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## United States Senate

COMMITTEE ON SMALL BUSINESS  
WASHINGTON, DC 20510-6350

EMILIA DISANTO, STAFF DIRECTOR  
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February 25, 1999

BY FACSIMILE (202/622-5756)  
ORIGINAL BY U.S. MAIL

The Honorable Charles O. Rossotti  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, N.W.  
Washington, DC 20224

Dear Commissioner Rossotti:

Recently, I learned that one of the new taxpayer protections included in the Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206) has been implemented in a manner that is contrary to its congressional purpose and ultimately harmful to the taxpayers it was intended to protect. Specifically, I am referring to new section 7602(c) of the Internal Revenue Code, which calls on the Internal Revenue Service (IRS) to notify a taxpayer when the agency determines that third parties must be contacted as part of an examination. Given your stated commitment to transforming the IRS into an agency dedicated to top-quality customer service, I would appreciate your assistance in resolving this situation and ensuring that this taxpayer protection is implemented as Congress intended.

The purpose behind this provision, which is similar to one included in my "Putting the Taxpayer First Act" (S. 1669) last year, was to reduce the damage that third-party contacts by the IRS may cause to business and personal relationships. As the Chairman of the Senate Committee on Small Business, I have heard from constituents that IRS inquiries of a business' suppliers, employees, and customers frequently chill business relationships and can lead a third party to cease doing business with the taxpayer for fear of becoming "involved" in the audit. Similar situations can occur for individuals resulting in embarrassment and damage to their reputations.

Our intent in enacting this provision was that the taxpayer should have the opportunity to provide information requested during an examination before the IRS turns to any third party. In addition, once the IRS determines that such information can only be obtained from third parties, the taxpayer has a right to reasonable notice concerning the third parties that the IRS needs to contact and to receive such notice before the inquiries are made.

Regrettably, recent reports indicate that instead of adhering to the intent of this provision, the IRS is following the course of administrative ease by sending a blanket notice to all taxpayers during an audit. A copy of this notice is enclosed (Letter 3164 (01-1999); Cat. No. 26673L). The notice does not identify the specific parties that the IRS intends to contact nor is it based on a determination that third-party contacts will even be necessary.

Even more troubling is the wording of this notice, which warns that "the Internal Revenue Service may need to contact third parties . . . including neighbors, employers, employees, and banks. We may use these contacts to help us determine your correct tax liability, identify your assets, or locate your current address." As a result, this provision, which was intended to protect taxpayers, is causing unnecessary alarm as well as raising concerns about privacy and the confidentiality of taxpayer information. Moreover, it completely fails to provide taxpayers with sufficient information to protect their business and personal relationships as intended.

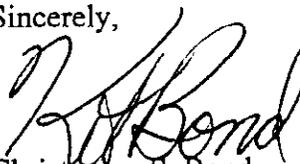
Finally, and perhaps most importantly, the implementation of new section 7602(c) in this manner flies directly in the face of your efforts to transform the IRS into a top-quality service provider rather than the rogue agency highlighted by the Senate Finance Committee hearings in the last Congress. The IRS' actions merely perpetuate the environment of distrust and fear that we are all working so hard to eliminate.

I understand that your office has received a large number of complaints about these notices from practitioners and industry groups. The February 24, 1999, letter from Susanne M. Sottile, National Director of your Office of Public Liaison and Small Business Affairs, requesting comments from practitioners is an important first step in addressing this situation. That letter, however, does not indicate what action the agency is taking while your review and revision process is being completed.

Given the serious disruptions that this situation is causing taxpayers at this very moment, I urge you to direct that IRS employees immediately stop sending these blanket notices in every examination. In addition, please provide me with information on the steps you will take to see that the IRS furnishes taxpayers with specific advance information about third-party contacts and does so only if a determination has been made that such contacts are necessary. I would appreciate receiving your reply by March 11, 1999.

Thank you for your assistance in addressing this serious matter. If you have any questions, please contact me or Mark Warren, the Committee's Tax Counsel, at (202) 224-5175. I look forward to working with you to see that the rights and protections of all taxpayers are respected and would be pleased to meet with you to discuss ways to resolve this situation as quickly as possible.

Sincerely,



Christopher S. Bond  
Chairman

Enclosure

cc: W. Val Oveson  
National Taxpayer Advocate