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IRS Oversight Board Voices Grave Concerns over AMT Delay

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Washington, DC -- In a letter to the leadership of the Senate Committee on Finance, the IRS Oversight Board voiced "grave concerns about the serious risks to the 2008 filing season if legislation to change the Alternative Minimum Tax (AMT) is delayed."

"The Oversight Board believes the Treasury Department and IRS are both committed to doing what they can to mitigate the effects of possible AMT tax law changes. However, there is a limit to actions they can take," the Board stated in its letter. A delay threatens the IRS's ability to process returns and issue refunds in a timely manner and imposes significant burden on taxpayers," the Board wrote in its November 26 letter. The letter concluded by urging Congress to take quick action to mitigate the risks of AMT changes to taxpayers.



Background

The Tax Increase Prevention and Reconciliation Act of 2006 (TIPRA), among other things, increased the AMT exemption amounts for individuals, but did so only for the 2006 tax year. AMT exemption amounts for 2007 revert to the levels that were in effect for the tax year 2000 of \$45,000 for married filing joint and \$33,750 for unmarried individual filers.

Congressional tax-writers are attempting to enact legislation that would increase the AMT exemption amount for 2007 to \$66,250 for joint filers and \$44,350 for individual filers. The legislation would also allow taxpayers to use nonrefundable personal credits to offset both regular tax and AMT. While the House of Representatives approved H.R. 3996, the Temporary Tax Relief Act, which includes a one-year AMT patch, the Senate failed to vote on the bill before the Thanksgiving recess.

IRS Implementation

Linda Stiff, acting IRS Commissioner, has stated that the IRS will not reprogram its systems for the 2007 tax year until the AMT patch is signed into law. Although the Oversight Board said that the IRS is acting so that it can implement the AMT patch as quickly as possible, the IRS estimates that it will need seven weeks to begin processing returns after AMT legislation is enacted. Due to the amount of lead time required, if legislation is not passed by early to mid December the IRS may not be able to complete reprogramming and testing of its

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processing systems in order to open the filing season and process tax returns in a timely manner.

Impact

The 2008 filing season is scheduled to begin January 14, 2008. The Board estimated that a two-week delay in the start of the filing season could delay the processing of 6.7 million returns and \$17 billion in refunds. Another three-week delay, to February 18, 2008, could delay a total of 37.7 million returns and \$87 billion in refunds. The IRS and the White House have previously indicated that delays could affect 50 million returns and \$75 billion in refunds.

The Board highlighted other impacts of the delay:

- (1) IRS submission processing costs will increase;
- (2) The IRS will owe additional interest because it will be less likely to meet the 45-day limit for issuing refunds;
- (3) The error rate will increase because of greater paper processing, increasing costs and burdens of error correction for both the IRS and taxpayers;
- (4) The demand for Refund Anticipation Loans will increase for former electronic filers;
- (5) Telephone volume will increase on toll-free customer service lines, possibly leading to degradation in the level of service; and
- (6) A difficult filing season may lead to decreased voluntary compliance.

Outlook

Senate Finance Committee Chairman Max Baucus has responded to the Oversight Board's Issue Paper by pledging to work with Senate colleagues to complete the legislation as soon as possible, while Senate Finance Committee ranking minority member Chuck Grassley stated that the AMT patch should be the first item on next week's Congressional agenda. Whether AMT legislation is enacted will no doubt affect the tax bills of many taxpayers.

Effective planning must take into consideration all of the taxpayer's particular facts and circumstances. What might be prudent for one person might actually be counterproductive for someone else. We are here at **Singer Lewak Greenbaum & Goldstein LLP** to help you. Please call us today so you can benefit from achieving the tax solution that's best for your situation – (877) 754-4557. We welcome any questions or feedback you may have.

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