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

COMMISSIONER

December 5, 2006

The Honorable Max Baucus
Ranking Member
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Senator Baucus:

I am responding to your recent inquiry regarding enactment of legislation later this year that would extend a number of expiring or expired federal tax provisions. We are operating at full capacity to get ready for the upcoming filing season. Due to changes already underway to accommodate split refunds and telephone excise tax refunds, the 2007 filing season already poses significant challenges for us. Enactment of extender legislation later this year will create additional challenges. However, we will make every effort to implement any changes the Congress enacts to ensure a successful filing season and minimal disruptions to tax filers.

I hope the following responses to your questions are helpful.

1. Will paper forms, instructions, and publications be designed and printed to conform with current law – that is, without the extender provisions?

We always send tax forms, instructions, and publications to print reflecting the law in effect at that time. They do not reflect pending legislation. However, where relevant, we include appropriate cautions notifying taxpayers of pending legislation.

2. On what date will the forms, instructions, and publications be sent to the printer(s)?

The date depends on the product. Form 1040 tax packages went to the printer on November 6, 2006, and Form 1040A went on November 13, 2006. Other individual and business tax products affected by the extender legislation have gone to print during November, and in all but a few instances, by December 31, 2006. Finally, there are a handful of products, primarily affecting estate tax, tax exempt bonds, and miscellaneous items that will go to print after December 31st.

3. On what date will the printer(s) begin to produce the forms, instructions, and publications?

Printers begin print production when they receive the copy.

4. On what date will paper form, instructions and publications be available to the public?

Forms, instructions, and publications are available on our web site (www.irs.gov) within 72 hours of the time we finalize the products and release them for print. Individual taxpayers who file paper returns should begin receiving printed tax packages starting December 26, 2006. Other printed products should be available to the public the first week in January 2007.

5. If Congress enacts the extenders in the lame duck session, how long will it take for the IRS to revise the applicable forms, instructions, and publications and send the revised versions to the printer(s), how soon can the printer(s) begin production, and how soon will the forms, instructions, and publications be available to the public?

As stated above, the individual Forms 1040 and 1040A and instructions already went to print without reflecting the extenders. If the Congress enacts the extender legislation this year, we would tell taxpayers through various methods, such as our web site and Publication 553, Highlights of 2006 Tax Changes, how to claim the tuition and fees deduction and educator expenses on the tax return. We would issue sales tax tables as a separate publication and make them available on our web site. As an example, it may take four to six weeks to mail out the sales tax table publication.

6. If Congress enacts the extenders in the lame duck session, how will the IRS notify taxpayers of the late changes in the law? What happens to the obsolete forms, instructions, and publications? How will the IRS ensure that taxpayers do not mistakenly obtain and use the obsolete forms, instructions, and publications?

We will publicize the changes and explain how to claim the deductions on the affected forms through various methods, such as our web site and Publication 553. We would not reprint tax products this filing season to reflect the new legislation.

7. Provide a complete list of forms, instructions, and publications that would be affected, assuming that Congress enacts the extenders in a lame duck session.

The enclosed table lists the forms, instructions, and publications that the extenders would affect.

8. Will IRS information systems be programmed to conform with current law?

We program our returns processing systems to reflect current law. We will need to make changes to these systems if the Congress enacts the extender legislation.

9. If Congress enacts the extenders in the lame duck session, how long will it take to reprogram IRS systems to accommodate new law?

We need at least 6 weeks from the time we have identified all changes to reprogram and retest our systems. Software developers also have to resubmit their programs to us for retesting, which generally takes a number of weeks depending on the complexity of the changes.

10. What additional costs, both internal and external, will the IRS incur to reprogram IRS systems?

At this time, we estimate the additional costs for reprogramming our systems would range from $200,000 to $500,000 depending on the scope of the changes required.

11. Please answer questions 1, 4, 5, 8, 9, and 10 concerning forms, instructions, publications, calculators, and other e-services available through the IRS website.

We have provided answers to this question above.

12. Are Free File Alliance participants programming their software to conform with current law?

Yes. Free File Alliance participants are programming their software to conform with current law.

13. If Congress enacts the extenders in the lame duck session, will Free File Alliance participants be able to reprogram all affected tax software in time for filing season? If not, then by what date will they be able to do so? How will IRS ensure that this occurs?

Enactment of the extenders affects not only Free File Alliance participants but also all tax software developers. In general, these companies will begin reprogramming their software as soon as we can provide new programming specifications.

We will continue to keep the tax software industry informed of the latest changes and program updates through multiple communication channels.

14. What additional costs, both internal and external, will the IRS incur in connection with a lame duck passage of the extenders? Provide a breakdown by type of cost.

We will incur additional costs for issuing sales tax tables as a separate publication, costing approximately $410,000 for printing and $1.3 million for postage. Printing vendors may charge us additional costs to maintain schedules to ensure timely delivery of the tax products. We provided additional estimated costs for reprogramming our returns processing systems in the answer to question 10.

Due to the number of tax products, information systems, and personnel affected, estimating other additional costs that we would incur without a specific date for enactment is difficult. However, we would have to update training material and internal guidance for our employees to reflect the tax law changes. We would also need to update training materials for volunteer income tax preparers.

15. To what extent will implementation of the 2007 filing season be delayed because the extenders were not enacted by October 15, 2006?

As stated above, we need at least 6 weeks from the time we identify and finalize all changes to reprogram and retest our systems. However, we are already making significant changes to forms and instructions and returns processing systems to accommodate split refunds and telephone excise tax refunds. This already makes the 2007 filing season high risk. Due to the changes that we will need to make to our returns processing systems and the impact of these changes on software developers, enactment after October 31 adds additional significant risk to an already high risk filing season.

16. What is the effect on tax administration and the tax gap if Congress does not enact the extenders until November 15? December 1? December 15? December 22?

In addition to the impact on tax forms and instructions and returns processing systems, other consequences are associated with late enactment. Since the individual tax forms will not reflect the extender provisions, taxpayers may be confused. We anticipate receiving an increased number of phone calls as taxpayers seek clarification. Some may delay filing their returns. Some may file incorrect returns due to the confusion, which could lead to an increase in the number of amended returns.

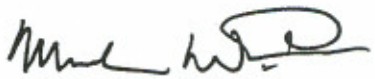
17. To what extent and in what way will taxpayers' ability to file their tax returns, receive their refunds, and voluntarily comply with their 2006 tax obligations be affected if Congress does not enact the extenders until November 15? December 1? December 15? December 22?

If the Congress enacts extender legislation on December 1, December 15, or December 22, we will not have enough time to reprogram and retest our systems before the start of the 2007 filing season. Thus, we would face delaying the start of processing individual returns to make the needed changes, which would delay the issuance of refunds. In addition, some provisions also affect business tax returns. Due to the numerous products and returns processing systems affected, we are not able at this time to determine if we would have to delay the processing of business returns as well. However, the number of business taxpayers entitled to a refund is substantially smaller than the number of individual taxpayers who will receive a refund in 2007.

Regardless of the date that the Congress enacts any extenders, we will make every effort to complete changes to affected systems and minimize delays in processing individual returns and issuing refunds. However, the delay in enacting the extenders will add significant risk to an already high risk filing season.

As always, we will do everything we can to carry out the will of the Congress. If you have questions, please call me or contact Floyd Williams, Director, Legislative Affairs, at (202) 622-4725.

Sincerely,



Mark W. Everson

Enclosure

Enclosure

Tax Products Affected by Extender Legislation
12/04/06

Prod	Number	Title	Extender Provision	Target Date to Contractor
F	1040	U.S. Individual Income Tax Return	Tuition and fees, educator expenses	Completed 11/6/2006
Pkg	1040/1040A	Tax Pkgs. For Forms 1040/1040A	Tuition and fees, educator expenses, etc	Completed 11/9/2006 11/13/2006
F	3800	General Business Credit	American Samoa credit	12/14/2006
F	4562	Depreciation and Amortization	DC incentives, accelerated depreciation on Indian reservation property, cost recovery for leasehold improvements and restaurant property, Liberty Zone credits	Completed 10/31/2006
F	4626	Alternative Minimum Tax – Corporations	Accelerated depreciation on Indian reservation property	12/14/2006
F	5074	Allocation of Individual Income Tax to Guam or the Commonwealth of the Northern Mariana Islands (CNMI)	Tuition and fees, educator expenses	Completed 10/27/2006
F	5735	Possessions Tax Credit	American Samoa credit (form would be reinstated and given a new title)	After date of enactment
F	6765	Credit for Increasing Research Activities	Research credit (form would be reinstated)	After date of enactment
F	8038	Tax-Exempt Private Activity Bond Issues	Qualified zone academy bonds, Liberty Zone credits	2/14/2007
F	8689	Allocation of Individual Income Tax to the Virgin Islands	Tuition and fees, educator expenses	Completed 10/30/2006
F	8834	Qualified Electric Vehicle Credit	American Samoa credit	12/15/2006
F	8845	Indian Employment Credit	Indian employment credit (form would be reinstated)	After date of enactment
F	8859	District of Columbia First-Time Homebuyer Credit	DC incentives consider holding form	After date of enactment
F	8863	Education Credits	Tuition and fees	Completed 11/9/2006
F	8910	Alternative Motor Vehicle Credit	American Samoa credit	12/30/2006

F = form, I = instruction, P = publication

Prod	Number	Title	Extender Provision	Target Date to Contractor
F	8911	Alternative Fuel Vehicle Refueling Property Credit	American Samoa credit	1/27/2007
F	1040A	U.S. Individual Income Tax Return	Tuition and fees, educator expenses	Completed 11/13/2006
F	1040ES (E)	Estimated Tax for Individuals	Tuition and fees, educator expenses	12/22/2006
F	1040ES (OCR)	Estimated Tax for Individuals (Optical Character Recognition)	Tuition and fees, educator expenses	12/22/2006
F	1040ES (OTC)	Estimated Tax for Individuals	Tuition and fees, educator expenses	12/18/2006
F	1040ES/V (OCR)	Estimated Tax for Individuals (Optical Character Recognition with Form 1040V)	Tuition and fees, educator expenses	12/22/2006
F	1040ES-NR	U.S. Estimated Tax for Nonresident Alien Individuals	Educator expenses, DC incentives	12/15/2006
F	1040NR	U.S. Nonresident Alien Income Tax Return	Educator expenses	12/11/2006
F	1098-T	Tuition Statement	Tuition and fees	Completed 11/13/2006
F	Sch A (1040)	Itemized Deductions	State and local sales taxes	Completed 11/6/2006
I	1040	Instructions for Form 1040	Tuition and fees, educator expenses, DC incentives	Completed 11/6/2006
I	1041	Instructions – U.S. Income Tax Return for Estates and Trusts	State and local sales taxes	1/15/2007
I	1045	Instructions – Application for Tentative Refund	Tuition and fees, educator expenses	12/15/2006
I	1116	Instructions – Foreign Tax Credit	State and local sales taxes	12/6/2006
I	1120	Instructions – U.S. Corporation Income Tax Return (entire series)	Research credit, Indian employment credit, corporate donations of property, American Samoa credit	12/13/2006
I	2106	Instructions – Employee Business Expenses	Tuition and fees, educator expenses, accelerated depreciation for Indian reservation property, state and local sales taxes	Completed 11/1/2006
I	6251	Instructions – Alternative Minimum Tax - Individuals	State and local sales taxes, accelerated depreciation for Indian reservation property, Liberty Zone credits	12/15/2006
I	8038	Instructions – Tax-Exempt Private Activity Bond Issues	Qualified zone academy bonds, Liberty Zone credits	2/14/2007

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Prod	Number	Title	Extender Provision	Target Date to Contractor
I	8582	Instructions – Passive Activity Loss Limitations	Tuition and fees	Completed 10/16/2006
I	8810	Instructions – Corporate Passive Activity Loss and Credit Limitation	Research credit, work opportunity credit, welfare-to-work credit, Indian employment credit, American Samoa credit	Completed 10/26/2006
I	8829	Instructions – Expenses for Business Use of Your Home	Accelerated depreciation for Indian reservation property	Completed 11/1/2006
I	8834	Instructions – Qualified Electric Vehicle Credit	American Samoa credit	12/15/2006
I	8853	Instructions – Medical Savings Accounts and Long-Term Care Insurance Contracts	Archer MSAs	12/15/2006
I	8859	Instructions – District of Columbia First-Time Homebuyer Credit	DC incentives	12/15/2006
I	1040A	Instructions for Form 1040A	Tuition and fees, educator expenses	Completed 11/13/2006
I	1040NR	Instructions for Form 1040NR	Educator expenses, DC incentives	12/11/2006
I	1065/B	Instructions – U.S. Return of Partnership Income	Research credit, work opportunity credit, welfare-to-work credit, Indian employment credit, American Samoa credit	12/21/2006
I	1098-T	Instructions – Tuition Statement	Tuition and fees	Completed 11/13/2006
I	1120S	Instructions – U.S. Income Tax Return for an S Corporation	Research credit, work opportunity credit, welfare-to-work credit, Indian employment credit, American Samoa credit	12/14/2006
I	8582-CR	Instructions – Passive Activity Credit Limitations	Tuition and fees	12/15/2006
I	990-T	Instructions – Exempt Organization Business Income Tax Return	Corporate donations of property	1/6/2007
I	Sch A (1040)	Instructions – Itemized Deductions	State and local sales taxes, educator expenses, tuition and fees	Completed 11/3/2006
I	Sch C (1040)	Instructions – Profit or Loss From Business (Sole Proprietorship)	Indian employment credit	Completed 11/3/2006
I	Sch E (1040)	Instructions – Supplemental Income and Loss	Tuition and fees	Completed 10/30/2006
I	Sch F (1040)	Instructions – Profit or Loss from Farming	Indian employment credit	Completed

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Prod	Number	Title	Extender Provision	Target Date to Contractor
P	970	Tax Benefits for Education	Tuition and fees, educator expenses	12/15/2006
P	972	Child Tax Credit	DC incentives	12/6/2006
P	17	Your Federal Income Tax	See chapters	12/15/2006
	17 chap 15	Selling Your Home	DC incentives	12/15/2006
	17 chap 19	Education-Related Adjustments	Tuition and fees, educator expenses	12/15/2006
	17 chap 22	Taxes	State and local sales taxes	12/15/2006
	17 chap 28	Miscellaneous Deductions	Educator expenses	12/15/2006
	17 chap 35	Education Credits	Tuition and fees	12/15/2006
P	579SP	Spanish version of Pub. 17	DC incentives, tuition and fees, educator expenses, state and local sales taxes	2/6/2007

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