 29, 1997
1997-SE-009693	App, Steven	09/09/1997	09/09/1997	09/09/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ending September 5, 1997
1997-SE-009960	App, Steven O.	09/16/1997	09/16/1997	09/16/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended September 12, 1997
1997-SE-010141	App, Steven O.	09/22/1997	09/22/1997	09/22/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended September 19, 1997
1997-SE-010441	App, Steven	09/29/1997	09/29/1997	09/29/1997	Internal Revenue Service GAO Weekly Highlights
1997-SE-010465	Robertson, Linda	09/22/1997	10/09/1997	09/22/1997	Letter to Daniel Moynihan and Roth re hearings this Week concerning Taxpayer Rights and Allegations of Abuse by Employees of the Internal Revenue Service (IRS).
1997-SE-010516	Knight, Edward	09/30/1997	10/01/1997	10/01/1997	Final Version with Edits from GC and PA - Plan for the Future of the Internal Revenue Service

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1997-SE-010535	Comstock, Neal	09/23/1997	10/01/1997	10/01/1997	Testimony by Mike Dolan Before Members of the Committee re Internal Revenue Service (IRS)
1997-SE-010656	Jones, Ben	10/03/1997	10/06/1997	10/03/1997	Memo to the president re His Questions Concerning Internal Revenue Service
1997-SE-010847	Killefer, Nancy	10/09/1997	10/10/1997	10/10/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended October 3, 1997
1997-SE-011048	Killefer, Nancy	10/15/1997	10/16/1997	10/16/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended October 10, 1997
1997-SE-011423	Killefer, Nancy	10/22/1997	10/24/1997	10/24/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended October 17, 1997
1997-SE-011689	Killefer, Nancy	10/30/1997	10/31/1997	10/31/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended October 24, 1997
1997-SE-012068	Killefer, Nancy	11/10/1997	11/10/1997	11/10/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended October 31, 1997
1997-SE-012240	Killefer, Nancy	11/13/1997	11/14/1997	11/14/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended November 7, 1997
1997-SE-012478	Nolan, Michael	11/12/1997	11/19/1997	11/19/1997	Briefing Book for Deputy Secy Summers for Internal Revenue Service Management Board (IRSMB) 11/12/97. Package in

8

1997-SE-012654	Killefer, Nancy	11/24/1997	11/25/1997	11/25/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended November 14,

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1997-SE-012791	Killefer, Nancy	11/24/1997	11/28/1997	11/28/1997	Internal Revenue Service Operating Appropriations
1997-SE-012824	Killefer, Nancy	11/28/1997	12/01/1997	12/01/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended November 21, 1997
1997-SE-013175	Killefer, Nancy	12/02/1997	12/10/1997	12/10/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended November 28, 1997
1997-SE-013286	Killefer, Nancy	12/10/1997	12/11/1997	12/11/1997	Internal Revenue Service - GAO Weekly Highlights For The Week Ended December 5, 1997
1997-SE-013616	Killefer, Nancy	12/19/1997	12/19/1997	12/19/1997	Internal Revenue Service GAO Weeky Highlights For The Week Ended December 12, 1997
1997-SE-013783	Killifer, Nancy	12/24/1997	01/05/1998	12/29/1997	SES Appraisal, Bonus Recommendation and Rectification for the Deputy Commissioner, Internal Revenue Service
1998-SE-000232	Dalrymple	01/08/1998	01/09/1998	01/09/1998	Internal Revenue Service (IRS) - Toll-Free Telephone Program
1998-SE-000257	Killefer, Nancy	01/09/1998	01/09/1998	01/09/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended January 2, 1998
1998-SE-000467	Knight, Edward S.	01/14/1998	01/15/1998	01/15/1998	Comparison Of The Governance Provisions Of H.R. 2676, The 'Internal Revenue Service Restructuring And Reform Act of 1997' With The Proposed

10

Senate

1998-SE-000617	Killefer, Nancy	01/20/1998	01/20/1998	01/20/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended January 9, 1998

11

11/16/2000 3:06:36 PM

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1998-SE-001011	Killefer, Nancy	01/28/1998	01/29/1998	01/29/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ending January 16, 1998
1998-SE-001036	Comstock, Neal	01/29/1998	01/29/1998	01/29/1998	Internal Revenue Service - Security Infrastructure Implementation Plan (120 day report) and Controlling Unauthorized Employee Access to Taxpayer Records - Internal Revenue Service and Department of the Treasury Reprot (30 day report)
1998-SE-001238	Gross, Arthur A.	02/01/1998	02/03/1998	02/03/1998	CC Of Letter To Commissioner Rossotti Re Resignation
1998-SE-001878	Killefer, Nancy	02/13/1998	02/13/1998	02/13/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended February 6, 1998
1998-SE-002327	Killefer, Nancy	02/23/1998	02/24/1998	02/24/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended February 13, 1998
1998-SE-002490	Killefer, Nancy	02/20/1998	02/26/1998	02/26/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended February 20, 1998
1998-SE-002808	Killefer, Nancy	03/05/1998	03/05/1998	03/05/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended February 27, 1998
1998-SE-003327	Killefer, Nancy	03/15/1998	03/16/1998	03/16/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended March 6, 1998

12

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1998-SE-003835	Killefer, Nancy	03/26/1998	03/26/1998	03/26/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended March 13, 1998
1998-SE-004135	Killefer, Nancy	03/30/1998	04/01/1998	04/01/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended March 20, 1998
1998-SE-004187	Calahan, Richard B.	03/27/1998	04/02/1998	04/02/1998	Audited Fiscal Year 1997 Administrative Financial Statements Of The Internal Revenue Service
1998-SE-004732	Killefer, Nancy	04/15/1998	04/15/1998	04/15/1998	Internal Revenue Service-GAO Weekly Highlights For The Week Ended March 27, 1998
1998-SE-004846	Killefer, Nancy	04/15/1998	04/17/1998	04/17/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended April 3, 1998
1998-SE-005055	Killefer, Nancy	04/20/1998	04/22/1998	04/22/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended April 10, 1998
1998-SE-005106	Killefer, Nancy	04/23/1998	04/23/1998	04/23/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended April 17, 1998
1998-SE-005533	Killefer, Nancy	05/04/1998	05/05/1998	05/05/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended April 24, 1998
1998-SE-005610	Killefer, Nancy	05/06/1998	05/07/1998	05/07/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended May 01, 1998

13

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1998-SE-005890	Knight, Edward	05/06/1998	05/13/1998	05/13/1998	Global Settlement By CoreStates Financial Corp Of Federal Charges Stemming From Yield Burning Allegations By The Securities And Exchange Commission, The Internal Revenue Service, And The Justice Department
1998-SE-006084	Killefer, Nancy	05/18/1998	05/18/1998	05/18/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended May 8, 1998
1998-SE-006239	Killefer, Nancy	05/20/1998	05/21/1998	05/21/1998	Internal Revenue Service - GAO Weekly Highlights For The Week Ended May 15, 1998
1998-SE-008731	Rossotti, Charles O.	07/22/1998	07/23/1998	07/23/1998	Weekly Update From The Office Of Internal Revenue Service
1998-SE-009249	Killefer, Nancy	08/05/1998	08/17/1998	09/07/1998	Delegation Of Personnel Authority Pertaining To Internal Revenue Service Restructuring And Reform
1998-SE-009324	Killefer, Nancy	08/07/1998	08/18/1998	08/07/1998	Delegation Of Personnel Authority Pertaining to Internal Revenue Service Restructuring And Reform
1998-SE-010118	Goode, Ernest R., Jr.	08/20/1998	09/16/1998	06/28/1999	Referral Of Complaint Involving Inspector's David E. Lewis And Bruce A. Mason RE: OWCP File Number 16-0305620

14

11/16/2000 3:06:37 PM

Profile Number	From Name	Doc Date	Due Date	Closure Date	Subject
1999-SE-004420	Killefer, Nancy	05/03/1999	05/12/1999	05/05/1999	Request to Sign Treasury Order (TO) 107-07, 'Personnel Authority Over Personnel Employed by the Office of the Chief Counsel, Internal Revenue Service'