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United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

May 29, 2003

BY FACSIMILE
ORIGINAL BY U.S. MAIL

The Honorable Mark W. Everson
Commissioner
Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, DC 20224

Dear Commissioner Everson:

The Treasury Inspector General for Tax Administration (TIGTA) recently issued a report (Reference Number 2003-30-114), which details the number of small corporate taxpayers that have erroneously paid the Alternative Minimum Tax (AMT) and the steps that the Internal Revenue Service (IRS) has taken both to avoid future mistakes and to remedy the overpayments that have occurred. This report concludes that the IRS has made considerable efforts to educate small corporate taxpayers on the AMT, for which we applaud the agency's actions. However, the report also notes that more work remains to correct this problem completely.

This report, entitled "Significant Actions Were Taken to Address Small Corporations Erroneously Paying the Alternative Minimum Tax, but Additional Actions are Still Needed" stems from a 2001 TIGTA report (Reference Number 2001-30-019) that disclosed how some corporate taxpayers who appeared to meet the requirements for exemption from paying the corporate AMT nevertheless may have paid the tax erroneously. That report recommended that the IRS enhance its efforts to educate taxpayers and tax professionals about the exemption from the AMT for small corporations.

In response to that previous TIGTA report, the IRS agreed to take steps toward issuing refunds to businesses that erroneously paid the AMT and to help prevent similar overpayments by these taxpayers from occurring again in the future. As this recent TIGTA report explains, the IRS generally has been successful in accomplishing these objectives. The steps that the IRS has taken, such as developing a notice to explain the AMT exemption to taxpayers and to explain the process for filing amended returns, is valuable information that should be effective for ensuring that exempt taxpayers know with relative certainty that they are not required to pay the AMT, thereby saving them valuable time and money.

The current TIGTA report, however, notes that the IRS has failed to contact all of the small corporations that erroneously paid the corporate AMT. This problem resulted from the implementation of new technology upon which the IRS relied to identify those taxpayers that erroneously paid the corporate AMT. Prior to implementing this program, the IRS identified

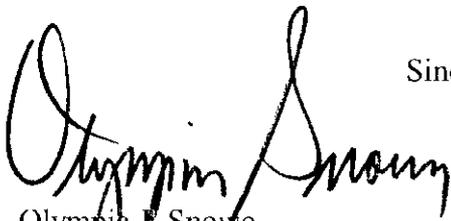
only those taxpayers that filed tax returns for periods through November, 2000. Alternatively, the IRS failed to identify those taxpayers that may have erroneously paid the corporate AMT for tax periods after November, 2000 but prior to the implementation of the new system. As a result, TIGTA estimates that over 3,600 taxpayers erroneously paying more than \$37 million in corporate AMT remain unaware that they may be entitled to a refund.

This oversight is problematic for several reasons. First, it is likely that many of these small corporations have a limited cash flow as a result of the current downturn in the economy. Rather than paying this tax for which they were not liable, these taxpayers could have instead reinvested this money into their business in the form of either new equipment or potentially new employees. Indeed, a refund of the overpayment would be particularly helpful to small corporations trying to weather the current economy.

The fact also that the AMT is comprised of a unique set of complicated tax rules means that these taxpayers invested time and expenses that they otherwise should not have, which resulted in less time and money that they had to invest in their business. Additionally, the IRS' failure to notify these taxpayers that they were not required to pay this tax detracts from the positive steps that it has taken toward improving customer relations.

In light of these circumstances, we urge you to implement the recommendations of TIGTA's recent report and ensure that the small corporations that erroneously paid the corporate AMT are notified of their mistake and issued a prompt refund. Issuing these refunds will not only provide the affected small taxpayers with additional capital that they might potentially reinvest in their business, but it will reaffirm to them that the IRS is committed to providing reliable and accurate customer satisfaction.

Thank you for looking into this matter. We appreciate your efforts as the New Commissioner to continue the IRS' progress in modernizing and streamlining our tax system so taxpayers can meet their tax obligations in the least burdensome manner possible. If you have *any questions or would like to discuss this matter in greater detail, please do not hesitate to* contact us or have your staff contact Fred Hartman, the Committee's Tax Counsel, at 202/224-5175.


Olympia J. Snowe
Chair

Sincerely,


Christopher S. Bond