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AMENDMENT TO THE FISCAL YEAR 1998 APPROPRIATIONS

COMMUNICATION

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

AN AMENDMENT TO THE FISCAL YEAR 1998 APPROPRIATIONS REQUEST FOR THE DEPARTMENT OF THE TREASURY, PURSUANT TO 31 U.S.C. 1107



SEPTEMBER 18, 1997.—Referred to the Committee on Appropriations and ordered to be printed.

U.S. GOVERNMENT PRINTING OFFICE
39–012 WASHINGTON : 1997

THE WHITE HOUSE,
Washington, September 17, 1997.

SPEAKER OF THE HOUSE OF REPRESENTATIVES.

SIR: I ask Congress to consider the enclosed amendment to the FY 1998 appropriations request for the Department of the Treasury. This proposal would provide $107,105,000 for implementing legislation and expanding administrative actions to improve overall compliance with the Earned Income Tax Credit (EITC), as provided for in the "Taxpayer Relief Act of 1997." The $107 million for the Internal Revenue Service was anticipated in and authorized by the Balanced Budget Act of 1997.

The details of these actions are set forth in the enclosed letter from the Director of the Office of Management and Budget. I concur with his comments and observations.

Sincerely,

WILLIAM J. CLINTON.

Enclosure.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

September 17, 1997

THE DIRECTOR

The President

The White House

Submitted for your consideration is an amendment to your FY 1998 appropriations request for the Department of the Treasury.

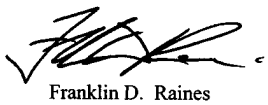
The $107 million requested herein is for funding an Internal Revenue Service (IRS) compliance effort for the Earned Income Tax Credit (EITC) in FY 1998. In April 1997, the IRS released a compliance study of EITC claims filed for the 1994 tax year that detailed the need for reforms to reduce EITC overclaims. Of an estimated $17.2 billion in EITC claims received by the IRS, $4.4 billion, or 25.8 percent, was overclaimed. IRS enforcement actions in 1994 reduced the amount overclaimed to an estimated $4.1 billion, or 23.5 percent. Had the tighter procedural tools in last year's welfare reform act been in place in 1994, overclaims would have been reduced further, to $3.6 billion, or 20.7 percent. The $107 million requested in this amendment would be used to reduce further the EITC overclaims while ensuring that EITC- eligible taxpayers receive the tax benefit. Treasury has projected that these resources will protect or generate additional revenue of $2.7 billion over the five-year life of the initiative.

The IRS plans to expand customer service efforts significantly with dedicated toll-free telephone assistance, to increase community based tax preparation assistance sites, and to develop a marketing and educational campaign. IRS will also expand compliance research efforts. Enhanced computer capabilities will allow IRS to identify and select questionable EITC claims prior to refund issuance. Funds also are included to reimburse State vital statistics offices, through the Social Security Administration, for expanded data associated with social security numbers. Finally, expanded examination and criminal investigation staff will focus on questionable or fraudulent EITC activity among both taxpayers and preparers.

The requested funds are authorized by section 5702 of the Balanced Budget Act of 1997. Section 10203 (a) of that Act provides for an upward adjustment to the discretionary spending limits to reflect this initiative.

I have carefully reviewed this proposal and am satisfied it is necessary at this time. Therefore, I join the Secretary of the Treasury in recommending that you approve this request by signing the enclosed letter to the Speaker of the House of Representatives.

Sincerely,



Franklin D. Raines
Director

Enclosures

FY 1998 Budget Amendment

Agency:	DEPARTMENT OF THE TREASURY
Bureau:	INTERNAL REVENUE SERVICE
Heading:	Earned Income Tax Credit Compliance Initiative
FY 1998 Budget Appendix Page:	877
Pending Request:	---
Proposed Amendment:	$107,105,000
Revised Request:	$107,105,000

(Insert the above heading and the appropriations language that follows immediately after the material under the heading "Information Technology Investments" :)

For funding essential earned income tax credit compliance and error reduction initiatives pursuant to section 5702 of the Balanced Budget Act of 1997 (P.L. 105-33), $107,105,000, of which not to exceed $10,000,000 may be used to reimburse the Social Security Administration for the costs of implementing Section 1090 of the Taxpayer Relief Act of 1997.

This amendment would provide $107 million and 974 full-time equivalents (FTEs) to implement error reduction initiatives for the Earned Income Tax Credit (EITC).

Of these funds, $45 million and 632 FTEs would implement customer service and tax processing initiatives. IRS would expand customer service efforts with dedicated EITC toll-free telephone assistance (72 FTEs), perform maintenance on its computer data files, and correct previously submitted invalid taxpayer identification numbers (10 FTEs). Tax forms and instructions would be revised to assist taxpayers in filing correct EITC claims (eight FTEs). IRS would develop a coordinated marketing and educational campaign specifically designed to reach EITC eligible communities. With respect to tax processing, IRS would fully implement the math-error program that recalculates the tax return and reduces refund overclaims (36 FTEs). IRS correspondence staff (456 FTEs) would send notices, prior to refund issuance, to EITC taxpayers with questionable returns. IRS has estimated that 50 FTEs would be needed for administrative support.

The amendment would provide $30 million and 342 full-time equivalents (FTEs) to implement expanded compliance and enforcement efforts. IRS would staff community-based tax preparation assistance sites located in areas with high numbers of EITC eligibles specifically for EITC recipients (20 FTEs). This includes significantly expanded compliance research work related to EITC claimant characteristics and patterns of non-compliance that will support overall efforts to improve education and outreach products, enhance abuse detection capabilities, and improve enforcement efforts (113 FTEs). IRS would use its criminal investigation "Questionable Refund Detection Teams" (173 FTEs) to screen for and identify questionable EITC claims, EITC-based refund schemes, and questionable EITC preparers. IRS would increase audit staff to conduct face-to-face due diligence reviews of return preparers for EITC compliance requirements, applying penalties for non-compliance (36 FTEs).

The amendment would provide $22 million for IRS to make computer programming changes for processing additional data to support the EITC initiative, including changes for processing additional transcribed data, updating the master file to track past EITC abuses, and performing compliance research studies. To support IRS's compliance efforts, $10 million would be used by the IRS to reimburse the Social Security Administration (SSA) for enhancements to SSA's social security number database. With these funds, SSA would begin to reimburse State vital statistics offices for costs associated with providing SSA additional data relating to current and future social security numbers.

