



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Expresses Concern Over Thousands of Farmers Overpaying Taxes

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today expressed concern that thousands of farmers are overpaying their taxes because they are unaware of a tax benefit Congress enacted to help them. Grassley also repeated his concern that the IRS stopped an education program that would have helped farmers learn about this benefit.

“The IRS is a lot better at finding underpayments than overpayments,” Grassley said. “That’s a real shame. Congress enacts a tax benefit with the intention of every eligible person taking advantage of that benefit. If the majority of eligible taxpayers don’t know about the benefit, then the IRS has to do a much better job of educating people. I’m very concerned that tens of thousands of farmers aren’t taking advantage of the income averaging provision. Even worse, a lot of paid tax preparers were in the dark. There’s no point in paying somebody to do your taxes if those folks don’t do you any good.”

Grassley’s comments came in response to a new report from the Treasury Inspector General for Tax Administration showing that less than one-half of eligible taxpayers are taking advantage of the farm income averaging provision. This allows farmers to elect to compute their tax liabilities by averaging, over the prior three years, all or a portion of their taxable income from farming. The provision is designed to smooth out the economic disparities that farmers experience from year to year.

According to the report, Congress estimated that this provision would provide about \$50 million of tax relief to farmers in Tax Year 2001. For that year, about 52,000 taxpayers used the provision, but that’s less than one-half the number of taxpayers who could have benefited from it. The report estimates that well over 64,000 taxpayers overpaid their taxes by not taking advantage of the provision. These taxpayers overpaid their 2001 individual income tax by more than \$33 million. The vast majority of their tax returns – 89 percent – were prepared by paid tax preparers. Many other taxpayers not studied in the report likely overpaid their taxes as well.

The report said the taxpayers and/or the paid preparers didn’t know about a key change in the benefit, didn’t think they’d benefit, or used preparation software that led them to believe there would be no benefit.

Grassley said he believes a lot of the under-information came from the IRS' termination of several agricultural tax teaching programs traditionally coordinated with agricultural universities. Grassley wrote to the Treasury Department in May 2003 to express concern about this. He received a noncommittal response. Since then, Grassley has been working with the new IRS Commissioner Mark Everson and will be working with a new chief counsel to help identify problem areas and address them before so many farmers are financially harmed. "When we know there's a problem, we should work to get the word out as soon as possible," Grassley said.

Grassley said some farmers might not have taken advantage of income averaging because they were worried about being subject to the Alternative Minimum Tax, which was designed to ensure high-income taxpayers pay their fair share but is hitting more and more middle-income taxpayers. Grassley is the sponsor of legislation to reform the Alternative Minimum Tax to make farmers subject to the tax only to the extent they would owe the tax had averaging not been elected. Grassley included this provision in his pending *Tax Empowerment and Relief for Farmers and Fishermen (TERFF) Act* (S. 665) and hopes to advance it as part of a small business and farmer tax relief package this year. The TERFF Act has 22 bipartisan co-sponsors.

"First, I urge every farmer to see whether he or she is eligible for income averaging," Grassley said. "Second, I expect the paid tax preparers to educate themselves about this provision. It's their job to know the tax code inside and out. Finally, I expect the IRS to do a much better job of educating farmers about this and any other part of the tax code that affects farmers' finances. In fact, the IRS should issue a notice regarding amending these returns. Many of these farmers should be able to amend their tax return to receive the benefit Congress intended by the income averaging provision. Family farms are struggling, and every penny helps to keep the crops in the field."

The Treasury Inspector General for Tax Administration was established by Congress to provide independent oversight of the IRS. Through its audit and investigative programs, TIGTA promotes efficiency and effectiveness in the administration of federal tax laws. TIGTA is committed to the prevention and detection of fraud, waste, and abuse affecting the American tax system.

Today's report, "Most Taxpayers That Could Benefit from the Farm Income Averaging Provision Are Not Using It," will be available at <http://www.ustreas.gov/tigta/>.