

112TH CONGRESS
1ST SESSION

S. 1289

To amend the Internal Revenue Code of 1986 to reduce the tax gap, and
for other purposes.

IN THE SENATE OF THE UNITED STATES

JUNE 28, 2011

Mr. CARPER (for himself and Mrs. BOXER) introduced the following bill; which
was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to reduce
the tax gap, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE, ETC.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Taxpayer Advocacy and Government Accountability Pro-
6 motion Act of 2011” or the “TAX GAP Act of 2011”.

7 (b) **AMENDMENT OF 1986 CODE.**—Except as other-
8 wise expressly provided, whenever in this Act an amend-
9 ment or repeal is expressed in terms of an amendment
10 to, or repeal of, a section or other provision, the reference

1 shall be considered to be made to a section or other provi-
 2 sion of the Internal Revenue Code of 1986.

3 (c) TABLE OF CONTENTS.—The table of contents for
 4 this Act is as follows:

Sec. 1. Short title, etc.

TITLE I—TAXPAYER SIMPLIFICATION, PROTECTION, AND
 FAIRNESS

Sec. 101. Taxpayer assistance and tax simplification report.

Sec. 102. Elimination of taxpayer obligation to pay credit and debit card processing fees for certain tax payments.

Sec. 103. Make offer-in-compromise application rules less onerous for taxpayers.

Sec. 104. Elimination of special rules modifying amount of estimated tax payments by corporation.

Sec. 105. Repeal of special estimated tax payment provision for certain insurance companies.

Sec. 106. Repeal of designation of nonqualified preferred stock.

Sec. 107. De minimis apology payments pilot program.

TITLE II—CLARIFICATION OF TAX FORMS AND FILING
 REQUIREMENTS

Sec. 201. Clarification of information on Schedule C.

Sec. 202. Increased electronic filing of returns.

Sec. 203. Clarification of electronic filing requirements for paid preparers.

Sec. 204. Requirement that electronically prepared paper returns include 2D barcode.

Sec. 205. Authorization to require certain employee benefit plan information returns and reports to be filed electronically.

TITLE III—ENHANCED INFORMATION REPORTING

Sec. 301. Automatic reporting on certain government payments for property and services.

Sec. 302. Additional information on returns relating to mortgage interest.

Sec. 303. Improved information reporting on unreported and underreported financial accounts.

TITLE IV—PAYMENTS TO CERTAIN CONTRACTORS

Sec. 401. Requirements for withholding with respect to payments to contractors.

Sec. 402. Continuous levy on payments to Medicaid providers and suppliers.

Sec. 403. Levy authority for payments to Medicare providers with delinquent tax debt.

Sec. 404. 100 percent levy for payments to Federal vendors relating to property.

TITLE V—IMPROVED TAX ADMINISTRATION AND COORDINATION

- Sec. 501. Requirement for prisons located in U.S. to provide information for tax administration.
- Sec. 502. Facilitation of tax compliance with Indian tribal governments.
- Sec. 503. Improvement in access to information in the National Directory of New Hires for tax administration purposes.
- Sec. 504. Clarification of taxpayer privacy by improvement of investigative disclosure statute.
- Sec. 505. Authorization for Financial Management Service retention of transaction fees from levied amounts.

TITLE VI—CLARIFICATION OF PENALTIES AND LIABILITIES

- Sec. 601. Clarification of penalty for failure to comply with electronic filing requirements.
- Sec. 602. Increase in penalty on paid preparers who fail to comply with earned income tax credit due diligence requirements.
- Sec. 603. Increase in penalties for repeated and willful failure to file tax return.
- Sec. 604. Clarification of employee leasing companies liability for clients' Federal employment taxes.
- Sec. 605. Extension of statute of limitations where State or local adjustment affects Federal tax liability.
- Sec. 606. Elimination of restriction on offsetting refunds from former residents.

TITLE VII—UNDERSTANDING THE TAX GAP

- Sec. 701. Tax gap strategy and reports.
- Sec. 702. Studies on the impact of tax gap legislation.
- Sec. 703. Reports on worker misclassification.

1 **TITLE I—TAXPAYER SIMPLIFICA-** 2 **TION, PROTECTION, AND** 3 **FAIRNESS**

4 **SEC. 101. TAXPAYER ASSISTANCE AND TAX SIMPLIFICA-** 5 **TION REPORT.**

6 (a) IN GENERAL.—Not later than 2 years after the
 7 date of the enactment of this Act, the Secretary of the
 8 Treasury, in consultation with the Commissioner of the
 9 Internal Revenue Service, shall submit to Congress a re-
 10 port on taxpayer assistance and tax simplification.

11 (b) MATTERS INCLUDED.—The report required
 12 under subsection (a) shall be based on examinations of tax

1 policy and of tax compliance enforcement and shall include
2 the following:

3 (1) An assessment of the current and proposed
4 efforts of the Internal Revenue Service with respect
5 to the simplification of tax forms, publications, and
6 filing requirements for individual taxpayers and for
7 sole proprietor taxpayers, including additional, plain-
8 language guidance for taxpayers. Such assessment
9 shall include specific recommendations on—

10 (A) how these or additional efforts may be
11 improved or expanded upon, including through
12 paid preparers and tax preparation software,
13 and

14 (B) requiring or encouraging the Internal
15 Revenue Service, to the maximum extent pos-
16 sible, to test its forms and publications on ac-
17 tual taxpayers prior to publication.

18 (2) An assessment of the current efforts of the
19 Internal Revenue Service—

20 (A) to reduce the time between receipt of
21 an electronically filed tax return and the
22 issuance of a refund, and

23 (B) to reduce the time between receipt of
24 a manually filed tax return and the issuance of
25 a refund.

1 (3) An assessment of the efforts of the Internal
2 Revenue Service to induce voluntary compliance by
3 individual taxpayers and sole proprietor taxpayers,
4 with a particular focus on current efforts to reduce
5 administrative and compliance burdens. Such assess-
6 ment shall include specific recommendations on how
7 voluntary compliance may be improved or expanded
8 upon, particularly in an environment where most
9 taxpayers use paid preparers or tax preparation soft-
10 ware.

11 (4) An assessment of the current efforts of the
12 Internal Revenue Service to improve taxpayer serv-
13 ice, including through outreach programs, taxpayer
14 education, preparer education, tax software industry
15 coordination, and expanded availability of online,
16 Internet-based tax information and filing services of-
17 fered by the Internal Revenue Service. Such assess-
18 ment shall include specific recommendations on how
19 these or additional efforts may be improved or ex-
20 panded upon.

21 (5) An assessment of the efficacy of previous
22 Internal Revenue Service efforts with respect to set-
23 tlement initiatives, including the effect of such initia-
24 tives on improving compliance and reducing current
25 and future revenues lost due to tax evasion. Such as-

1 assessment shall include specific recommendations on
2 how, or whether, these or additional efforts may be
3 improved or expanded upon.

4 (6) An assessment of the personnel, infrastruc-
5 ture, information technology, and capabilities of the
6 Internal Revenue Service with respect to ensuring
7 and promoting taxpayer service, encouraging vol-
8 untary compliance, enforcing involuntary compliance.

9 (c) USE OF DATA.—The report under subsection (a)
10 shall, wherever possible, be based on empirical data, agen-
11 cy-conducted tests, and quantitative evidence.

12 **SEC. 102. ELIMINATION OF TAXPAYER OBLIGATION TO PAY**
13 **CREDIT AND DEBIT CARD PROCESSING FEES**
14 **FOR CERTAIN TAX PAYMENTS.**

15 (a) IN GENERAL.—Paragraph (2) of section 6311(d)
16 is amended to read as follows:

17 “(2) AUTHORITY TO ENTER INTO CON-
18 TRACTS.—Notwithstanding section 3718(f) of title
19 31, United States Code—

20 “(A) IN GENERAL.—The Secretary is au-
21 thorized to enter into contracts to obtain serv-
22 ices related to receiving payment by other
23 means where cost beneficial to the Government.
24 Except as provided in subparagraph (B), the
25 Secretary may not pay any fee or provide any

1 other consideration under any such contract for
2 the use of credit, debit, or charge cards for the
3 payment of taxes imposed by subtitle A.

4 “(B) SERVICES PROVIDED BY FINANCIAL
5 AGENTS OF THE GOVERNMENT.—The Secretary
6 is authorized to utilize services provided by a fi-
7 nancial agent of the Government to receive pay-
8 ment of delinquent tax liability made by credit,
9 debit, or charge card, and to pay such financial
10 agent any contracted fees or other consideration
11 for the acceptance and processing of card trans-
12 actions in connection with such services.”.

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

16 **SEC. 103. MAKE OFFER-IN-COMPROMISE APPLICATION**
17 **RULES LESS ONEROUS FOR TAXPAYERS.**

18 (a) IN GENERAL.—Section 7122 is amended by strik-
19 ing subsection (c) and by redesignating subsections (d),
20 (e), (f), and (g) as subsections (c), (d), (e), and (f), respec-
21 tively.

22 (b) CONFORMING AMENDMENTS.—

23 (1) Paragraph (3) of section 7122(c), as redesi-
24 gnated by subsection (a), is amended by striking
25 subparagraph (C), by striking “, and” at the end of

1 subparagraph (B) and inserting a period, and by
2 adding “and” at the end of subparagraph (A).

3 (2) Subsection (f) of section 6159 is amended
4 by striking “section 7122(e)” and inserting “section
5 7122(d)”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to offers-in-compromise submitted
8 after the date of the enactment of this Act.

9 **SEC. 104. ELIMINATION OF SPECIAL RULES MODIFYING**
10 **AMOUNT OF ESTIMATED TAX PAYMENTS BY**
11 **CORPORATION.**

12 The Corporate Estimated Tax Shift Act of 2009 (and
13 any modification of such section contained in any other
14 provision of law) and section 561 of the Hiring Incentives
15 to Restore Employment Act (and any modification of such
16 section contained in any other provision of law) shall not
17 apply with respect to any installment of corporate esti-
18 mated tax for any taxable year beginning after December
19 31, 2013.

20 **SEC. 105. REPEAL OF SPECIAL ESTIMATED TAX PAYMENT**
21 **PROVISION FOR CERTAIN INSURANCE COM-**
22 **PANIES.**

23 (a) IN GENERAL.—Section 847 is repealed, effective
24 for taxable years beginning after December 31, 2012.

25 (b) TRANSITION RULES.—

1 (1) EXISTING SPECIAL LOSS DISCOUNT AC-
2 COUNTS.—

3 (A) IN GENERAL.—In the case of a com-
4 pany that has a special loss discount account
5 (within the meaning of section 847(a)(3) of the
6 Internal Revenue Code of 1986, as in effect on
7 the date of the enactment of this Act) on De-
8 cember 31, 2012, the entire amount of such ac-
9 count shall be subtracted from such account
10 and, unless the company makes the election
11 under subparagraph (B), shall be included in
12 gross income for such company's first taxable
13 year beginning after such date.

14 (B) ELECTION TO INCLUDE AMOUNTS RAT-
15 ABLY OVER 4 YEARS.—If a company makes the
16 election under this subparagraph, in such time
17 and manner as the Secretary may prescribe, the
18 amount of such company's special loss discount
19 account which is subtracted from such account
20 by reason of subparagraph (A) shall be included
21 in gross income ratably over the 4-taxable-year
22 period beginning with such company's first tax-
23 able year beginning after December 31, 2012.

24 (2) ACCUMULATED SPECIAL ESTIMATED TAX
25 PAYMENTS.—

1 (A) IN GENERAL.—Unless the company
2 makes the election under paragraph (1)(B), the
3 amount of any special estimated tax payments
4 made by such company under section 847 of
5 the Internal Revenue Code of 1986 in taxable
6 years beginning before December 31, 2012,
7 which have not previously been applied to re-
8 duce tax liability shall be applied to reduce any
9 additional tax liability resulting from the appli-
10 cation of paragraph (1)(A) for the company’s
11 first taxable year beginning after December 31,
12 2012.

13 (B) COMPANIES ELECTING 4-YEAR INCOME
14 INCLUSION.—In the case of a company that
15 makes the election under paragraph (1)(B), the
16 amount of any special estimated tax payments
17 made by such company under section 847 of
18 such Code in taxable years beginning before
19 December 31, 2012, which have not previously
20 been applied to reduce tax liability shall be ap-
21 plied on a year-by-year basis to reduce any ad-
22 ditional tax liability resulting from the applica-
23 tion of paragraph (1)(B) for the taxable years
24 in the 4-taxable-year period under such para-
25 graph.

1 (C) EXCESS SPECIAL ESTIMATED TAX PAY-
2 MENTS.—If the amount of special estimated tax
3 payments to which subparagraph (A) or (B) ap-
4 plies exceeds—

5 (i) the additional tax liability resulting
6 from the application of paragraph (1)(A)
7 for the company’s first taxable year begin-
8 ning after December 31, 2012, or

9 (ii) the total additional tax liability re-
10 sulting from the application of paragraph
11 (1)(B) for the company’s first 4 taxable
12 years beginning after such date,

13 whichever is applicable, such excess amount
14 shall be treated as a payment of the company’s
15 estimated tax under section 6655 of such Code,
16 beginning with the first quarter of the first tax-
17 able year beginning after such date or, in the
18 case of an election under paragraph (1)(B), the
19 first quarter of the 4th taxable year beginning
20 after such date.

21 **SEC. 106. REPEAL OF DESIGNATION OF NONQUALIFIED**
22 **PREFERRED STOCK.**

23 (a) IN GENERAL.—Section 351 is amended by strik-
24 ing subsection (g) and by redesignating subsection (h) as
25 subsection (g).

1 (b) CONFORMING AMENDMENTS.—

2 (1) Section 45D(b)(6)(A) is amended by strik-
3 ing “(other than nonqualified preferred stock as de-
4 fined in section 351(g)(2))”.

5 (2) Section 354(a)(2) is amended—

6 (A) by striking “(including nonqualified
7 preferred stock, as defined in section
8 351(g)(2))” in subparagraph (B), and

9 (B) by striking subparagraph (C).

10 (3) Section 354(a)(3) is amended by striking
11 “nonqualified preferred stock and”.

12 (4) Section 355(a)(3) is amended—

13 (A) by striking “(including nonqualified
14 preferred stock, as defined in section
15 351(g)(2))” in subparagraph (C), and

16 (B) by striking subparagraph (D).

17 (5) Section 355(a)(4) is amended by striking
18 “nonqualified preferred stock and”.

19 (6) Section 356 is amended by striking sub-
20 section (e) and by redesignating subsections (f) and
21 (g) as subsections (e) and (f), respectively.

22 (7) Section 1036 is amended by striking sub-
23 section (b) and by redesignating subsection (c) as
24 subsection (b).

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to transactions after December 31,
3 2012.

4 **SEC. 107. DE MINIMIS APOLOGY PAYMENTS PILOT PRO-**
5 **GRAM.**

6 (a) IN GENERAL.—Section 7811(b) is amended by
7 striking “or” at the end of paragraph (1), by striking the
8 period and inserting “, or” at the end of paragraph
9 (2)(D), and adding at the end the following new para-
10 graph:

11 “(3) to make an apology payment under sub-
12 section (h) in the case of any order issued during
13 2012 or 2013, upon the determination that such
14 order—

15 “(A) has been accepted, or

16 “(B) if challenged, has been administra-
17 tively sustained.”.

18 (b) APOLOGY PAYMENT.—Section 7811 is amended
19 by adding at the end the following new subsection:

20 “(h) APOLOGY PAYMENT PROGRAM.—

21 “(1) IN GENERAL.—A taxpayer assistance order
22 may require the Secretary to provide an apology
23 payment on behalf of the Internal Revenue Service
24 to the taxpayer under this subsection in any case in
25 which the National Taxpayer Advocate determines

1 that any action or inaction by the Internal Revenue
2 Service has caused excess expense or undue burden
3 on a taxpayer.

4 “(2) TAXPAYER LIMITATIONS.—In the case of
5 any apology payment required under this subsection
6 to any taxpayer with respect to any taxable year—

7 “(A) such payment shall not be less than
8 \$100, and

9 “(B) such payment shall not exceed
10 \$1,000.

11 “(3) AGGREGATE YEARLY LIMITATION.—The
12 amount of apology payments which the National
13 Taxpayer Advocate may require to be paid for any
14 fiscal year shall not exceed \$250,000.”.

15 (c) REPORTS.—Clause (ii) of section 7803(c)(2)(B)
16 is amended by striking “and” at the end of subclause (X),
17 by redesignating subclause (XI) as subclause (XII), and
18 by inserting after subclause (X) the following new sub-
19 clause:

20 “(XI) contain a summary of all
21 Taxpayer Assistance Orders which re-
22 quire an apology payment under sec-
23 tion 7811(h), and”.

24 (d) EXCLUSION OF APOLOGY PAYMENTS FROM
25 GROSS INCOME.—

1 (1) IN GENERAL.—Part III of subchapter B of
2 chapter 1 is amended by inserting before section 140
3 the following new section:

4 **“SEC. 139F. INTERNAL REVENUE SERVICE APOLOGY PAY-**
5 **MENTS.**

6 “Gross income shall not include any apology payment
7 received by a taxpayer as a result of a Taxpayer Assist-
8 ance Order described in section 7811(h).”.

9 (2) CLERICAL AMENDMENT.—The table of sec-
10 tions for part III of subchapter B of chapter 1 is
11 amended by inserting before the item relating to sec-
12 tion 140 the following new item:

“Sec. 139F. Internal Revenue Service apology payments.”.

13 (e) EFFECTIVE DATES.—

14 (1) IN GENERAL.—The amendments made by
15 subsections (a) and (b) shall apply to orders issued
16 after December 31, 2011.

17 (2) REPORTS.—The amendments made by sub-
18 section (c) shall apply to reports required to be sub-
19 mitted after December 31, 2011.

20 (3) EXCLUSION.—The amendments made by
21 subsection (d) shall apply to taxable years beginning
22 after December 31, 2011.

23 (f) STUDY AND REPORT ON APOLOGY PAYMENTS
24 PROGRAM.—Not later than December 31, 2013, the Sec-
25 retary of the Treasury shall submit to Congress a report

1 on the apology payments program under the amendments
2 made by this section. Such report shall contain—

3 (1) an evaluation of—

4 (A) the merits and effects of such program
5 on—

6 (i) taxpayers who received payments
7 under section 7811(h), and

8 (ii) the Internal Revenue Service, and

9 (B) the impact of the program on all tax-
10 payers and the public, and

11 (2) recommendations whether the program
12 should be extended, and, if so, whether and how it
13 should be improved.

14 **TITLE II—CLARIFICATION OF**
15 **TAX FORMS AND FILING RE-**
16 **QUIREMENTS**

17 **SEC. 201. CLARIFICATION OF INFORMATION ON SCHEDULE**

18 **c.**

19 (a) REVISION OF SCHEDULE C.—Not later than De-
20 cember 31, 2012, the Secretary of the Treasury shall re-
21 vise Schedule C to Form 1040 (hereafter in this section
22 referred to as “Schedule C”) to require that taxpayers en-
23 gaged in a trade or business provide the information re-
24 quired under this subsection.

1 (1) ADDITIONAL GROSS RECEIPTS INFORMA-
2 TION.—With respect to the gross receipts of the tax-
3 payer from any trade or business, Schedule C shall
4 require the taxpayer to provide the following:

5 (A) The total of amount of gross receipts
6 or sales reported to the taxpayer through payee
7 statements (as defined in section 6724(d)(2) of
8 the Internal Revenue Code of 1986) and the
9 number of such payee statements received by
10 the taxpayer.

11 (B) The total of amount of gross receipts
12 or sales not included under subparagraph (A).

13 (2) ADDITIONAL EXPENSE INFORMATION.—
14 With respect to payments made by the taxpayer in
15 connection with any trade or business, Schedule C
16 shall require the taxpayer to provide the following:

17 (A) The total of amounts reported by the
18 taxpayer through payee statements (as so de-
19 fined).

20 (B) The number of payee statements (as
21 so defined) furnished by the taxpayer.

22 (C) Such other information as required by
23 the Secretary with respect to payments in con-
24 nection with—

25 (i) goods, and

1 (ii) services.

2 (b) REPORT ON IMPROVING VOLUNTARY COMPLI-
3 ANCE BY SOLE PROPRIETORS.—

4 (1) IN GENERAL.—Not later than 3 years after
5 the date of the enactment of this Act, the Secretary
6 of the Treasury shall submit to Congress a report
7 setting forth recommendations on—

8 (A) whether the Internal Revenue Service
9 should provide additional assistance to first-
10 time Schedule C filers by means of regular com-
11 munications, a small business hotline, a pub-
12 lished resource guide, or automatic or com-
13 puter-generated “soft” notices,

14 (B) ways in which the Internal Revenue
15 Service can work with small businesses, trade
16 representatives, tax preparation software firms,
17 and paid preparer representatives to determine
18 whether and how specific changes to existing
19 education and guidance would help those filing
20 the Schedule C,

21 (C) ways to clarify the instructions for
22 Schedule C to indicate that information returns
23 may be required to be filed by sole proprietors
24 who deduct expenses for wages, fees, and com-
25 missions,

1 (D) suggested changes to the Internal Rev-
2 enue Service's electronic and computer-based
3 system for filing information returns to accom-
4 modate those filing information returns on pay-
5 ments made to sole proprietors, including
6 whether the Internal Revenue Service should
7 develop an Internet-based system for filing in-
8 formation returns,

9 (E) identification and analysis of the best
10 practices that are utilized by States and by for-
11 eign governments with respect to encouraging
12 voluntary tax compliance by sole proprietors,
13 and ways these best practices may be adopted
14 by the Internal Revenue Service,

15 (F) whether, in the case of tax returns
16 containing income from a trade or business, the
17 inclusion of a checkbox or other indicator indi-
18 cating whether the taxpayer had a 1099-MISC
19 filing requirement would affect voluntary com-
20 pliance by taxpayers, and

21 (G) such other improvements with respect
22 to improving voluntary compliance by sole pro-
23 prietors as the Secretary determines is appro-
24 priate.

1 (2) USE OF DATA.—The recommendations sub-
2 mitted in the report under paragraph (1) shall,
3 wherever possible, be based on empirical data, agen-
4 cy-conducted tests, and quantitative evidence.

5 **SEC. 202. INCREASED ELECTRONIC FILING OF RETURNS.**

6 (a) PERSONS REQUIRED TO FILE SCHEDULE M-
7 3.—Paragraph (2) of section 6011(e) is amended—

8 (1) by redesignating subparagraphs (A) and
9 (B) as subparagraphs (B) and (C), respectively,
10 (2) by inserting before subparagraph (B), as so
11 redesignated, the following new subparagraph:

12 “(A) shall require any corporation or part-
13 nership that has assets in excess of
14 \$10,000,000 on the last day of the taxable year
15 to file returns on magnetic media,” and

16 (3) by inserting “except as provided in subpara-
17 graph (A),” before “shall not require” in subpara-
18 graph (B), as so redesignated.

19 (b) REDUCTION OF THRESHOLD.—Subparagraph
20 (B) of section 6011(e)(2), as redesignated by subsection
21 (a), is amended by striking “at least 250 returns” and
22 inserting “more than a de minimis number of returns (as
23 determined by the Secretary)”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years ending after De-
3 cember 31, 2012.

4 **SEC. 203. CLARIFICATION OF ELECTRONIC FILING RE-**
5 **QUIREMENTS FOR PAID PREPARERS.**

6 (a) LOWER THRESHOLD FOR PAID PREPARERS.—
7 Section 6011(e)(3)(B) is amended by striking “10” and
8 inserting “5”.

9 (b) THRESHOLD BASED ON RETURNS PREPARED.—
10 Paragraph (3) of section 6011(e) is amended—

11 (1) by striking “filed” in subparagraph (A)(i)
12 and inserting “prepared”, and

13 (2) by striking “file” in subparagraph (B) and
14 inserting “prepare”.

15 (c) PENALTY.—Section 6695 is amended by adding
16 at the end the following new subsection:

17 “(h) FAILURE TO FILE RETURN ON MAGNETIC
18 MEDIA.—Any person who is a tax return preparer with
19 respect to any individual income tax return and who must
20 file such return on magnetic media pursuant to the re-
21 quirement of section 6011(e)(3) and fails to comply with
22 the requirements of section 6011(e)(3) shall pay a penalty
23 of \$50 for such failure unless it is shown that such failure
24 is due to reasonable cause and not due to willful neglect.
25 The maximum penalty imposed under this subsection on

1 any person with respect to individual income tax returns
2 filed during any calendar year shall not exceed \$25,000.”.

3 (d) TECHNICAL AMENDMENT.—Section
4 6011(e)(3)(A) is amended by striking “than” and insert-
5 ing “that”.

6 (e) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to returns filed for taxable years
8 beginning after December 31, 2011.

9 **SEC. 204. REQUIREMENT THAT ELECTRONICALLY PRE-**
10 **PARED PAPER RETURNS INCLUDE 2D**
11 **BARCODE.**

12 (a) IN GENERAL.—Subsection (e) of section 6011 is
13 amended by adding at the end the following new para-
14 graph:

15 “(5) SPECIAL RULE FOR RETURNS PREPARED
16 ELECTRONICALLY AND SUBMITTED ON PAPER.—The
17 Secretary shall require that any return of tax which
18 is prepared electronically, but is printed and filed on
19 paper, bear a matrix code or 2D barcode which can,
20 when scanned, convert such return to electronic for-
21 mat.”.

22 (b) CONFORMING AMENDMENT.—Paragraph (1) of
23 section 6011(e) is amended by striking “paragraph (3)”
24 and inserting “paragraphs (3) and (5)”.

1 (c) EFFECTIVE DATE.—The amendments made by
 2 this section shall apply to returns of tax the due date for
 3 which (including extensions) is after December 31, 2012.

4 **SEC. 205. AUTHORIZATION TO REQUIRE CERTAIN EM-**
 5 **PLOYEE BENEFIT PLAN INFORMATION RE-**
 6 **TURNS AND REPORTS TO BE FILED ELEC-**
 7 **TRONICALLY.**

8 (a) IN GENERAL.—Paragraph (2) of section 6011(e),
 9 as amended by this Act, is amended by adding at the end
 10 the following new sentence: “Subparagraph (B) shall not
 11 apply in the case of a return or report required by section
 12 6057, 6058, or 6059.”.

13 (b) EFFECTIVE DATE.—The amendment made by
 14 this section shall apply to plan years beginning after De-
 15 cember 31, 2012.

16 **TITLE III—ENHANCED**
 17 **INFORMATION REPORTING**

18 **SEC. 301. AUTOMATIC REPORTING ON CERTAIN GOVERN-**
 19 **MENT PAYMENTS FOR PROPERTY AND SERV-**
 20 **ICES.**

21 (a) IN GENERAL.—Section 6041, as amended by the
 22 Comprehensive 1099 Taxpayer Protection and Repayment
 23 of Exchange Subsidy Overpayments Act of 2011, is
 24 amended by adding at the end the following new sub-
 25 section:

1 “(h) APPLICATIONS TO GOVERNMENTAL UNITS.—

2 For purposes of this section—

3 “(1) TREATED AS PERSONS.—The term ‘per-
4 son’ includes any governmental unit (and any agency
5 or instrumentality thereof).

6 “(2) SPECIAL RULES.—In the case of any pay-
7 ment by a governmental entity or any agency or in-
8 strumentality thereof—

9 “(A) subsection (a) shall be applied with-
10 out regard to the trade or business requirement
11 contained therein, and

12 “(B) any return under this section shall be
13 made by the officer or employee having control
14 of the payment or appropriately designated for
15 the purpose of making such return.

16 “(3) EXCEPTIONS.—This subsection shall not
17 apply to such payments as the Secretary may specify
18 in regulations prescribed after the date of the enact-
19 ment of this subsection. Such regulations may in-
20 clude—

21 “(A) payments of interest,

22 “(B) payments for real property,

23 “(C) payments to entities exempt from tax
24 or foreign governments,

25 “(D) intergovernmental payments,

1 “(E) payments made pursuant to classified
2 or confidential contracts, including contracts
3 described in section 6050M(e)(3) with respect
4 to which the requirements of section
5 6050M(e)(2) are met, and

6 “(F) any other payment with respect to
7 which reporting is required under another pro-
8 vision of this title.”.

9 (b) CONFORMING AMENDMENTS TO RETURNS BY
10 GOVERNMENTS REGARDING PAYMENTS OF REMUNERA-
11 TION FOR SERVICES AND DIRECT SALES TO CORPORA-
12 TIONS.—Paragraph (3) of section 6041A(d) is amended—

13 (1) by striking “BY FEDERAL EXECUTIVE
14 AGENCIES” in the heading,

15 (2) by striking “by any Federal executive agen-
16 cy (as defined in section 6050M(b))” in subpara-
17 graph (A) and inserting “by any governmental entity
18 or any agency or instrumentality thereof”, and

19 (3) by inserting “classified or confidential con-
20 tracts, including” after “services under” in subpara-
21 graph (B)(i).

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to payments made after December
24 31, 2012.

1 **SEC. 302. ADDITIONAL INFORMATION ON RETURNS RELAT-**
2 **ING TO MORTGAGE INTEREST.**

3 (a) IN GENERAL.—Paragraph (2) of section
4 6050H(b) is amended by striking “and” at the end of sub-
5 paragraph (C), by redesignating subparagraph (D) as sub-
6 paragraph (G), and by inserting after subparagraph (C)
7 the following new subparagraphs:

8 “(D) the unpaid balance with respect to
9 such mortgage,

10 “(E) the address of the property securing
11 such mortgage, and

12 “(F) information with respect to whether
13 the mortgage is a refinancing that occurred in
14 such calendar year.”.

15 (b) PAYEE STATEMENTS.—Subsection (d) of section
16 6050H is amended by striking “and” at the end of para-
17 graph (1), by striking the period at the end of paragraph
18 (2) and inserting “, and”, and by inserting after para-
19 graph (2) the following new paragraph:

20 “(3) the information required to be included on
21 the return under subparagraphs (D), (E), and (F)
22 of subsection (b)(2).”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to returns and statements the due
25 date for which (determined without regard for extensions)
26 is after December 31, 2012.

1 **SEC. 303. IMPROVED INFORMATION REPORTING ON UNRE-**
2 **PORTED AND UNDERREPORTED FINANCIAL**
3 **ACCOUNTS.**

4 (a) **ELIMINATION OF MINIMUM INTEREST REQUIRE-**
5 **MENT.—**

6 (1) **IN GENERAL.—**Section 6049(a) is amended
7 by striking “aggregating \$10 or more” each place it
8 appears.

9 (2) **CONFORMING AMENDMENTS.—**Subpara-
10 graph (C) of section 6049(d)(5) is amended—

11 (A) by striking “which involves the pay-
12 ment of \$10 or more of interest”, and

13 (B) by striking “**IN THE CASE OF TRANS-**
14 **ACTIONS INVOLVING \$10 OR MORE**” in the head-
15 ing.

16 (3) **EFFECTIVE DATE.—**The amendments made
17 by this subsection shall apply to returns filed after
18 December 31, 2012.

19 (b) **REPORTING OF NON-INTEREST BEARING DEPOS-**
20 **ITS.—**

21 (1) **IN GENERAL.—**Subpart B of part III of
22 subchapter A of chapter 61 is amended by inserting
23 after section 6049 the following new section:

1 **“SEC. 6049A. RETURNS REGARDING NON-INTEREST BEAR-**
 2 **ING DEPOSITS.**

3 “(a) REQUIREMENT OF REPORTING.—Every person
 4 who holds a reportable deposit during any calendar year
 5 shall make a return according to the forms or regulations
 6 prescribed by the Secretary, setting forth the name and
 7 address of the person for whom such deposit was held.

8 “(b) REPORTABLE DEPOSIT.—For purposes of this
 9 section—

10 “(1) IN GENERAL.—The term ‘reportable de-
 11 posit’ means—

12 “(A) any amount on deposit with—

13 “(i) a person carrying on the banking
 14 business,

15 “(ii) a mutual savings bank, a savings
 16 and loan association, a building and loan
 17 association, a cooperative bank, a home-
 18 stead association, a credit union, an indus-
 19 trial loan association or bank, or any simi-
 20 lar organization,

21 “(iii) a broker (as defined in section
 22 6045(c)), or

23 “(iv) any other person provided in
 24 regulations prescribed by the Secretary, or

25 “(B) to the extent provided by the Sec-
 26 retary in regulations, any amount held by an

1 insurance company, an investment company (as
2 defined in section 3 of the Investment Company
3 Act of 1940), or held in other pooled funds or
4 trusts.

5 “(2) EXCEPTIONS.—Such term shall not in-
6 clude—

7 “(A) any amount with respect to which a
8 report is made under section 6049,

9 “(B) any amount on deposit with or held
10 by a natural person,

11 “(C) except to the extent provided in regu-
12 lations, any amount—

13 “(i) held with respect to a person de-
14 scribed in section 6049(b)(4),

15 “(ii) with respect to which section
16 6049(b)(5) would apply if a payment were
17 made with respect to such amount, or

18 “(iii) on deposit with or held by a per-
19 son described in section 6049(b)(2)(C), or

20 “(D) any amount for which the Secretary
21 determines there is already sufficient reporting.

22 “(c) STATEMENTS TO BE FURNISHED TO PERSONS
23 WITH RESPECT TO WHOM INFORMATION IS REQUIRED.—

24 “(1) IN GENERAL.—Every person required to
25 make a return under subsection (a) shall furnish to

1 each person whose name is required to be set forth
2 in such return a written statement showing—

3 “(A) the name, address, and phone num-
4 ber of the information contact of the person re-
5 quired to make such return, and

6 “(B) the reportable account with respect to
7 which such return was made.

8 “(2) TIME AND FORM OF STATEMENT.—The
9 written statement under paragraph (1)—

10 “(A) shall be furnished at a time and in a
11 manner similar to the time and manner that
12 statements are required to be filed under sec-
13 tion 6049(c)(2), and

14 “(B) shall be in such form as the Sec-
15 retary may prescribe by regulations.

16 “(d) PERSON.—For purposes of this section, the term
17 ‘person’, when referring to the person for whom a deposit
18 is held, includes any governmental unit and any agency
19 or instrumentality thereof and any international organiza-
20 tion and any agency or instrumentality thereof.”.

21 (2) ASSESSABLE PENALTIES.—

22 (A) FAILURE TO FILE RETURN.—Subpara-
23 graph (B) of section 6724(d)(1) is amended by
24 striking “or” at the end of clause (xxii), by
25 striking “and” at the end of clause (xxiv) and

1 inserting “or”, and by inserting after clause
2 (xxiv) the following new clause:

3 “(xxvi) section 6049A (relating to re-
4 turns regarding non-interest bearing de-
5 posits), and”.

6 (B) FAILURE TO FILE PAYEE STATE-
7 MENT.—Paragraph (2) of section 6724(d) is
8 amended by striking “or” at the end of sub-
9 paragraph (GG), by striking the period at the
10 end of subparagraph (HH) and inserting “, or”
11 and by inserting after subparagraph (HH) the
12 following new subparagraph:

13 “(II) section 6049A(e) (relating to returns
14 regarding non-interest bearing deposits).”.

15 (3) CLERICAL AMENDMENT.—The table of sec-
16 tion for subpart B of part III of subchapter A of
17 chapter 61 is amended by inserting after the item
18 relating to section 6049 the following new item:

“Sec. 6049A. Returns regarding non-interest bearing deposits.”.

19 (4) EFFECTIVE DATE.—The amendments made
20 by this subsection shall apply to returns filed after
21 December 31, 2012.

1 **TITLE IV—PAYMENTS TO**
2 **CERTAIN CONTRACTORS**

3 **SEC. 401. REQUIREMENTS FOR WITHHOLDING WITH RE-**
4 **SPECT TO PAYMENTS TO CONTRACTORS.**

5 (a) IN GENERAL.—

6 (1) REQUIREMENT.—Paragraph (1) of section
7 3406(a) is amended by striking “or” at the end of
8 subparagraph (C), by inserting “or” at the end of
9 subparagraph (D), and by inserting after subpara-
10 graph (D) the following new subparagraph:

11 “(E) the Secretary has not provided
12 verification to the payor that the TIN furnished
13 by the payee is correct,”.

14 (2) APPLICATION ONLY TO CERTAIN TRANS-
15 ACTIONS.—Subsection (a) of section 3406 is amend-
16 ed by adding at the end the following new para-
17 graph:

18 “(3) SUBPARAGRAPH (E) OF PARAGRAPH (1)
19 APPLIES ONLY TO CERTAIN OTHER REPORTABLE
20 PAYMENTS.—Subparagraph (E) of paragraph (1)
21 shall only apply to other reportable payments de-
22 scribed in subparagraph (B) of subsection (b)(3).”.

23 (3) PERIOD OF WITHHOLDING.—

24 (A) IN GENERAL.—Section 3406(e) is
25 amended by redesignating paragraph (5) as

1 paragraph (6) and by inserting after paragraph
2 (4) the following new paragraph:

3 “(5) NO MATCHING TIN.—In any case in which
4 the Secretary has not provided verification to the
5 payor that the TIN furnished by the payee is correct
6 pursuant to subsection (a)(1)(E), subsection (a)
7 shall apply to such payment and any subsequent
8 such payment made by the payor after the date such
9 TIN was submitted to the Secretary for verification
10 until the payee furnishes another TIN in the manner
11 required and such TIN is verified by the Secretary
12 as correct.”.

13 (B) CONFORMING AMENDMENT.—Para-
14 graph (2) of section 3406(e) is amended by in-
15 serting “pursuant to subsection (a)(1)(B),”
16 after “is incorrect”.

17 (b) VOLUNTARY WITHHOLDING.—Section 3402(p) is
18 amended by redesignating paragraph (3) as paragraph (4)
19 and by inserting after paragraph (2) the following new
20 paragraph:

21 “(3) CERTAIN PAYMENTS TO CONTRACTORS.—
22 “(A) IN GENERAL.—If, at the time of any
23 specified payment to any person, a request by
24 such person is in effect that such payment be
25 subject to withholding under this chapter, the

1 person making such payment shall deduct and
2 withhold from such payment an amount equal
3 to the rate in effect under such request.

4 “(B) SPECIFIED PAYMENT.—For purposes
5 of this paragraph, the term ‘specified payment’
6 means any payment described in subparagraph
7 (A) or (B) of section 3406(b)(3).

8 “(C) REQUEST.—A request to subject a
9 specified payment to withholding shall be made
10 at such time and in such manner as the Sec-
11 retary may by regulations prescribe, and shall
12 specify a uniform percentage of withholding
13 which is equal to any rate at which tax is im-
14 posed under subsection (a), (b), (c), or (d) of
15 section 1, as appropriate.”

16 (c) EFFECTIVE DATE.—

17 (1) IN GENERAL.—Except as provided in para-
18 graph (2), the amendments made by this section
19 shall apply to payments made after December 31,
20 2012.

21 (2) CERTIFICATION.—The amendments made
22 by subsection (a) shall not take effect before the
23 date on which the Secretary of the Treasury has cer-
24 tified that there is a system in place to provide noti-
25 fications in an accurate and timely manner regard-

1 ing the verification of taxpayer identification num-
2 bers submitted pursuant to section 3406(a)(1)(E) of
3 the Internal Revenue Code of 1986 (as added by
4 subsection (a)).

5 **SEC. 402. CONTINUOUS LEVY ON PAYMENTS TO MEDICAID**
6 **PROVIDERS AND SUPPLIERS.**

7 (a) IN GENERAL.—Section 6331(h)(2) is amended by
8 striking “and” at the end of subparagraph (B), by striking
9 the period at the end of subparagraph (C) and inserting
10 “, and”, and by adding at the end the following new sub-
11 paragraph:

12 “(D) any payment to any Medicaid pro-
13 vider or supplier under a State plan under title
14 XIX of the Social Security Act.”.

15 (b) EFFECTIVE DATE.—The amendments made by
16 this section shall apply to levies issued after December 31,
17 2012.

18 **SEC. 403. LEVY AUTHORITY FOR PAYMENTS TO MEDICARE**
19 **PROVIDERS WITH DELINQUENT TAX DEBT.**

20 (a) IN GENERAL.—Section 6331(h)(2), as amended
21 by this Act, is amended by striking “and” at the end of
22 subparagraph (C), by striking the period at the end of
23 subparagraph (D) and inserting “, and”, and by adding
24 at the end the following new subparagraph:

1 “(E) any payment to any Medicare pro-
2 vider or supplier under title XVIII of the Social
3 Security Act.”.

4 (b) 100 PERCENT LEVY.—Section 6331(h)(3) is
5 amended by inserting “or to a provider or supplier de-
6 scribed in paragraph (2)(E)” after “Government”.

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

10 **SEC. 404. 100 PERCENT LEVY FOR PAYMENTS TO FEDERAL**
11 **VENDORS RELATING TO PROPERTY.**

12 (a) IN GENERAL.—Section 6331(h)(3) is amended by
13 striking “goods or services” and inserting “property,
14 goods, or services”.

15 (b) EFFECTIVE DATE.—The amendment made by
16 this section shall apply to levies issued after the date of
17 the enactment of this Act.

18 **TITLE V—IMPROVED TAX AD-**
19 **MINISTRATION AND COORDI-**
20 **NATION**

21 **SEC. 501. REQUIREMENT FOR PRISONS LOCATED IN U.S. TO**
22 **PROVIDE INFORMATION FOR TAX ADMINIS-**
23 **TRATION.**

24 (a) IN GENERAL.—Subchapter B of chapter 61 is
25 amended by redesignating section 6116 as section 6117

1 and by inserting after section 6115 the following new sec-
2 tion:

3 **“SEC. 6116. REQUIREMENT FOR PRISONS LOCATED IN**
4 **UNITED STATES TO PROVIDE INFORMATION**
5 **FOR TAX ADMINISTRATION.**

6 “(a) IN GENERAL.—Not later than September 15,
7 2011, and annually thereafter, the head of the Federal
8 Bureau of Prisons and the head of any State agency
9 charged with the responsibility for administration of pris-
10 ons shall provide to the Secretary in electronic format a
11 list with the information described in subsection (b) of all
12 the inmates incarcerated within the prison system for any
13 part of the prior 2 calendar years or the current calendar
14 year through August 31.

15 “(b) INFORMATION.—The information with respect
16 to each inmate is—

17 “(1) first, middle, and last name,

18 “(2) date of birth,

19 “(3) institution of current incarceration or, for
20 released inmates, most recent incarceration,

21 “(4) prison assigned inmate number,

22 “(5) the date of incarceration,

23 “(6) the date of release or anticipated date of
24 release,

25 “(7) the date of work release,

1 “(8) taxpayer identification number and wheth-
 2 er the prison has verified such number,

3 “(9) last known address, and

4 “(10) any additional information as the Sec-
 5 retary may provide.

6 “(c) **FORMAT.**—The Secretary shall determine the
 7 electronic format of the information described in sub-
 8 section (b).”.

9 (b) **CLERICAL AMENDMENT.**—The table of sections
 10 for such subchapter is amended by striking the item relat-
 11 ing to section 6116 and by adding at the end the following
 12 new items:

“Sec. 6116. Requirement for prisons located in United States to provide infor-
 mation for tax administration.

“Sec. 6117. Cross reference.”.

13 **SEC. 502. FACILITATION OF TAX COMPLIANCE WITH INDIAN**
 14 **TRIBAL GOVERNMENTS.**

15 (a) **IN GENERAL.**—Paragraph (5) of section 6103(b)
 16 is amended—

17 (1) by striking “and” at the end of clause
 18 (ii)(III),

19 (2) by striking the period at the end of clause
 20 (iii)(II) and inserting “, and”, and

21 (3) by adding at the end the following new
 22 clause:

23 “(iv) for purposes of subsections
 24 (d)(1) and (p), any Indian tribal govern-

1 ment which imposes a tax on any income,
2 wages, or other activity or transaction
3 which is also taxed under any chapter of
4 this title described in such subsection.”.

5 (b) EFFECTIVE DATE.—The amendments made by
6 this section shall apply to disclosures made after the date
7 of the enactment of this Act.

8 **SEC. 503. IMPROVEMENT IN ACCESS TO INFORMATION IN**
9 **THE NATIONAL DIRECTORY OF NEW HIRES**
10 **FOR TAX ADMINISTRATION PURPOSES.**

11 (a) IN GENERAL.—Paragraph (3) of section 453(i)
12 of the Social Security Act (42 U.S.C. 653(i)) is amended
13 to read as follows:

14 “(3) ADMINISTRATION OF FEDERAL TAX
15 LAWS.—The Secretary of the Treasury shall have
16 access to the information in the National Directory
17 of New Hires for purposes of administering the In-
18 ternal Revenue Code of 1986.”.

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

1 **SEC. 504. CLARIFICATION OF TAXPAYER PRIVACY BY IM-**
2 **PROVEMENT OF INVESTIGATIVE DISCLO-**
3 **SURE STATUTE.**

4 (a) IN GENERAL.—Paragraph (6) of section 6103(k)
5 is amended—

6 (1) by inserting “(A) IN GENERAL.—” before
7 “An internal revenue officer”, and

8 (2) by adding at the end the following new sub-
9 paragraph:

10 “(B) IDENTITY DISCLOSURE.—Nothing in this
11 section shall be construed to prohibit agents of the
12 Department of the Treasury from identifying them-
13 selves, their organizational affiliation, the identity of
14 the subject of an investigation, and the nature of
15 such investigation when contacting third parties ei-
16 ther in writing or otherwise.”.

17 (b) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to disclosures after the date of the
19 enactment of this Act.

20 **SEC. 505. AUTHORIZATION FOR FINANCIAL MANAGEMENT**
21 **SERVICE RETENTION OF TRANSACTION FEES**
22 **FROM LEVIED AMOUNTS.**

23 Notwithstanding any other provision of law, the Fi-
24 nancial Management Service may charge the Internal Rev-
25 enue Service, and the Internal Revenue Service may pay
26 the Financial Management Service, a fee sufficient to

1 cover the full cost of implementing a continuous levy pro-
 2 gram under subsection (h) of section 6331 of the Internal
 3 Revenue Code of 1986. Any such fee shall be based on
 4 actual levies made and shall be collected by the Financial
 5 Management Service by the retention of a portion of
 6 amounts collected by levy pursuant to that subsection.
 7 Amounts received by the Financial Management Service
 8 as fees under that subsection shall be deposited into the
 9 account of the Department of the Treasury under section
 10 3711(g)(7) of title 31, United States Code, and shall be
 11 collected and accounted for in accordance with the provi-
 12 sions of that section.

13 **TITLE VI—CLARIFICATION OF**
 14 **PENALTIES AND LIABILITIES**

15 **SEC. 601. CLARIFICATION OF PENALTY FOR FAILURE TO**
 16 **COMPLY WITH ELECTRONIC FILING RE-**
 17 **QUIREMENTS.**

18 (a) IN GENERAL.—Part I of subchapter B of chapter
 19 68 is amended by inserting after section 6720C the fol-
 20 lowing new section:

21 **“SEC. 6720D. FAILURE TO FILE CERTAIN RETURNS ELEC-**
 22 **TRONICALLY.**

23 “(a) IN GENERAL.—Any person who fails to file a
 24 return described in section 6651 or 6652(c)(1) in elec-

1 tronic form as required under section 6011(e) shall pay
2 a penalty equal to—

3 “(1) \$5,000, in the case of an organization re-
4 quired to file the return described in section
5 6033(a)(1), and

6 “(2) \$25,000, in any other case.

7 “(b) NO PENALTY FOR ADDITIONAL FAILURES.—No
8 person shall pay more than one penalty under this section
9 in a taxable year.

10 “(c) EXCEPTION WHERE NO RETURN FILED.—If a
11 penalty is imposed under section 6651(a)(1) or 6652(c)(1)
12 with respect any failure, the penalty under subsection (a)
13 shall not apply.

14 “(d) DEFICIENCY PROCEDURES NOT TO APPLY.—
15 Subchapter B of chapter 63 shall not apply in respect of
16 the assessment or collection of any penalty imposed by this
17 section.”.

18 (b) CLERICAL AMENDMENT.—The table of sections
19 for part I of subchapter B of chapter 68 is amended by
20 inserting after the item relating to section 6720C the fol-
21 lowing new item:

“Sec. 6720D. Failure to file certain returns electronically.”.

22 (c) EFFECTIVE DATE.—The amendments made by
23 this section shall apply to returns required to be filed on
24 or after January 1, 2013.

1 **SEC. 602. INCREASE IN PENALTY ON PAID PREPARERS WHO**
 2 **FAIL TO COMPLY WITH EARNED INCOME TAX**
 3 **CREDIT DUE DILIGENCE REQUIREMENTS.**

4 (a) IN GENERAL.—Section 6695(g) is amended by
 5 striking “\$100” and inserting “\$500”.

6 (b) EFFECTIVE DATE.—The amendment made by
 7 this section shall apply to returns required to be filed after
 8 December 31, 2012.

9 **SEC. 603. INCREASE IN PENALTIES FOR REPEATED AND**
 10 **WILLFUL FAILURE TO FILE TAX RETURN.**

11 (a) IN GENERAL.—Section 7203 is amended—

12 (1) in the first sentence, by striking “Any per-
 13 son” and inserting the following:

14 “(a) IN GENERAL.—Any person”,

15 (2) in the third sentence, by striking “section”
 16 and inserting “subsection”, and

17 (3) by adding at the end the following new sub-
 18 section:

19 “(b) AGGRAVATED FAILURE TO FILE.—

20 “(1) IN GENERAL.—In the case of any failure
 21 described in paragraph (2), the first sentence of sub-
 22 section (a) shall be applied by substituting—

23 “(A) ‘felony’ for ‘misdemeanor’,

24 “(B) ‘\$250,000 (\$500,000’ for ‘\$25,000
 25 (\$100,000’, and

26 “(C) ‘5 years’ for ‘1 year’.

1 “(2) FAILURE DESCRIBED.—A failure described
2 in this paragraph is—

3 “(A) a failure to make a return described
4 in subsection (a) for any 3 taxable years occur-
5 ring during any period of 5 consecutive taxable
6 years if the aggregate tax liability for such pe-
7 riod is not less than \$50,000, or

8 “(B) a failure to make a return by any
9 person who has income attributable to conduct
10 punishable as a felony under State or Federal
11 law, where such income gives rise to a require-
12 ment to make a return.”.

13 (b) PENALTY MAY BE APPLIED IN ADDITION TO
14 OTHER PENALTIES.—Section 7204 is amended by strik-
15 ing “the penalty provided in section 6674” and inserting
16 “the penalties provided in sections 6674 and 7203(b)”.

17 (c) EFFECTIVE DATE.—The amendments made by
18 this section shall apply to returns required to be filed after
19 December 31, 2012.

20 **SEC. 604. CLARIFICATION OF EMPLOYEE LEASING COMPA-**
21 **NIES LIABILITY FOR CLIENTS’ FEDERAL EM-**
22 **PLOYMENT TAXES.**

23 With respect to employment tax returns required to
24 be filed with respect to wages paid on or after January

1 1, 2013, the Secretary of the Treasury shall issue regula-
 2 tions establishing—

3 (1) standards for holding employee leasing com-
 4 panies jointly and severally liable with their clients
 5 for Federal employment taxes under chapters 21,
 6 22, 23, and 24 of the Internal Revenue Code of
 7 1986, and

8 (2) standards for holding such companies solely
 9 liable for such taxes.

10 **SEC. 605. EXTENSION OF STATUTE OF LIMITATIONS WHERE**
 11 **STATE OR LOCAL ADJUSTMENT AFFECTS**
 12 **FEDERAL TAX LIABILITY.**

13 (a) IN GENERAL.—Subsection (c) of section 6501 is
 14 amended by adding at the end the following new para-
 15 graph:

16 “(11) STATE AND LOCAL TAX ADJUSTMENTS
 17 AFFECTING FEDERAL TAX LIABILITY.—If any re-
 18 turn, amended return, or other adjustment with re-
 19 spect to State or local taxes results in an increase
 20 of Federal tax liability for a taxable year (as re-
 21 ported by the taxpayer in an amended Federal re-
 22 turn or as determined by the Secretary on the basis
 23 of information sharing with State or local revenue
 24 authorities), the period for the assessment of such
 25 increase shall not expire until the later of—

1 “(A) 1 year after the date the taxpayer
2 first files an amended Federal return reflecting
3 such increase, or

4 “(B) 2 years after the date the Secretary
5 first receives information relating to such in-
6 crease from State or local revenue authorities.

7 Any further amended returns or information sharing
8 with respect to such increase shall not further ex-
9 tend the period specified in the preceding sentence.”.

10 (b) CREDITS AND REFUNDS.—

11 (1) IN GENERAL.—Subsection (b) of section
12 6511 is amended by adding at the end the following
13 new paragraph:

14 “(3) STATE AND LOCAL TAX ADJUSTMENTS AF-
15 FFECTING FEDERAL TAX LIABILITY.—If any return,
16 amended return, or other adjustment with respect to
17 State or local taxes results in an increase of Federal
18 tax liability for a taxable year (as reported by the
19 taxpayer in an amended Federal return or as deter-
20 mined by the Secretary on the basis of information
21 sharing with State or local revenue authorities), the
22 period during which the taxpayer may claim a credit
23 or refund offsetting such increase shall not expire
24 until the later of—

1 “(A) 1 year after the date the taxpayer
2 first files an amended Federal return reflecting
3 such increase and stipulating that such amend-
4 ment relates to an adjustment with respect to
5 State or local tax, or

6 “(B) 2 years after the date the Secretary
7 first receives information relating to such in-
8 crease from State or local revenue authorities.

9 Any further amended returns or information sharing
10 with respect to such increase shall not further ex-
11 tend the period specified in the preceding sentence.”.

12 (2) CONFORMING AMENDMENT.—Paragraph (1)
13 of section 6511(b) is amended by striking “No cred-
14 it” and inserting “Except as provided in paragraph
15 (3), no credit”.

16 (c) EFFECTIVE DATE.—The amendments made by
17 this section shall apply to returns the due date for which
18 is after December 31, 2012.

19 **SEC. 606. ELIMINATION OF RESTRICTION ON OFFSETTING**
20 **REFUNDS FROM FORMER RESIDENTS.**

21 (a) IN GENERAL.—Section 6402(e) (relating to col-
22 lection of past-due, legally enforceable State income tax
23 obligations) is amended by striking paragraph (2) and by
24 redesignating paragraphs (3), (4), (5), (6), and (7) as
25 paragraphs (2), (3), (4), (5), and (6), respectively.

1 (b) ELIMINATION OF 10-YEAR RESTRICTION.—Sub-
2 paragraph (B) of section 6402(e)(5) is amended—

3 (1) by striking “, and which has not been delin-
4 quent for more than 10 years”, and

5 (2) by inserting “and” after “not collected,”.

6 (c) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to refunds payable for taxable
8 years ending after the date of the enactment of this Act.

9 **TITLE VII—UNDERSTANDING** 10 **THE TAX GAP**

11 **SEC. 701. TAX GAP STRATEGY AND REPORTS.**

12 (a) COMPREHENSIVE STRATEGY FOR REDUCING THE
13 TAX GAP.—

14 (1) IN GENERAL.—The Secretary of the Treas-
15 ury shall submit to Congress comprehensive and de-
16 tailed reports on a strategy for reducing the tax gap.
17 Such reports shall include—

18 (A) a detailed assessment of the major
19 sources and causes of the tax gap, and

20 (B) a goal for reducing the tax gap and
21 components of the tax gap.

22 (2) TIME FOR SUBMITTING REPORTS.—

23 (A) INITIAL REPORT.—The first report re-
24 quired under paragraph (1) shall be submitted
25 not later than December 31, 2012.

1 (B) SUBSEQUENT REPORTS.—The Sec-
2 retary of the Treasury shall submit additional
3 reports under paragraph (1) not later than 5
4 years after the date on which the most recent
5 preceding report was submitted under para-
6 graph (1).

7 (3) USE OF DATA.—Any report submitted
8 under this subsection shall, wherever possible, be
9 based on empirical data, agency-conducted tests, and
10 quantitative evidence.

11 (b) ANNUAL TAX GAP REPORT.—

12 (1) IN GENERAL.—Not later than December 31
13 of each year beginning after 2012, the Secretary of
14 the Treasury shall submit to Congress a report on
15 the most recent estimates of the tax gap.

16 (2) MATTERS INCLUDED.—The report sub-
17 mitted under paragraph (1) shall include—

18 (A) an update on any studies and pilot
19 projects of the Internal Revenue Service associ-
20 ated with specific areas of the tax gap,

21 (B) an assessment of how the Internal
22 Revenue Service has aligned its enforcement
23 and compliance efforts with the goals and rec-
24 ommendations set forth in the most recent re-
25 port submitted under subsection (a),

1 (C) a detailed assessment of how effec-
2 tively the Internal Revenue Service is making
3 full use of the collected information to deter-
4 mine the causes of, and potential solutions for,
5 the tax gap,

6 (D) a detailed assessment of the benefits
7 gained from the tax gap estimation and analysis
8 efforts, including service and enforcement im-
9 provements, regulatory changes, and statutory
10 changes resulting from those efforts, and

11 (E) an update and detailed assessment of
12 enforcement initiatives of the Internal Revenue
13 Service, including information sharing between
14 the Internal Revenue Service and State revenue
15 agencies.

16 (c) TAX GAP.—For purposes of this section, the term
17 “tax gap” means, with respect to any tax year, the dif-
18 ference between—

19 (1) the amount of taxes owed by taxpayers
20 under the Internal Revenue Code of 1986 for such
21 tax year, and

22 (2) the amount of revenue paid voluntarily and
23 timely by taxpayers under such Code for such tax
24 year.

1 **SEC. 702. STUDIES ON THE IMPACT OF TAX GAP LEGISLA-**
2 **TION.**

3 (a) STUDY OF RETURN ON INVESTMENT.—

4 (1) MATTERS STUDIED.—

5 (A) IN GENERAL.—The Secretary of the
6 Treasury shall conduct a study on—

7 (i) the revenue increases, and

8 (ii) the costs,

9 with respect to tax gap legislation.

10 (B) TAX GAP LEGISLATION.—For purposes
11 of this section, the term “tax gap legislation”
12 means the provisions of, and amendments made
13 by—

14 (i) this Act,

15 (ii) section 403 of the Energy Im-
16 provement and Extension Act of 2008 (re-
17 lating to broker reporting of customer’s
18 basis in securities transactions),

19 (iii) section 3091 of the Housing As-
20 sistance Tax Act of 2008 (relating to re-
21 turns relating to payments made in settle-
22 ment of payment card and third party net-
23 work transactions), and

24 (iv) such other Acts, as determined
25 appropriate by the Secretary of the Treas-
26 ury.

1 (2) REVENUE INCREASES.—The revenue in-
2 creases considered in the study conducted under
3 paragraph (1) shall include—

4 (A) revenue collected from enforcement ef-
5 forts,

6 (B) revenue increases from voluntary com-
7 pliance by taxpayers in response to tax gap leg-
8 islation (including cases in which the Internal
9 Revenue Service has not yet effectively or fully
10 implemented a data matching system), and

11 (C) any other revenue, administrative, or
12 other cost savings to the Government and to
13 taxpayers.

14 (3) COSTS.—The costs considered in this study
15 conducted under paragraph (1) shall include—

16 (A) administrative and other costs of the
17 Internal Revenue Service,

18 (B) compliance costs to taxpayers, and

19 (C) compliance costs to any affected third
20 parties, such as persons required to file infor-
21 mation returns.

22 (b) REPORTS.—

23 (1) INITIAL REPORT.—

24 (A) IN GENERAL.—Not later than 4 years
25 after the date of the enactment of this Act, the

1 Secretary of the Treasury shall submit to Con-
2 gress a report on the matters studied under
3 subsection (a).

4 (B) ASSESSMENT WITH RESPECT TO DATA
5 LIMITATIONS.—The report under subparagraph
6 (A) shall include—

7 (i) an assessment of the limitations of
8 the Internal Revenue Service with respect
9 to the collection of data used to assess the
10 matters studied under subsection (a), and

11 (ii) recommendations regarding steps
12 to overcome any such limitations.

13 (2) FOLLOW-UP REPORT.—

14 (A) IN GENERAL.—Not later than 3 years
15 after the date on which the report under para-
16 graph (1) is submitted, the Secretary of the
17 Treasury shall submit to Congress a follow-up
18 report on the matters studied under subsection
19 (a).

20 (B) ASSESSMENT WITH RESPECT TO IM-
21 PLEMENTATION OF RECOMMENDATIONS.—The
22 report under subparagraph (A) shall include an
23 assessment on the implementation of the rec-
24 ommendations included in the report submitted
25 under paragraph (1).

1 **SEC. 703. REPORTS ON WORKER MISCLASSIFICATION.**

2 (a) IN GENERAL.—The Secretary of the Treasury
3 shall submit to Congress the following reports on worker
4 misclassification:

5 (1) A report each fiscal year on worker classi-
6 fication which shall include the total number of ex-
7 aminations of employers initiated because of sus-
8 pected worker classification issues, the total number
9 of examinations that included determinations on
10 worker classification issues, the amount of additional
11 tax liabilities associated with worker classification
12 enforcement actions, the number of workers reclassi-
13 fied as a result of these actions, the number of re-
14 quests for Determination of Worker Status (Form
15 SS-8), and technical guidance on how to understand
16 the data provided in the report.

17 (2) A report each fiscal year in which new sta-
18 tistically valid data is compiled and interpreted on
19 worker classification, prepared on the basis of infor-
20 mation gathered during an Employment Tax Study
21 conducted by the National Research Program (NRP)
22 of the Internal Revenue Service. Such report shall
23 provide statistical estimates of the number of em-
24 ployers misclassifying workers, the number of work-
25 ers misclassified, the industries involved, data inter-
26 pretations and conclusions, and a description of the

1 impact of improper worker classification on the em-
2 ployment tax gap.

3 (b) TIME FOR SUBMITTING REPORTS.—The first re-
4 ports required under subsection (a) shall be submitted not
5 later than 3 years after the date of the enactment of this
6 Act.

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