

110TH CONGRESS  
1ST SESSION

# H. R. 1865

To amend title 31, United States Code, to allow certain local tax debt to be collected through the reduction of Federal tax refunds.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 17, 2007

Mr. TOM DAVIS of Virginia (for himself, Mr. TURNER, Mr. TOWNS, Mr. MORAN of Virginia, and Mr. BILBRAY) introduced the following bill; which was referred to the Committee on Oversight and Government Reform, and in addition to the Committee on Ways and Means, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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## A BILL

To amend title 31, United States Code, to allow certain local tax debt to be collected through the reduction of Federal tax refunds.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. PILOT PROGRAM FOR EXPANDING TAX RE-**  
4                       **FUND REDUCTION PROVISION TO INCLUDE**  
5                       **CERTAIN LOCAL TAX DEBT.**

6       (a) PILOT PROGRAM.—Section 3720A of title 31,  
7       United States Code (relating to reduction of tax refund

1 by amount of debt) is amended by adding at the end the  
2 following:

3 “(j) PILOT PROGRAM FOR COLLECTION OF PAST-  
4 DUE LEGALLY ENFORCEABLE LOCAL GOVERNMENT TAX  
5 OBLIGATIONS.—

6 “(1) IN GENERAL.—Upon receiving notice dur-  
7 ing the pilot program period from any eligible State  
8 on behalf of a local government that a named person  
9 owes a past-due, legally enforceable tax obligation to  
10 the local government, the Secretary of the Treasury  
11 shall, under such conditions as may be prescribed by  
12 the Secretary, determine whether any amounts, as  
13 refunds of Federal taxes paid, are payable to such  
14 person. If the Secretary of the Treasury finds that  
15 any such amount is payable, he shall—

16 “(A) reduce such refunds by an amount  
17 equal to the amount of such debt;

18 “(B) pay the amount of such reduction to  
19 the State for purposes of payment by the State  
20 to the local government on behalf of which the  
21 State submitted the notice;

22 “(C) notify the State of the person’s name,  
23 taxpayer identification number, address, and  
24 the amount collected; and

1 “(D) notify the person due the refund that  
2 the refund has been reduced by an amount nec-  
3 essary to satisfy a past-due, legally enforceable  
4 tax obligation.

5 “(2) PRIORITIES FOR OFFSET.—

6 “(A) Any overpayment (as defined in sec-  
7 tion 6401 of the Internal Revenue Code of  
8 1986) by a person shall be reduced pursuant to  
9 this subsection—

10 “(i) after such overpayment is re-  
11 duced (I) with respect to any liability for  
12 any internal revenue tax on the part of the  
13 person who made the overpayment; (II)  
14 with respect to past-due support (as de-  
15 fined in section 464(c) of the Social Secu-  
16 rity Act); (III) with respect to any past-  
17 due, legally enforceable debt owed to a  
18 Federal agency; and (IV) with respect to  
19 any past-due, legally enforceable State in-  
20 come tax obligation (as defined in section  
21 6402(e) of the Internal Revenue Code of  
22 1986); and

23 “(ii) before such overpayment is cred-  
24 ited to the future liability for any Federal  
25 internal revenue tax of such person.

1           “(B) If the Secretary receives notice from  
2           one or more States of more than one tax obliga-  
3           tion subject to paragraph (1) that is owed by  
4           such person to any local government, any over-  
5           payment by such person shall be applied  
6           against such debts in the order in which such  
7           notices were filed.

8           “(3) NOTICE; CONSIDERATION OF EVIDENCE.—

9           No State may take action under this subsection on  
10          behalf of a local government until the local govern-  
11          ment certifies to the State that the local govern-  
12          ment—

13               “(A) has notified the person owing the  
14               past-due, legally enforceable tax obligation by  
15               certified mail with return receipt that the State  
16               proposes to take action pursuant to this section;

17               “(B) has given such person at least 60  
18               days to present evidence that all or part of such  
19               liability is not past-due or not legally enforce-  
20               able;

21               “(C) has considered any evidence pre-  
22               sented by such person and has determined that  
23               an amount of such debt is past-due and legally  
24               enforceable; and

1           “(D) has satisfied such other conditions as  
2           the Secretary may prescribe to ensure that the  
3           determination made under subparagraph (C) is  
4           valid and that the local government has made  
5           reasonable efforts to obtain payment of such  
6           tax obligation.

7           “(4) DEFINITION OF PAST-DUE, LEGALLY EN-  
8           FORCEABLE TAX OBLIGATION.—In this subsection,  
9           the term ‘past-due, legally enforceable tax obligation’  
10          means a tax debt—

11           “(A)(i) which resulted from—

12                   “(I) a judgment rendered by a court  
13                   of competent jurisdiction which has deter-  
14                   mined an amount of tax to be due; or

15                   “(II) a determination after an admin-  
16                   istrative hearing which has determined an  
17                   amount of tax to be due; and

18           “(ii) which is no longer subject to judicial  
19          review; or

20           “(B) which resulted from a tax which has  
21          been assessed but not collected, the time for re-  
22          determination of which has expired, and which  
23          has not been delinquent for more than 10  
24          years.

25           “(5) ELIGIBLE STATE.—

1           “(A) In this subsection, the term ‘eligible  
2           State’ means a State selected by the Secretary  
3           under subparagraph (B).

4           “(B) The Secretary shall select at least  
5           three, and not more than five, States to partici-  
6           pate in the pilot program under this subsection.  
7           The Secretary may consider a State for selec-  
8           tion only if it participates in the procedure ap-  
9           plicable under section 6402(e) of the Internal  
10          Revenue Code of 1986 (relating to collection of  
11          past-due, legally enforceable State income tax  
12          obligations).

13          “(C) The Secretary should consider the fol-  
14          lowing States for selection under this para-  
15          graph:

16               “(i) Illinois.

17               “(ii) Iowa.

18               “(iii) Louisiana.

19               “(iv) New York.

20               “(v) Ohio.

21               “(vi) Virginia.

22          “(6) REGULATIONS.—The Secretary shall issue  
23          regulations prescribing the time and manner in  
24          which States must submit notices of past-due, legally  
25          enforceable tax obligations and the necessary infor-

1        mation that must be contained in or accompany  
2        such notices. The regulations shall specify the types  
3        of taxes and the minimum amount of debt to which  
4        the reduction procedure established by paragraph  
5        (1) may be applied. The regulations may require  
6        States to pay a fee to reimburse the Secretary for  
7        the cost of applying such procedure, and such fee  
8        may be reimbursed by local governments to States in  
9        accordance with applicable State law. Any fee paid  
10       to the Secretary pursuant to the preceding sentence  
11       shall be used to reimburse appropriations which bore  
12       all or part of the cost of applying such procedure.

13       “(7) ERRONEOUS PAYMENT TO STATE.—Any  
14       State receiving notice from the Secretary that an er-  
15       roneous payment has been made to such State with  
16       respect to a notice by the State on behalf of a local  
17       government under paragraph (1) shall pay promptly  
18       to the Secretary, in accordance with such regulations  
19       as the Secretary may prescribe, an amount equal to  
20       the amount of such erroneous payment (without re-  
21       gard to whether any other amounts payable to such  
22       State under such paragraph have been paid to such  
23       State).

24       “(8) PILOT PROGRAM.—

1           “(A) PERIOD OF PILOT PROGRAM.—Sub-  
2           ject to subparagraph (B), this subsection shall  
3           apply only during 2009 and 2010.

4           “(B) EXTENSION AND EXPANSION OF  
5           PILOT PROGRAM.—

6                   “(i) This subsection applies after  
7                   2010 to any State described in clause (ii)  
8                   unless, before December 31, 2010, the Sec-  
9                   retary submits to Congress a report con-  
10                  taining a determination that the pilot pro-  
11                  gram has negatively affected Federal rev-  
12                  enue or Federal revenue collection proc-  
13                  esses.

14                   “(ii) In applying this subsection after  
15                   2010, the term ‘eligible State’ means any  
16                   State participating in the procedure appli-  
17                   cable under section 6402(e) of the Internal  
18                   Revenue Code of 1986 (relating to collec-  
19                   tion of past-due, legally enforceable State  
20                   income tax obligations).

21           “(k) TREATMENT OF PAYMENTS MADE TO  
22           STATES.—The Secretary may provide that, for the pur-  
23           poses of determining interest, the payment of any amount  
24           withheld under subsection (j) to a State shall be treated



1 as a payment to the person or persons making the over-  
2 payment.”.

3 (b) DISCLOSURE OF CERTAIN INFORMATION TO  
4 AGENCIES OF STATES REQUESTING REFUND OFFSETS  
5 FOR PAST-DUE, LEGALLY ENFORCEABLE TAX OBLIGA-  
6 TIONS.—Paragraph (10) of section 6103(l) of the Internal  
7 Revenue Code of 1986 is amended—

8 (1) in the paragraph heading, by inserting after  
9 “6402” the following: “OR UNDER SUBSECTION (j) OF  
10 SECTION 3720A OF TITLE 31, UNITED STATES CODE”;

11 (2) in subparagraph (A), by inserting after  
12 “6402” the following: “or subsection (j) of section  
13 3720A of title 31, United States Code,”; and

14 (3) in subparagraph (B)—

15 (A) by striking “section 6402 is” and in-  
16 serting “section 6402 or under subsection (j) of  
17 section 3720A of title 31, United States Code,  
18 is”; and

19 (B) by striking “section 6402.” and insert-  
20 ing “section 6402 or under subsection (j) of  
21 section 3720A of title 31, United States Code.”.

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