

December 22, 2009

The Honorable Timothy F. Geithner
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Douglas Shulman
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Secretary Geithner and Commissioner Shulman:

I am writing to express my disappointment with actions taken by both the Department of the Treasury (Treasury) and the Internal Revenue Service (IRS) with respect to Internal Revenue Code (IRC) sections 382 and 6707A.

On November 18, 2008, I wrote to then Secretary Paulson regarding Notice 2008-83, which changed the rules governing the deductibility of losses under IRC section 382(h). The facts and circumstances surrounding the issuance of that Notice raised concerns about the independence and merits of the decision.

Treasury's most recent guidance on this same issue, Notice 2010-2, raises the same concerns. Accordingly, I request that you provide the Finance Committee with all records relating to communications pertaining to the issuance of Notice 2010-2 between Treasury officials, Citigroup, Inc., or other Troubled Asset Relief Program (TARP) participants and/or their representatives. Please also provide a timeline for, and documentation of, Treasury and IRS discussions and approvals for Notice 2010-2 as well as any discussions about the impact this notice would have on the tax gap. In cooperating with the Committee's review, no documents, records, data, or other information related to these matters, either directly or indirectly, shall be destroyed, modified, removed, or otherwise made inaccessible to the Committee.

I understand that Treasury believes that Notice 2010-2 was justified, in part, because it would help protect the government's interest in Citigroup, Inc. Yet, it appears that Notice 2010-2 may generate billions of dollars of tax savings for Citigroup, Inc. Please provide documentation of any discussions of impact on the tax gap resulting from Notice 2010-2.

The quick and immediate relief provided to Citigroup, Inc. stands in stark contrast to Treasury and IRS's position on providing relief to small business owners who have been assessed penalties under IRC section 6707A. As you know, Chairman Baucus and I have been working throughout this year with our counterparts in the House of Representatives to provide relief that can only be accomplished through legislation and we expect that legislation to be enacted very soon. As a supporter of closing the tax gap, I very much appreciate the IRS's difficult position with respect to protecting the government's interest in collecting taxes and penalties due and appreciate the IRS's moratorium on collection enforcement activity.

However, according to Commissioner Shulman's letter to Chairman Baucus dated July 17, 2009, 72% of section 6707A penalty assessments were imposed on small businesses and small business owners. The penalty is clearly being assessed disproportionately on small businesses compared to larger taxpayers. In addition, the placement of liens on these taxpayers, even though they are not yet being enforced, is a significant threat to their operations. Many small businesses use business assets or mortgage personal residences to secure lines of credit for the businesses. Imposing liens has significant negative implications for a small business that has limited access to capital.

I discussed this issue with Commissioner Shulman last month. I understand my staff has also discussed this again with IRS staff since then but that the IRS insists that placement of liens is necessary to protect the government's interest. I am troubled and frustrated by this position. It is inconsistent with the administration's publicly expressed concern about the difficulties facing small businesses in accessing capital.

I am also concerned that there is a disconnect between what Treasury and IRS staff in Washington, D.C., think is happening and what is actually happening in the field. For example, when my staff discussed with your staff the issue of IRC section 6723 being used to justify the placement of liens, your staff denied this was happening. Yet, after providing the name of a specific taxpayer who was subject to such a lien, my staff was informed that there may be a systemic issue in either the Automated Lien System or the Integrated Collection System.

My staff has also informed me that some of the assessments and liens are the result of Treasury and IRS regulations and procedures, such as the decision to disallow disclosures on amended returns and the decision to pursue 6707A assessments while other examination issues remain unresolved. Until Treasury regulations and IRS procedures can be revised to clear up the confusion, I request that IRS remove all liens on small businesses resulting from 6707A assessments unless there is a known risk that the taxpayer will evade payment of the penalties. Since the pending legislation will significantly reduce the 6707A assessment amount, liens may no longer be necessary.

As a supporter of closing the tax gap, I very much appreciate the IRS's difficult position with respect to protecting the government's interest in collecting taxes and penalties. If the IRS believes that removal of a lien would result in the IRS being unable to collect the penalty amount as revised by the pending legislation, please provide a description of these situations. However, I ask you to consider using your discretion as was done for big financial corporate TARP participants who will benefit from Notice 2010-2.

I appreciate your prompt attention to this matter. Please contact my staff with any questions or concerns.

Sincerely,
Chuck Grassley
Ranking Member